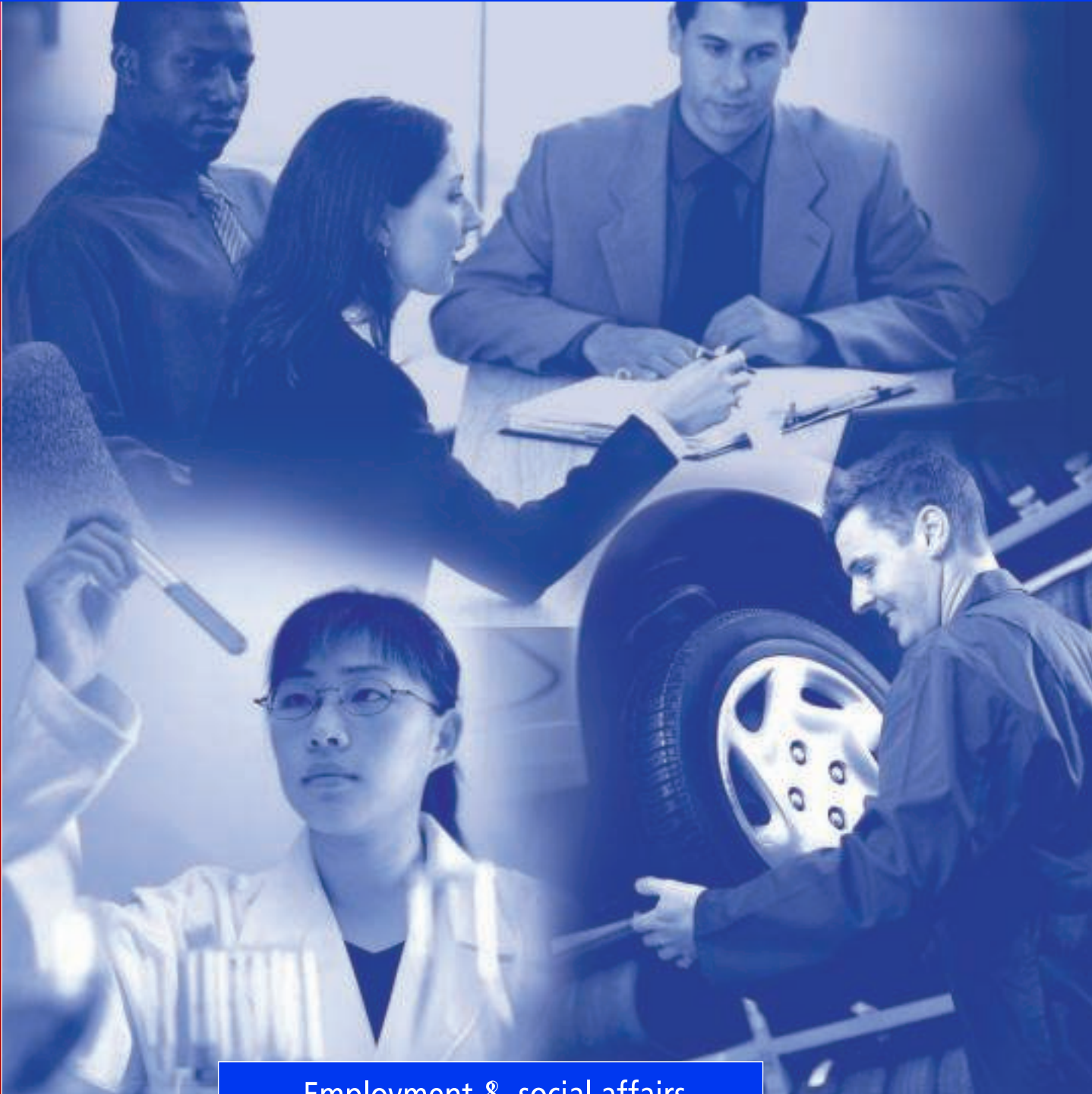


# European Employment Observatory

Review : Spring 2004

Employment & European Social Fund



Employment & social affairs



European Commission

# European Employment Observatory Review: Spring 2004

**Employment & social affairs**

Employment and European Social Fund

**European Commission**

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# OVERALL DEVELOPMENTS

## Belgium: Results of the National Conference on Employment

The new federal government set itself the target of creating 200,000 jobs by the end of its term (2007). To achieve this, it is counting on mobilising all the relevant forces in society. To that end, it convened a National Conference for Employment in late September 2003, bringing together the federal authorities, the federal social partners and the ministers responsible for employment and training in Belgium's Regions and Communities.

All the partners pledged to make employment their top priority over the coming years, but at the same time they underlined both that the Conference was merely the first step towards eliminating the structural delay that Belgium has suffered in creating jobs and that other aspects of the labour market, such as retirement, should be addressed as a matter of urgency.

The conclusions drawn by the Conference concerned such diverse issues as cutting costs, training, the problem of restructuring, reforming the First Job Agreement scheme (*convention de premier emploi*), providing support for and boosting the mobility of job seekers, combating discrimination at work, creating jobs in the social economy, reforming the domestic service voucher scheme (*titres-service*) and strengthening inspection services.

### Cutting costs

To safeguard and create jobs more easily, non-wage labour costs need to be reduced, particularly wage costs for specific groups of workers. Accordingly, under the government agreement concluded in July 2003, €800 million will be saved annually (€400 million in 2004) through reductions in social security contributions.

First, in January 2004, the basic amount for 'structural reduction' (the general reduction in employers' social security contributions) will rise from €381.33 to €400 per worker per quarter.

Contributions will also be reduced for categories of workers who are severely affected by underemployment or who are vital for kick-starting the economy. The planned reductions will affect six target groups:

- current reductions in existing employers' costs for low wages will be increased significantly, by offering a greater reduction in contributions for the lowest wages (i.e. those either below or only very slightly above the minimum wage for adults), and by raising the 'ceiling' under which such reductions are awarded;
- to avoid any loss of skills, an additional reduction will be available in 2005 for skilled workers earning a gross quarterly wage in excess of €12,000;
- many workers do not have enough work: in any one quarter, the time worked may not be full-time for the whole of the quarter. It may be that the individual has worked full-time for part of the quarter (taking up a job, leaving a job, temporary work, etc.) and part-time for all or part of the quarter, or a combination of both these scenarios. The rules currently state that for a rate of service lower than 27.5%, employers are not entitled to a structural reduction. To ensure that employers do not lose their entitlement to these reduced contributions, the minimum work threshold

requirement will be removed by 1 April 2004 at the latest for employment contracts concerning work that is at least half-time;

- the level of unemployment amongst young people and, in particular, unskilled young people, remains considerably higher than the general unemployment figure. In addition, young people are the first to suffer as a result of a slowdown in growth, since companies postpone recruitment. Accordingly, the reduction in costs for unskilled young people (up to the age of 26) will be extended and simplified;
- in the non-trading sector, the reduction in costs under the *Maribel* social plan will be increased by €37.5 million in 2004. Reductions granted under the *Maribel* social plan can only be used to fund additional jobs in the non-trading sector. The combination of a higher level of *Maribel* funding and a greater reduction in contributions for low wages should create 5,000 extra jobs by the end of 2005;
- measures will be taken to reduce the costs associated with teamwork.

### Boosting the level of training

The social partners reaffirmed their commitment under the last multi-sector agreement to earmark 1.9% of their payroll to training. They have also pledged to increase the number of workers receiving training by 60,000 per annum. This means that in 2010, one in two workers will follow a training course in any one year.

In addition, some 10,000 training courses will be funded in those sectors finding it hardest to recruit skilled workers. Young people will be offered financial incentives to follow training courses for jobs that are 'at-risk'.

Statistics show that some categories of workers are less involved in training and, as such, it is important to focus on training these, the most vulnerable groups. To this end, companies are being asked to set aside 0.1% of their payroll for groups at risk, especially older workers, unskilled workers, people with disabilities and workers of non-Belgian origin.

Furthermore, the social partners have called for a more methodical and more structured system of organising training via company and sectoral training plans. They will look into how sectoral funds can be best organised and investigate what action can be taken at grass-roots level to establish better interaction between education and training providers and the labour market.

### The problem of restructuring

In the case of restructuring, attention should be focused in future on seeking new work opportunities. The same applies to employers who are restructuring, since they are expected to pursue an active policy of redeployment.

To prompt all parties to become as deeply involved as possible in this new approach, a list will be drawn up of all the current difficulties, with a view to improving information and social dialogue.

The following financial incentives will be offered to companies undergoing restructuring to encourage them actively to pursue a redeployment policy:

- if an employer restructuring their company invests in redeployment in the form of a re-training unit, the outplacement costs incurred by the employer will be reimbursed for each worker who is employed for a certain period by an employer in the long term (maximum reimbursement of €1,800);



- the worker in question is also actively involved in the re-training process, and during the first few months after starting work is awarded a reduction in his own personal social security contributions;
- finally, the new employer will receive a substantial reduction in contributions for a certain number of quarters following the new worker's recruitment.

Companies undergoing restructuring that are party to a social agreement making use of this activation scenario may apply to the minister for employment for authorisation to apply this experimental system.

For suppliers and sub-contractors who are forced to restructure in the wake of their client's restructuring and who also sign up for the scheme, the workers concerned may be grouped together in the same employment unit.

### ***The First Job Agreement scheme***

The Conference decided to improve and simplify the First Job Agreement scheme to encourage employers to hire young people under 26 years of age. Employers in the private sector employing at least 50 workers must make sure that 3% of their staff are young job seekers employed under a First Job Agreement.

As from 1 January 2004, the target group will be defined according to a standardised system, i.e. young people aged under 26. The staggered system will be abolished. The first job agreement reduction will be payable until the end of the quarter during which the person in question reaches the age of 26.

Other issues will be decided by the government, such as how to address the problems faced by the Regions when there are not enough young people aged under 26, and the possibility of requiring employers (depending on the place of work) to notify the relevant Public Placement Service of job offers under First Job Agreements.

### ***Support for unemployed individuals***

Participants at the National Conference for Employment agreed to provide much greater support for unemployed individuals. By 2006, every unemployed person should receive support.

On the sensitive issue of monitoring the availability of unemployed people, the Federal Ministry of Employment drew up a memorandum stating that the National Employment Office (*Office national de l'emploi*, ONEM/RVA) has the right, on an ongoing basis, to inspect systematically the information gathered by regional placement and training bodies on each job seeker receiving unemployment benefit. In particular, the ONEM/RVA would be informed of offers of employment or training received, accepted or refused by the individual, of the various contacts between the unemployed individual and his or her placement service, and so forth. Such information would be used to determine any penalties, such as the suspension, reduction or withdrawal of benefit from unemployed people who failed to take up suitable offers. The range of penalties would also be modified. A long-term unemployed person considered not to be making a sufficient effort to find work will be summoned by the ONEM/RVA and given the opportunity to justify their actions. They will then receive a warning and be required to appear before the ONEM/RVA three months later, and may have their benefit suspended. A third appearance after another three months may result in the withdrawal of the individual's entitlement to unemployment benefit.

### ***Combating discrimination at work***

The various parties attending the Conference drew up action plans designed to increase the participation of under-represented groups on the labour market (people of foreign origin, people with disabilities, etc.). This would be achieved by conducting awareness-raising campaigns, stepping up checks on compliance with non-discrimination legislation, and so on. The social partners will look into the practical implementation of these anti-discrimination measures in companies.

### ***Domestic service vouchers***

The domestic service voucher scheme (*titres-service*) was launched in May 2003 and enables people and households to procure domestic services paid for in part by vouchers bought for €6.20. The balance of the cost of the work done is borne by the government. One of the aims of this scheme is to combat illegal work and to legalise work that currently goes undeclared.

Up to now, government support was financed equally by the Regions and the federal government. The Conference for Employment decided that funding would henceforth be provided solely by the federal government. By shoring up and simplifying the domestic service voucher scheme, and making it more flexible, the federal government pledges to create 25,000 additional local jobs in the domestic home-help sector.

### ***12,000 jobs in the social economy***

The federal government and authorities have reaffirmed their financial obligations and their basic commitment under the co-operation agreement to the social economy, and are striving to create 12,000 additional jobs to integrate workers from certain target groups into society over a period of four years.

### ***Boosting the mobility of job seekers***

The Regions and the German-speaking Community are to conclude a co-operation agreement designed to promote inter-Regional mobility. That agreement will include provisions on:

- establishing an efficient tool for exchanging information on unfilled vacancies and job seekers' CVs;
- promoting language courses;
- boosting the efforts made in trans-Regional training and job placement schemes; and
- structuring co-operation between the respective Public Employment Services in a bid to boost the chances of workers affected by the closure and restructuring of companies being integrated in trans-Regional areas.

### ***Strengthening inspectorates and combating social security fraud***

A robust approach to social security fraud is essential if employment objectives are to be met. To this end, it is vital that social security inspectorates work more closely together, data is efficiently computerised, fraud analyses are carried out, and social security inspectorates are strengthened.

The Federal Committee on Combating Illegal Work and Social Security Fraud (*Comité fédéral de co-ordination pour la lutte contre le travail illégal et la fraude sociale*) will ensure that the four social security inspectorates work more closely together by establishing a single, centralised policy for them and by devising better-targeted checks based on fraud analyses.

To this end, both the Social Security Inspectorate (*Inspection sociale*) and the Social Security Legislation Inspectorate (*Inspection sur les lois sociales*) will be expanded and supplemented by a team responsible for detecting computer fraud, and by strategic analysts who will support the Co-ordinating Committee (*Comité de coordination*). The top priority here will be to combat social security fraud in connection with illegal work and illegally self-employed workers (*faux-indépendants*).

## Germany: The Hartz III Bill

It is hoped that reform of the labour market will help achieve full employment in Germany in the long term, as per the goals set out under European Union policy. The aim is to offer all citizens equal access to employment within the context of gender mainstreaming.

In August 2002, the *Commission on Modern Labour Market Services* (also known as the *Hartz Commission*) put forward recommendations for comprehensive reform of the labour market and employment promotion. This overhaul began with the introduction of a new leadership structure within the German Federal Employment Service (BA) in March 2002. This was followed in January and April 2003 respectively by the Hartz I and Hartz II Bills (*Erstes und Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt*) implementing many of the proposals put forward by the Hartz Commission, especially those aimed at developing new employment opportunities for the unemployed.

The Hartz III Bill – the majority of which came into force on 1 January 2004 – takes up further proposals by the Hartz Commission. Together with the German Labour Market Reform Act (*Gesetz zu Reformen am Arbeitsmarkt*) and the Hartz IV Bill, Hartz III forms a cornerstone of the plan by government groups and the federal government itself to rectify shortcomings and sets out simple, administrative rules governing costly wage replacement benefits to ensure that as much time as possible can be devoted to as many staff as possible involved in assistance and guidance, and in placing unemployed individuals with appropriate employers.

The main points of the plan are as follows:

1. Among other things, the **Labour Market Reform Act** sets out new rules governing the period during which an individual may claim unemployment benefit, the duration of their entitlement having been reduced from a maximum of 32 months for older workers to 12 or 18 months (for workers aged 55 years and over). This eliminates disincentives for employers and workers at the expense of those paying contributions in order to encourage the existing practice of early annuitisation. However, appropriate account is also taken of the still problematic situation of older workers on the labour market: for whereas the new legislation was to enter into force on 1 January 2004, owing to a transitional arrangement lasting 25 months provided for under constitutional law, the new legal situation will now only apply as from 1 February 2006.
2. **Hartz III (*Drittes Gesetz für moderne Dienstleistungen am Arbeitsmarkt*)** sets out the preconditions required to transform the German Federal Employment Service (BfA) into an efficient service provider whose activities are determined largely by customer demand. Labour market instruments and simplification of benefit legislation governing unemployment insurance will also be pivotal in providing better and faster placement.

3. The main element in **Hartz IV** is the merging of the former unemployment assistance with social assistance for employed persons, specifically with a view to eliminating long-term unemployment.

## The provisions of Hartz III

### Reform of the German Federal Employment Service (BfA)

Hartz III establishes the legal framework required for an efficient, customer-oriented employment service which will ultimately evolve to become the most modern service provider on the labour market. This reform is reflected in the service's **new name**: the new Federal Employment Agency (*Bundesagentur für Arbeit*) with its regional offices (*Regionaldirektionen*) and employment agencies (*Agenturen für Arbeit*) represents its commitment to placement and the active support it provides to unemployed individuals in integrating them into the workforce.

Another aspect of the bill is the **reform of self-government**: As was already the case at head office, local self-government has become the management monitoring instrument and, as such, the principle of separation between responsibility and monitoring has been introduced throughout the Federal Employment Agency. In the new regional offices (formerly known as 'regional employment offices' or *Landesarbeitsämter*) there will no longer be any self-governing body, since the regional offices will essentially be responsible for running the various employment agencies and working with the respective regional governments.

In future, the **relationship between the federal government and the Federal Employment Agency** will be guided less by input-oriented management, since **agreements** on employment targets are to be concluded between the two bodies.

### Simplifying benefit legislation governing unemployment insurance

Over the years, benefit legislation governing unemployment insurance has developed into a very complex system of rules and arrangements. That legislation set out to treat individual cases as fairly as possible, to reflect the special characteristics of the labour market in the form of widely differing special and exceptional rules and arrangements, and to adapt to restrictive changes in legislation by introducing transitional regulations. Decisions regarding the entitlement to and level of unemployment benefit therefore entail gathering vast amounts of information from the workers and employers involved and offering them substantial guidance, as well as making demands on the time of large numbers of staff, experts and the Federal Employment Agency. Moreover, the whole process is highly confusing not only for the individuals involved, but also for the experts. The benefit process essentially ties up resources which, under the reform of the Federal Employment Agency, are urgently required to provide guidance and assistance to workers and employers and for the vocational reintegration of unemployed individuals.

Consequently, the Hartz III Bill will clearly and permanently simplify the rules and arrangements on benefit legislation governing unemployment insurance.

Examples of specific measures:

- **Standard qualifying period:** in future, a standard qualifying period (*Vorversicherungszeit*) of 12 months will apply to all claims for unemployment benefit. The previous specific rules specifying a qualifying period of six months for seasonal workers, and individuals completing their military or civilian service no longer apply.
- **Merging of unemployment benefit and subsistence allowance:** unemployment benefit and subsistence allowance will be merged to form a single insurance benefit payable in the event of unemployment and continuing vocational training. The previous 2:1 ratio system of time training spent training to time spent unemployed will remain in place. Even unemployed individuals who are not receiving support in the form of reimbursement of the cost of continuing training will have the opportunity to take continuing vocational training whilst receiving benefit.
- **Simplified calculation of unemployment benefit:** the system used to calculate unemployment benefit will be simplified at all levels:
  - In future, unemployment benefit will be calculated on the basis of gross salary earned from ‘typical’ employment contracts, and ‘atypical’ special contributory situations (such as military and civilian service, periods of education, etc.) will not count.
  - Where an individual can provide no proof of a sufficient period of paid employment, benefit will be calculated on the basis of a fictitious classification – depending on their level of qualifications – and classified according to four salary levels as laid down by law.
  - With respect to deductions for tax and social security contributions, a higher lump sum will apply, to make the administration easier.
  - When determining the salary (net), as from 2005 Church Tax (*Kirchensteuer*) will no longer be included in the calculation.
- **New arrangements for default and disqualification periods:** the consequences of any violation of insurance conditions, which is at present punishable either by a range of legal sanctions set out in various regulations (the removal of an individual’s claim entitlement if they fail to make sufficient efforts to find work on their own initiative, disqualification period if they leave or refuse employment, a default period if they fail to comply with a registration appointment), or is not punishable at all (e.g. if the individual fails to co-operate in the event of placement via third parties), will now be combined within a single arrangement with a standard punishment – a disqualification period – applying for various graded time periods. In future, disqualification periods imposed following an individual’s decision to stop work and on account of missing a ‘signing on’ appointment will be taken into account when cancelling an entitlement to benefit (with an overall total disqualification period of 21 weeks).

In order to give local employment offices (*Arbeitsämter*) sufficient time to prepare for the implementation of the new rules on merging unemployment benefit and subsistence allowance, and on the new method of calculating unemployment benefit, the corresponding new provisions – including those pertaining to disqualification periods – will not enter into force until 1 January 2005.

The abolition of special qualifying periods for seasonal workers and individuals completing their civilian or military service, and the changes to the imposed time periods will only come into effect for claims made on or after 1 February 2006 owing to reasons associated with the protection of property, as set out in constitutional law.

According to estimates by the Federal Employment Agency, in the medium term these measures will mean approximately 3,000 fewer staff will be required, staff who will then be available to step up placement-related work.

***Simplifying labour market instruments***

In practical terms, it is also often very difficult to apply active labour promotion legislation since it has always been very complex and different rules have applied to what are essentially very similar situations. In the area of state-subsidised employment, exist both job creation measures and structural adjustment measures which are two very similar instruments designed to achieve largely similar goals. Essentially, both measures represent attempts by the state to promote additional job opportunities. They should offer unemployed individuals – and those threatened with unemployment – an alternative to unemployment in cases where an individual cannot take up an unsubsidised job for personal reasons or due to a lack of suitable jobs on the regional labour market.

Integration subsidies are designed to make it easier for unemployed individuals with less chance of entering the labour market to integrate into regular employment by paying companies limited compensation. The vast array of subsidies available to employers is confusing for advisers and placement staff, as well as for employers, and is therefore not very user-friendly.

Examples of specific measures:

- **Merging of job creation measures and structural adjustment measures:** structural adjustment measures are included in legislative changes to job creation measures. Support is available for a period of three years for older workers, and as a result entitlement to job creation measures will become much more transparent.
- **New arrangements for job creation measures:** especially during periods of high unemployment, job creation measures will be promoted that respond to the main problems facing sectors of regional and vocational labour markets. This should help to reduce unemployment and should also provide unemployed individuals – at least temporarily – with a job to help them maintain or regain their employability. In future, this instrument will no longer depend on specific implementation of the goal of ‘improving workers’ prospects of integration’ (*Verbesserung der Eingliederungsaussichten der Arbeitnehmer*), which has been extremely difficult to achieve in the past due to the difficult situation on the labour market.
- **Abolition of case-by-case calculation of wage cost subsidies:** to simplify administration for both recipients and local employment offices, the subsidy will be adjusted to a lump-sum rate graded according to the individual’s level of qualifications. The elimination of time-consuming calculations will no longer be necessary, leaving staff free to concentrate on developing placement services.
- **Greater support for gaining qualifications:** under the new job creation measures workers are no longer required to gain qualifications or follow practical training. Extra support will be available in the form of more funding for training, in addition to wage costs.
- **BSI:** there is still the possibility that responsibility for implementing the new job creation measures will be transferred to commercial companies. But in future, the support instrument for procurement measures will be the BSI (Article 279a of the German Social Code (SGB) III) or *Beschäftigung schaffende Infrastrukturförderung* (Promotion of Job-Creating

Infrastructure) introduced along with the Job-AQTIV Act. As well as improving infrastructure, in future it will also be possible to promote measures designed to conserve and improve the environment that are carried out in commercial companies by previously unemployed individuals.

- **Removal of the social security requirement:** employment under a job creation measure will, in future, be exempt from social security contributions for employment promotion. As such, the Federal Employment Agency will no longer indirectly (via the recipient) fund the occurrence of new claims against the insured parties if workers become unemployed following a job creation measure.
- **Merging of integration subsidies** (integration subsidies for older workers, for the hard-to-place, for young people, for familiarisation, etc.). In general, there are now only two types of integration subsidy: a) for workers experiencing placement difficulties, and b) for disabled people. The **integration subsidy for workers experiencing placement difficulties** (equivalent to up to 50% of the qualifying salary) is payable for a period of up to 12 months. It is no longer possible to extend the payment period or increase the subsidy amount. Up until the end of 2009, older workers only will be eligible to receive an extended period of support of up to 36 months. The **subsidy for severely disabled individuals** (and its payment period) will remain the same.

### *Federal Employment Agency free to concentrate on its core tasks*

In addition, the new Federal Employment Agency is no longer responsible for cracking down on illegal employment. As from 1 January 2004, this task will be transferred to the approximately 2,800 staff of the customs administration.

### *Outlook*

Overall, the proposed measures open up the way for an efficient and customer oriented labour administration, while the preconditions for unlocking employment potential on the labour market have been substantially improved.

In addition, attainment of the goal of 'full employment' will continue to depend on continuing commitment shown by society as a whole, not just politicians. At federal level, the groundwork has been done. But labour market policy cannot yet rise to the challenges posed by employment and create jobs on its own; instead, it is reliant on successful linkage with other policy areas. In a market economy, creating job opportunities is and remains primarily a task for businesses.

In addition to fully implementing the proposals put forward by the Hartz Commission, further solutions must be developed and forward-looking positions adopted. The emphasis must be placed on solving the problems facing the labour market. In the short and medium term, the goal is to reduce unemployment, while in the long term care must be taken to ensure that sufficient skilled labour is available.

## **Germany: Comparing labour market measures in Europe**

In 1997, the Luxembourg Jobs Summit launched the European Employment Strategy. This move not only prompted the European dimension of labour market policy to take on greater significance,

but the availability of comparable data also became vital.

To provide the information required, the *Labour Market Policy (LMP) Database* was set up as an additional element of the ESSOSS Social Database (*Europäische System der integrierten Sozialschutzstatistik*). The majority of data collected pertains to individuals on labour market schemes and associated public expenditure according to information from official sources. The unique value of the LMP database lies in its detailed records gathered according to a standardised, binding methodology. Data are available for the period from 1998 to 2002.

Every year, EUROSTAT publishes selected data from the database in table form. By comparing 2002 data for Sweden and Germany, this article aims to compare data in a number of additional ways not covered by the LMP database.

There are clear differences between the two countries in terms of both participants and expenditure (Fig. 1).

*Expenditure:* While in Germany most expenditure (51.9%) is earmarked for *training and further training* measures, in Sweden it is concentrated on the *integration of disabled people* (41%), with training and further training taking second place (37.1%). The category *direct job creation*<sup>1</sup> which receives the second highest amount of funding (16.9%) in Germany does not exist in Sweden.

*Participants:* The percentage recorded in the largest category of participants in Germany is even higher than the percentage of *expenditure*: 56.3% of individuals on labour market schemes fall into the *training and further training* category. In Sweden, too, this category is the largest, followed by *measures for disabled people* (32.7%).

It is interesting to note in Sweden the high percentage of new entrants in the category *employment incentives*<sup>2</sup> in comparison to existing participants and expenditure. These larger differences between new entrants and existing participants point to a discrepancy in the duration of the schemes. With regard to employment incentives, in Sweden there are large numbers of new entrants alongside relatively small numbers of existing participants, which indicates that measures are of a shorter duration. Overall, in Sweden, 45.5% of new entrants have benefited from employment incentives, which ranked third in the categories *existing participants* (16.6%) and *expenditure* (17.5%).

There is quite a different picture in both Germany and Sweden with regard to the *integration of disabled people*. In this category, in comparison to the numbers of existing participants and the amount of expenditure, there are significantly fewer new entrants. This trend points to a longer average participation period for measures benefiting disabled people and – in the main – more cost intensive measures, and is more prevalent in Sweden than in Germany.

### *Participation according to age*

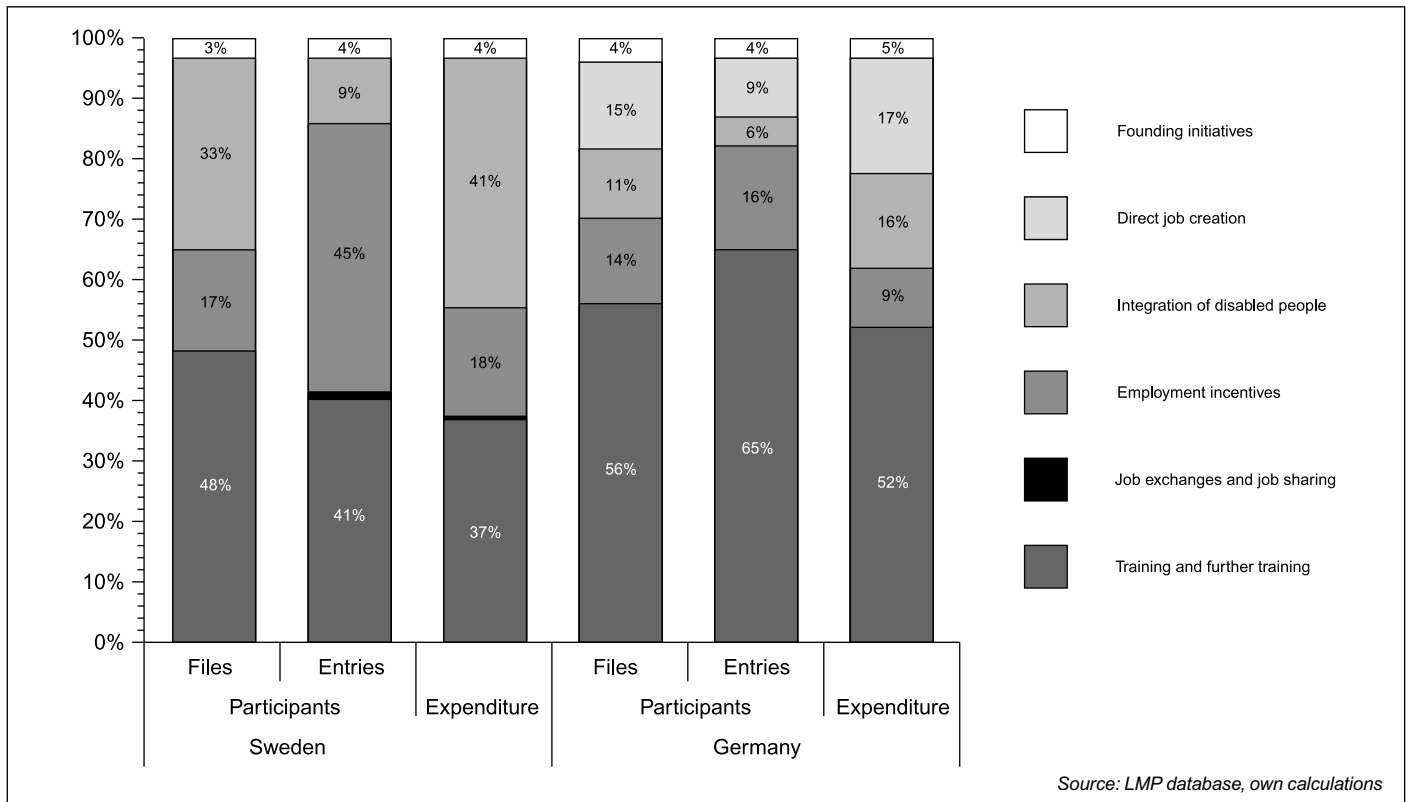
If the number of people from a particular age group participating in a scheme is determined on the basis of the proportion of that group among all unemployed people, which age groups are over- or under-represented? In total, and across all age groups, it would appear that when people become unemployed, more of them in Sweden become involved in active labour market schemes (Fig. 2).

This comparison includes only measures where unemployment is a precondition (e.g. where there are no in-company training

<sup>1</sup> Direct job creation: programmes to create additional jobs (generally charity or social work), in Germany primarily job creation measures (*Arbeitsbeschaffungsmaßnahmen*).

<sup>2</sup> Category 4, Employment incentives: Financial incentives to create and fill jobs, and promote continuing employment.

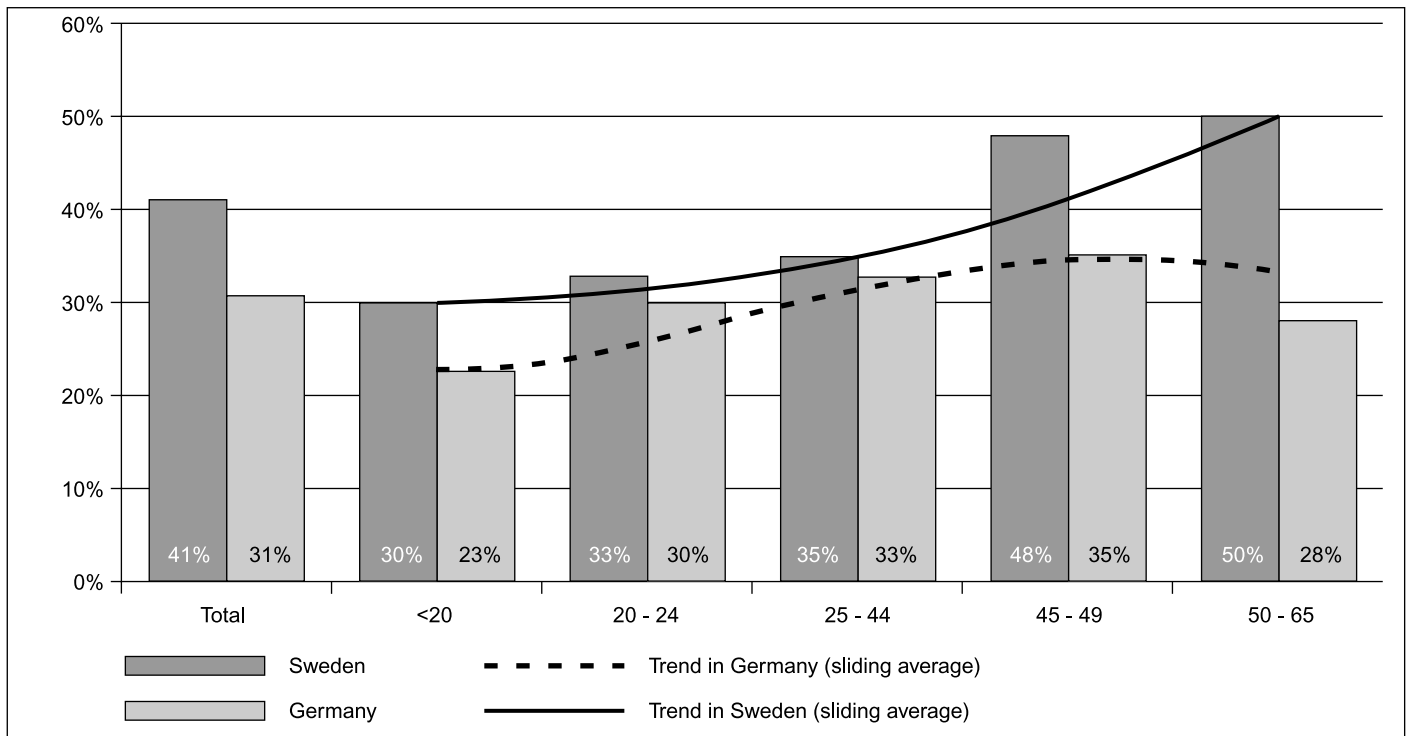
**Figure 1** Comparison of the main areas of active labour market policy in Sweden and Germany



measures). Accordingly it comes as no surprise that in Germany only a relatively small number of young unemployed people are involved in schemes. What is striking is the discrepancy in the level of involvement of older people in active schemes. While in Sweden there was an increase of 13.4% in the 45-and-above age groups compared with the 25-44 age group (an increase which is even

higher still in the 50-65 age group), in Germany there was only a small increase in the 45-49 age group, compared with the 25-44 age group, whereas in the 50-65 age group the percentage actually fell to 27.9% compared to 50.3% in Sweden. Consequently, older workers who become unemployed in Sweden clearly have a significantly better chance of participating in an active scheme.

**Figure 2:** Number of individuals becoming unemployed and joining schemes in 2002



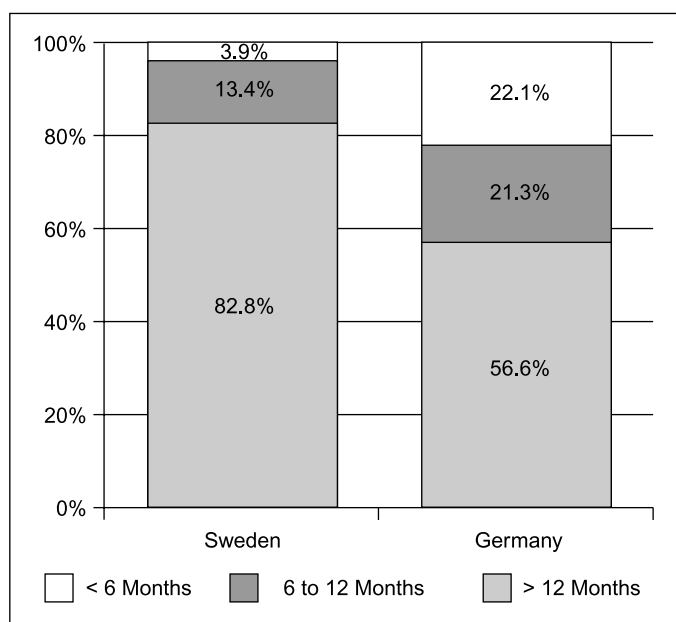
### Period of unemployment prior to joining an active scheme

For integration into the primary labour market it is important *at what point in time* an individual joins an active measure. Individuals should join the scheme at the earliest possible opportunity to avoid their qualifications becoming obsolete and other negative effects associated with unemployment (e.g. loss of confidence in their own abilities, losing their orderly daily routine, and so on).

For example, evidence shows that in Sweden, unemployed individuals who join training or further training schemes were unemployed for a shorter period before joining (Fig. 3): 82.8% of participants were unemployed for less than six months as compared with 56.6% in Germany. In Sweden, 96.2% of participants in training or further training were unemployed for less than 12 months, compared to 77.9% in Germany. In Germany, almost one quarter (22.1%) of all participants were already classed as long-term unemployed when they joined a scheme. In Sweden, only 3.9% of participants fall into this group, comprising individuals experiencing severe difficulties integrating into the labour market and finding a job.

These figures are understandable in the light of Sweden's significantly lower unemployment rate<sup>3</sup> in 2002 (4.9% as opposed to 8.6% in Germany): because fewer active individuals are unemployed, the cost of funding a large number of unemployed individuals through active schemes is therefore lower. The average period of unemployment in Sweden in 2002 was 12 weeks. In Germany, this figure was almost three times as high (average of 34 weeks).

**Figure 3:** Period of unemployment before joining a training or further training scheme (excluding apprenticeship training)



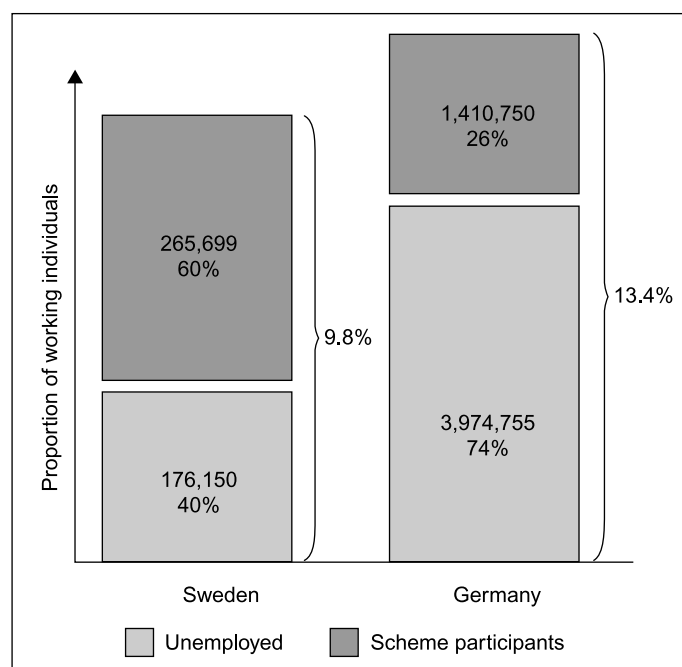
Source: LMP database, own calculations

### Unemployment: active or passive – open or concealed?

Naturally, the unemployment rate is one of the main indicators by which to measure under-employment. But discussions often ignore the fact that not all unemployed individuals actually register as unemployed.

If we assume that individuals involved in a scheme are also to be considered as unemployed in a wider sense (constituting a 'hidden labour force' or "*stille Reserve*" in schemes)<sup>4</sup>, then a picture (Fig. 4) emerges similar to that reflected in Fig. 3: because unemployed individuals in Sweden are generally unemployed for a shorter period before joining a scheme, the percentage of individuals registered as unemployed (40%) is lower, compared to those in a scheme (60%). Conversely, in Germany, in contrast to the rate of 'concealed' unemployment in the form of individuals participating in schemes (26%), the percentage of individuals openly registered as unemployed is higher (74%).

**Figure 4:** Numbers of individuals in schemes compared to the number of unemployed individuals; proportion of both groups among working individuals



Source: LMP database, own calculations

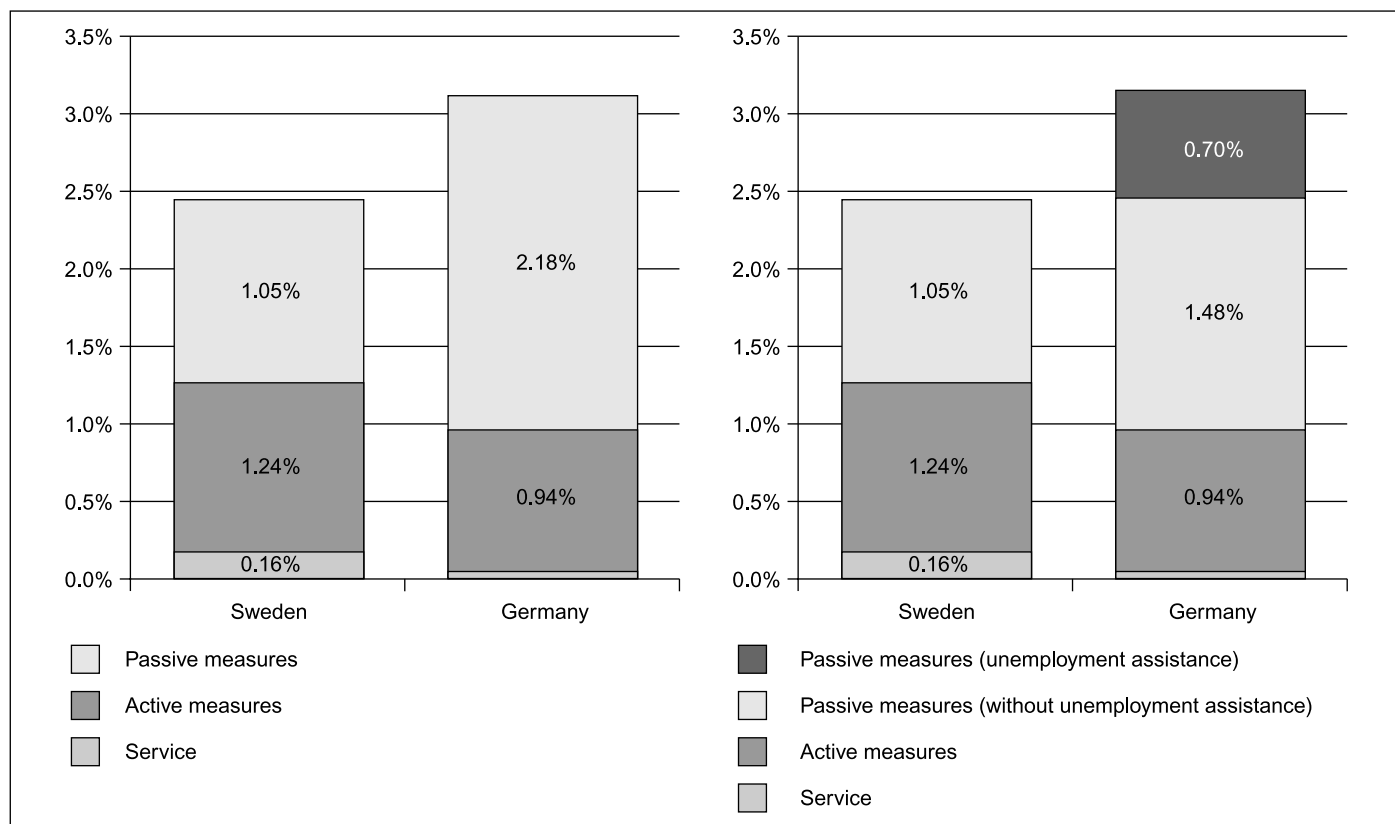
If one combines the numbers of both unemployed individuals and individuals in schemes to come up with an under-employment rate in relation to working individuals, then Germany's rate of 13.4% is higher than Sweden's (9.8%), as illustrated in Fig. 4.

### Difficulties comparing figures – an example

In international comparisons of public expenditure on labour market policy, such spending is often represented as a proportion of gross domestic product (GDP). If one bases the present comparison solely on quantitative data from the LMP database, it is clear that in 2002 a considerably higher proportion of GDP was spent on labour market measures in Germany than in Sweden. This difference is due

<sup>3</sup> Here: standardised unemployment rate according to the OECD.

<sup>4</sup> The term 'hidden labour force' is taken to mean people of working age who want to work but have not registered as unemployed. Individuals in schemes constitute a sub-group of the hidden labour force. For details on the hidden labour force, see the German Federal Employment Service 2003, p. 21.

**Figure 5:** Proportion of expenditure compared to GDP for active and passive labour market policy 2002

Source: LMP database, own calculations

to the high level of expenditure on passive measures, in particular unemployment benefit and unemployment assistance (Fig. 5, left-hand chart).

However, Sweden does not award unemployment benefit comparable to that available in Germany. Any individual in Sweden who is not insured against unemployment or who has exhausted their claims to unemployment benefit receives basic assistance worth the same as social security benefit and is referred to the local authority. Taking into account the different way in which services are organised, the level of expenditure is roughly the same (Fig. 5, right-hand chart).

This example clearly demonstrates that when evaluating labour market policies it is vital to bear in mind the characteristics of the systems being compared. This key information can be found in the LMP database's qualitative reports.

The LMP is an important analytical instrument in comparing European labour market policies. One of its unique features is that it combines aggregated statistical data with practical information in a single database. The information held by the LMP is now used in calculating individual indicators and evaluating national action plans drawn up by the Member States. It is also used in co-ordinating the European Employment Strategy

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## Greece: The National System for Linking Vocational Education and Training with Employment

The systems of secondary vocational education, initial training and ongoing training have been developed rapidly in the last decade in Greece. On the one hand the European Council conclusions for the implementation of a Common European Policy that reinforces employment and combats unemployment and on the other hand the National Action Plans for Employment have led to the need for improving co-ordination between the systems of Education and Training and their link with employment. Indeed, the implementation of a **co-ordinated policy linking the systems of vocational education and training with employment** constitutes a prerequisite for combating unemployment and serving labour market needs.

Up to date, the links between the education and training systems and the labour market were not strong. General education, vocational education and initial training were organized distinctly and isolated from the systems of continuing training, on-the-job training and active labour market programmes. Moreover, several Ministries and types of organisations were involved in the delivery of education and training.

On the initiative of the Ministries of Labour and Social Security and National Education a strategic proposal has been made in order to address long-term problems, cover needs and deficiencies, link the systems of education and training with the labour market and respond to both existing and future needs of the labour market. This strategic proposal concerns the **establishment of the National System for Linking Vocational Education and Training with Employment (E.S.S.E.E.K.A.)** by a **recently adopted Law (Law 3191/2003)**.

The E.S.S.E.E.K.A. constitutes an instrument for shaping national policy and co-ordination with the assistance of the social partners, setting qualitative and quantitative objectives and monitoring and evaluating procedures and results.

It is the first time that the systems of secondary vocational education, initial training and ongoing training are co-ordinated and organised to complement one another without overlapping or duplicating one another's efforts.

Innovative measures have been introduced: an integrated and reliable system has been set up to explore the needs of the labour market on the national and local levels and to specify the requested specializations as well as the content of the requested employment. A unified system of certification of vocational qualifications has been established with common principles and rules for all systems. More specifically, the new law distinguishes among six separate sub-systems: research on labour market needs; technical-vocational education (at the secondary level); initial vocational training; continuous vocational training; accreditation of professional qualifications and training outcomes; and counselling and vocational guidance. For each of these sub-systems, roles, responsibilities and co-ordination arrangements are explicitly defined and clarified.

## Italy: The reform of the Italian labour market

### General analysis

In line with the conclusions of the European summits of Lisbon and Barcelona, there has been a significant overhaul of the structure of the labour market in Italy. These reforms fit in with the new institutional context following the significant amendments that have been made to the Italian Constitution. The Constitution now gives the national, regional and local levels of government an equal footing. By extension, the Constitution now establishes the principle of *legislative and administrative subsidiarity*, which governs the distribution of powers between the national, regional and local levels of government. Accordingly, with respect to regulatory functions, the reform establishes both the issue of exclusive competence of the state (while for all the functions regional governments hold exclusive legislative power) and the issue of concurrent legislative power.

The key labour market reforms to promote employment were set out in the White Paper on the Labour Market in Italy in October 2001 and in the Pact for Italy (*Patto per l'Italia*) in July 2002.

The legislative decree enacting the proxy law (14 February 2003, no.30) was published on 9 October 2003. It sets out the new fundamental principles governing employment services and the labour market.

### The labour market reforms

With regard to the new powers of regional and local governments, the labour market reform is geared towards:

- modernising employment services and linking private and public-sector services;
- simplifying the process of matching labour supply and demand to permanently transform job placement from a state-managed function to a privately operated service;
- introducing more flexible organisational structures and models for companies and for employment;
- reinforcing the synergy between work and lifelong learning;
- combating the informal sector, which is a source of job insecurity, and the lack of scope for companies operating within this sector to grow; and
- bolstering the mechanisms and instruments used to monitor and evaluate the results achieved including on the employment rate for women.

The new regulations also establish the procedures governing the identification of a single authorised or accredited system for public and private job mediation agencies.

Rules have been established that govern a *single system of regional accreditation*, which is an administrative instrument that authorises public and private sector operators to provide employment services by registering themselves on the appropriate regional lists. A provider is accredited if the regions acknowledge that active measures are required to match labour supply and demand in the geographical area covered by the provider.



Another important innovation is the introduction of regional employment agencies (*Agenzie per il lavoro*), which are state and private bodies authorised by the Ministry of Labour and Social Policy to carry out the following:

- lease staff, or supply manpower in a professional capacity on a permanent and ongoing basis;
- help disabled and disadvantaged individuals integrate into the labour market, and provide training and career guidance programmes;
- seek and recruit staff, including management and recruitment consultancy services, as well as plan and provide training programmes; and
- support the placement of individuals or groups, including training and support for the person entering a new company.

In this case, the administrative instrument provided under the Italian legislature is a *single authorisation system*.

The Ministry of Labour and Social Policy authorises these bodies. A list of authorised *regional employment agencies* held by the Ministry of Labour and Social Policy will be established, which will classify the agencies according to activity.

However, autonomous regions and provinces may, subject to checks to ensure that the necessary requirements have been met, authorise agencies to perform mediation, job seeking and recruitment activities in their own areas.

There is also a requirement that accredited and authorised operators be connected to the National Continuous Labour Exchange, an open and transparent system for matching labour supply and demand based on a network of regional centres. Information on vacancies available/sought is fed into the system directly by workers and public and private operators.

As such, it is clear that the reform has considerably increased the range of bodies providing placement services; in future, not only provincial Employment Centres (*Centri per l'Impiego*) but also other public and private authorised and accredited bodies will provide services.

The reform has also introduced new flexible and regulated forms of work organisation in Italy to help individuals enter and remain in the job market, and to support those individuals who need to balance work with family, learning, or other activities, and to give legal status to work in the informal sector and insecure employment contracts.

It is clear that of the training contracts (apprenticeship contracts, and the new integration contract), the apprenticeship contract (*contratto di apprendistato*) is the main training instrument while the integration contract (*contratto di inserimento*) will be used primarily to integrate and re-integrate workers into companies, with particular emphasis being placed on the long-term unemployed, women, and older workers.

A new initiative, the 'personal training record' (*libretto formativo del cittadino*), has been introduced in agreement with the regions, local authorities and social partners. This document will be a worker's personal 'record book' in which all the skills held and training undertaken by the individual will be recorded (provided that they are acknowledged and certified).

All work experience that is not classed as employment is considered to be a traineeship (*tirocinio*). They may last for between one and 12 months, or 24 months for people with disabilities, depending on the level of education, work and the area concerned. For people with disabilities, other things are also considered, like the additional time

that may be required for them to complete their training as a result of the disability.

The use of part-time contracts (*contratti a tempo parziale*) is encouraged primarily for women, young people and workers aged over 55 years. There are also plans to extend the concept of flexibility to part-time fixed-term contracts, with the agreement of the worker, and social security facilities to encourage older workers to change their full-time contracts to part-time ones so that there will be more employment opportunities for young people.

The 'quasi-subordinate status' initiative (*istituto della parasubordinazione*) has been revised, transforming current employer-co-ordinated freelance work (*collaborazioni continue e continuative*, sometimes abbreviated to *co.co.co*) into either work under an employment contract (*lavoro subordinato*) or project work (*lavoro a progetto*). For all project work, new contracts will have to stipulate the project assigned, the time in which it must be completed, remuneration and method of payment.

To protect workers, a regulation has been drawn up on 'purely occasional' work (*lavoro meramente occasionale*). This pertains to work lasting not more than 30 days in any calendar year for any one customer, and for which the total remuneration received does not exceed €5,000 in one calendar year.

Four forms of atypical employment have been introduced. The aim is to promote regular rather than insecure work and to provide effective protection for workers by eliminating the ambiguities which, until now, have made it possible to classify actual employment as self-employment. These four work forms are on-call jobs (*il lavoro intermittente*), job-sharing (*il lavoro a coppia*), project work, and occasional and supplementary work (*il lavoro occasionale e accessorio*).

On-call jobs have the following two characteristics: the worker must be available to perform "sporadic and intermittent services" (jobs on call) at the request of the employer and on an open-ended basis, and is entitled to receive "fair" recompense for remaining available on standby during periods when he/she is not working.

A *job-sharing* contract is a specific type of employment relationship drawn up between an employer and two or more workers who agree to perform a single job between them. It is similar to a part-time contract, but a part-time job is performed by a single individual.

*Project workers* (formerly employer-co-ordinated freelance workers) – that is, independent workers "essentially working on their own and where no employer-employee relationship exists" – are entitled to protection in respect of the following: remuneration (proportionate to the amount of work carried out), the duration of their contract, maternity, sickness and the nature of the relationship with the customer. If the company does not specify the project, it is obliged to hire workers as employees on an open-ended contract.

*Supplementary work* (*lavoro accessorio*) is work that is purely occasional and is performed by individuals at risk of social exclusion, those who have not yet entered the labour market or those who are on the point of leaving it. Employment under this type of contract includes various work performed for families, non-profit associations, and public bodies in the form of services providing family and domestic support; assistance and care for the sick or the disabled; childminding; light gardening work; extra tuition; and helping out at socio-cultural, sporting or charity events. The distinguishing aspect of supplementary work as compared with other employment contracts lies in the fact that, unlike the latter, the supplementary employment contract is drawn up not between the contracting parties (employee and employer – family, body or

other) but via the purchase, from the appropriate authorised agency, of *vouchers* or coupons equivalent to a specific amount of work. The worker is then paid for this work once it has been performed. Activities that do not form part of the labour market (*prestazioni che esulano dal mercato del lavoro*) have also been placed within a separate category of work: this kind of work takes place primarily in the agricultural sector and takes the form of work performed by relatives and similar individuals up to the third generation – on an occasional or recurring basis for a short period – providing assistance and out of moral obligation, which is unpaid, except for reimbursement of expenses incurred through maintenance and performing the work. Such work is not deemed to constitute either self-employment or employment.

In order to reduce the likelihood of any disputes as to the validity of the new contracts (on-call jobs, job sharing, part-time work and project work), the new standards set out a voluntary *certification* procedure.

This certification procedure is important, since by identifying the type of employment relationship, it ascertains the worker's rights and the protection to which he or she is entitled.

Certification Committees (*Commissioni di Certificazione*) set up within the Joint Bodies (*Enti Bilaterali*), the Provincial Employment Offices (*Direzioni Provinciali per l'Impiego*) of the Ministry of Labour and Social Policy, the provinces themselves, the Italian Government, and private universities are all authorised to certify employment contracts. The company and the worker will be able to certify the contract (with the exception of any regulations rejected by the worker) before the committees, which will validate the true nature of the contract and the bargaining programme. If disputes do subsequently arise, such as employer-co-ordinated freelance work that turns out to be employment, the courts must consider the information the parties have submitted to the Committee.

## ***Employment contracts under the reform***

### ***Staff-leasing contract***

The staff-leasing contract is drawn up between an authorised intermediary or leasing agent (*somministratore*), who is registered on the appropriate list held by the Ministry of Labour and Social Policy.

### ***Fixed-term staff-leasing contract***

Under a fixed-term staff-leasing contract, labour is supplied for technical, production-related, organisational or similar purposes, even if they form part of the user's ordinary activity, which must be stated in the contract. The volume of staff that may be employed on a staff-leasing contract is established by national collective bargaining. The regulations governing the introduction of this type of contract prohibit its use in the following situations: a) to replace workers who exercise the right to strike; b) at production units at which, during the six months immediately prior, there have been any collective redundancies, or at which any contracts have been suspended or where the working hours of workers performing the same duties as those contained in the staff-leasing contract have been reduced; c) by companies that have not conducted a risk assessment with regard to the health and safety of its workers in the workplace. Any staff-leasing contract must be drawn up in writing and must include all information required by law, otherwise the contract will be declared null and void and the worker will, to all intents and purposes, be considered an employee of the user.

The rules governing the employment contract and protection of the worker include:

The period initially set out in the employment contract may be extended with the written consent of the worker. The worker is hired either on either a fixed-term or open-ended contract by the staff-leasing agency.

Where the worker is hired on an open-ended contract, the company supplying the manpower must pay the worker monthly standby benefit (*indennità mensile di disponibilità*), the amount of which must be stipulated in the employment contract for the periods during which the worker is 'on standby' waiting for an assignment.

The staff-leasing company has disciplinary authority and is responsible for paying remuneration directly. The pay may not be less than that payable to employees at the same level and who perform the same work at the user company. The staff-leasing company is also responsible for paying social security and welfare contributions. At a later date, the user then reimburses the staff-leasing company for the wage and social security costs incurred.

The workers supplied by the staff-leasing agency and those of the user are treated equally in terms of remuneration and regulations, except where alternative arrangements are made in the agricultural and construction sectors as set out in collective agreements. Both the supplier (*fornitore*) and the user are responsible for workers' remuneration and social security arrangements.

### ***Open-ended staff-leasing contract***

Open-ended staff-leasing contracts may be used for technical, production-related or organisational reasons in respect of work required as stipulated by law and in national or sectoral collective agreements and for which labour is required, including for long periods. Open-ended staff-leasing contracts are permitted not only to meet the temporary demands of the user company, but primarily for ongoing activities forming part of the company's production cycle. In the same way as fixed-term staff-leasing contracts, the worker is employed by the staff-leasing agency, while the user may request that a different worker be sent. The worker's employment contract must stipulate the amount of monthly standby benefit for periods during which the individual is not working and is waiting for an assignment; this amount may be reduced proportionally if part-time work is performed for the staff-leasing agent. Once the work performed under the staff-leasing arrangement has been completed, the leasing agent may dismiss individuals for any objective and legitimate reason, without prejudice to any specific income support measures and training paid for out of the fund for workers hired on an open-ended contract.

### ***On-call employment contract***

Under an on-call employment contract, drawn up in writing, the worker must – indefinitely or for a fixed period – guarantee to the employer that he/she will be available to work sporadically or on an on-call basis upon request. From time to time, the worker may be called upon by the employer, who must give at least one working day's notice, and must remain available until further notice. The worker may only be used for a limited number of days and in accordance with production peaks and organisational requirements set out either in national collective agreements or, temporarily, by the Ministry of Labour and Social Policy.

The employment contract must stipulate the monthly standby benefit, divided into hourly amounts, payable to the worker in periods during which he is not working and is waiting to be called

up for an assignment. The amount of benefit is established through national collective bargaining.

In the event that the worker falls ill or, for some other reason, is temporarily unable to work if called upon, he or she must inform the employer appropriately, specifying how long he or she will be unable to work. In such cases, the worker is not entitled to benefit.

### *Job-sharing contracts*

The job-sharing contract is a special type of employment contract under which two or more workers agree jointly to perform a single job. Workers are free to modify the schedule of working hours, but they may not replace one of their number with a third party unless prior agreement is given by the employer.

The resignation or dismissal of one of the workers renders the entire contractual relationship null and void, unless an alternative agreement is reached between the parties.

In compliance with the general principle of equal treatment, each of the individuals bound by a job-sharing contract shall be remunerated monthly in proportion to the work actually performed. Social security payments shall be calculated in the same way.

### *Part-time work*

A part-time contract is an employment relationship – of fixed term or open-ended – under which the worker works fewer hours than either the normal working week (40 hours) or the number of hours set out in the applicable collective agreement.

A part-time contract may be ‘horizontal’ (where the worker works fewer hours than a normal working day), ‘vertical’ (where the worker works full-time but only during certain predetermined periods of the week, month or year), or ‘mixed’ (where collective bargaining allows a combination of the horizontal and vertical arrangements above).

A part-time employment contract must be drawn up in writing (otherwise it will be considered null and void), and must specify the duties required, the duration of the work and the daily, weekly, monthly and yearly schedule of hours. If no duration is specified for the work, at the request of the worker a full-time employment contract may be declared to exist between the parties.

The parties may conclude an employment contract containing an agreement under which full-time employment may become part-time employment and part-time workers will be given priority in the event that full-time positions become available in the same local area and for the same or equivalent duties. If the worker refuses to change a full-time contract to a part-time one, or vice versa, this shall not constitute a valid reason for dismissal.

In the case of horizontal part-time work, even for a fixed term, the employer may ask the worker to perform duties in addition to those agreed, with the worker’s consent, provided that no other regulation has been agreed through collective bargaining.

Vertical or mixed part-time employment contracts may also specify flexible clauses on increasing the duration of the work.

A part-time worker is entitled to the same rights as a full-time worker and may conclude several part-time contracts with different employers.

There are also social security incentives to encourage older workers to change a full-time contract to a part-time one, thereby promoting the hiring of young workers, even part-time.

### *Apprenticeship contract*

An apprenticeship is a type of contract that combines academic education and in-company training (*formazione in azienda*): it is defined as a ‘combined contract’ (*contratto a causa mista*) and is designed to combine work with training/education and a wage. In particular, apprenticeship contracts are also designed to promote sandwich courses, which combine education systems and vocational training, and call upon the company providing the training to conclude agreements with training institutions and thereby to help train students, apprentices, employed individuals and job seekers in educational courses, vocational training programmes, and courses combining practical and non-practical training, in the transition into working life, and in following an apprenticeship. The Ministry of Labour and Social Policy will set out, in agreement with the regions and the social partners, the accreditation criteria for companies providing training, and the ‘Directory of Professions’ (*repertorio delle professioni*) will be drawn up at the Ministry in a bid to harmonise vocational qualifications.

Financial incentives are also available to encourage companies to hire apprentices.

Whilst employing an apprentice, companies providing training will also be able to place the worker in a category up to two levels below the applicable category on the basis of the relevant national collective agreement.

Apprenticeship contracts must be drawn up in writing and must stipulate the work to be performed, the individual training plan, and, by extension, the estimated total number of training hours, within the company and externally, required to gain the vocational qualification, and the qualification to be achieved at the end of the contract based on the results of the in-company and external training provided by accredited regional bodies. It must also stipulate the presence of a company ‘mentor’ with the appropriate training and skills. The contract also gives employers the opportunity to withdraw from the contract at the end of the apprenticeship period.

The training programme followed is registered in the apprentice’s training record card (*libretto formativo*).

There are three types of apprenticeship contract:

- 1) The apprenticeship contract fulfilling the right/duty to education and training (*contratto di apprendistato per l’espletamento del diritto dovere di istruzione e formazione*) is designed for the apprentice to gain and have acknowledged a vocational qualification on the basis of results achieved in the context of a contractually stipulated training course. The contract is available in all sectors and is for young people and teenagers aged 15 years or over. The contract may not last more than three years and is determined on the basis of qualification sought, the qualification already held, the vocational and training-related credits gained from the skills assessment conducted by either the public employment services or by accredited private entities.
- 2) The on-the-job apprenticeship contract (*apprendistato professionalizzante*) is designed to enable individuals to gain a qualification through ‘on-the-job’ training and by acquiring basic, transferable and technical vocational skills. On-the-job apprenticeship contracts are available in all sectors for young people and teenagers aged between 18 and 29 years and from the age of 17 years if they meet the required criteria as set out in law no. 53/2003. The duration of the contract, which is fixed by national collective agreements, may be anything from a minimum of two years up to a maximum of seven years. Unless

stipulated otherwise in the national collective agreements, the number of apprentices that any one company may hire under an on-the-job apprenticeship contract may not exceed 100% of the specialist and qualified workforce currently employed.

- 3) The apprenticeship contract for acquiring a diploma or completing a course of higher education (*apprendistato per l'acquisizione di un diploma o per percorsi di alta formazione*) is designed to enable individuals to gain a secondary and/or university level qualification, a higher education qualification, or a specialist higher-level technical qualification. The contract is available in all sectors to individuals aged between 18 and 29 years inclusive.

### Integration contract

The integration contract is designed to facilitate the integration and/or re-integration of those individuals who have been made redundant by setting out a specific individual plan to adapt a worker's vocational skills to a specific job.

Hiring an individual on an integration contract is subject to setting out, with the consent of the worker, an individual integration plan designed to ensure that the worker has appropriate vocational skills that fit in with market demand. The integration contract is available to the following categories of individual:

- individuals aged between 18 and 29 inclusive;
- the long-term unemployed up to the age of 32;
- workers aged over 45 who have been made redundant or who are on the point of becoming redundant;
- workers who want to begin or go back to work and who have not worked for at least two years;
- women of any age living in a geographical area where the rate of female employment is at least 20% lower than the male employment rate or where the female unemployment rate is more than 10% higher than the male unemployment rate; and
- individuals who, under current regulations, are considered severely handicapped either physically, mentally or psychologically.

Integration contracts may be drawn up by public bodies, groups of companies, professional, socio-cultural or sporting associations, or public or private research foundations and bodies. To be able to hire a worker on an integration contract, the employer must have kept on at least 60% of the workers whose integration contracts expired during the prior 18 months. This percentage does not include workers who have been dismissed; workers who, at the end of their employment contract, have refused the employer's offer to stay on an open-ended contract; workers whose contracts have been terminated during or at the end of a trial period; and workers whose contracts have not been made open-ended (up to a maximum of four such contracts).

Young people who, during the course of their employment contract, have had this contract changed into a fixed-term employment contract are considered to have been kept on.

If the contract is not drawn up in writing, it shall immediately be rendered null and void and the worker shall automatically be hired on a fixed-term contract.

**Duration:** The integration contract may last anywhere from 9-18 months inclusive and is non-renewable. In calculating the maximum duration of the contract, any periods spent in military or civilian service are not taken into account, nor are any periods of maternity leave. There are some exceptions, such as for women in areas where the female employment rate is at least 20% lower than the male

employment rate or where the female unemployment rate is more than 10% higher than the male unemployment rate.

**Financial and regulatory incentives:** At the present time, until reform of the system of incentives to encourage people to find work, the current systems of financial incentives remain in force, i.e. those that apply exclusively to disadvantaged workers hired on an integration contract. However, in the event of gross failure to complete the individual integration plan, the employer must pay the share of the lower contributions plus 100%.

### Project work

The reform of employer-co-ordinated freelance work is another key area of this legislative reform. The introduction of the project work contract is designed to achieve two complementary goals: first, to eliminate evasive practices that allow actual employment concealed as employer-related freelance work and, second, to recognise project work legally, which has become increasingly necessary and commonplace in the light of the growth of outsourcing. Under the new project work contract, workers benefit from greater protection that did not exist under previous regulations. The reform stipulates that former employer-co-ordinated freelance contracts must essentially be linked to one or more specific work projects or programmes. Nevertheless, this regulation does not apply to occasional work, i.e. to employment contracts with a total duration not exceeding 30 days in any one calendar year with the same customer and from which total remuneration for work performed is less than or equal to €5,000. If remuneration is greater than €5,000, the contract will automatically be converted to a project-work contract. Some professions, like sales representatives, are ineligible for hire on a project-work contract. Project-work contracts expire at the time the specified project or programme (or phase thereof) is completed. **Rights and duties of project workers:** By setting out a specific set of rights and protection measures to which project workers are entitled, the legislature has endeavoured to plug the gaps in the present regulations governing employer-co-ordinated freelance work. For example, in the case of an invention by the worker whilst performing the employment contract, that project worker is entitled to take credit for the invention. Special legislation governs the rights and duties of project workers. In the event of the worker falling sick or suffering an accident, the employment contract shall be suspended without pay. However, the contract is not terminated but may continue at a future date. Unless otherwise indicated in the contract, suspension of the contract does not imply extension of the duration of the contract, which shall expire on the date specified. However, the contract shall be considered to be terminated if the suspension continues for a period longer than one sixth of the duration stipulated in the contract, assuming a duration is specified, or, in the case of a contract where the term may be fixed (*contratto di durata determinabile*), if the suspension continues for more than 30 days. If the worker becomes pregnant, the contract shall be suspended, without payment of any amount due. In this case, contrary to the event of the worker falling sick or suffering an accident, the duration of the contract is extended for a period of 180 days, unless a more favourable provision is stipulated in the individual contract.

Unless agreed otherwise between the parties, a project worker may work for several customers. They may not compete with customers, divulge information or comment on the programmes and the organisation, or act in such a way as to prejudice the activities of customers. A project-work contract is drawn up in writing and must include, for verification purposes, certain details, including the duration (whether it is of fixed term [*durata determinata*] or of a

duration that may be fixed [*durata determinabile*] of the work; a description of the project or programme specified in the contract; and the remuneration and the criteria by which it is determined.

### *Occasional supplementary work performed by specific individuals*

The rules governing occasional supplementary work (*prestazioni occasionali accessorie*) are designed to achieve two goals: *a*) to formally recognise specific forms of work, stipulated by the legislature, which are in response to family (rather than company) opportunities and requirements that may arise; *b*) to bring such work out of the informal sector, given that almost all work of this kind is currently performed illegally. Supplementary work is purely occasional in nature and is performed by individuals at risk of social exclusion, individuals who have not yet entered the labour market or who are on the point of leaving it. Under the reform, the scope of application of supplementary work covers temporary minor domestic jobs, including childminding or looking after the elderly, the sick or the disabled at home, private additional teaching, minor gardening work and cleaning/maintenance of buildings and monuments, organising social, sporting, cultural or charity events, working with voluntary associations to perform emergency work, e.g. in the event of an unforeseen natural disaster or solidarity work.

The total duration of each supplementary work activity may not exceed 30 days in any one calendar year, and total remuneration may not exceed €5,000.

The following individuals are authorised to perform supplementary work: *a*) those who have been unemployed for over one year; *b*) housewives, students and pensioners, the disabled and individuals in a recovery centre; *c*) non-EU workers who are legally resident in Italy, in the six months following their losing their job.

In order to perform supplementary work, individuals must be entered on the appropriate lists held by the Employment Centres. The reform has introduced the new method of payment via prepaid vouchers for remuneration and social security contributions. Parties for which supplementary work is performed may obtain one or more books of vouchers from authorised vendors to pay for supplementary work performed. The worker can then cash the vouchers at concessional organisations or companies authorised to make payments upon presentation of the vouchers.

### *Summer work-experience traineeships*

Summer work-experience traineeships (*tirocini estivi di orientamento*) offer an appealing opportunity, during summer vacations, to help individuals make career choices by gaining direct experience of the world of work and to combine periods of study with practical work. At the end of the traineeship, a certificate is issued attesting to the experience gained.

Summer work-experience traineeships are designed for teenagers or young people who are officially enrolled in a course of academic study, at any level, or in a university course. The maximum duration of a traineeship may not exceed three months, even where more than one traineeship is being followed. This three-month period must be during the period immediately following the end of one academic year and before the start of the next. Work grants are potentially available for trainees up to a maximum amount of €600 per month.

## United Kingdom: General developments

The UK economy has continued to strengthen throughout 2003 with GDP growth of 0.6% in the second quarter and 0.7% in the third. The output of distributive industries increased with forward-looking surveys suggesting that manufacturing services and construction are all enjoying firmer growth.

The UK economy is currently growing at about its trend rate and has experienced a record 45 consecutive quarters of growth. Inflation continues to be low and stable, remaining close to target with RPIX currently standing at 2.7%. This helps explain why there has been no weakening in the labour market, with employment growing and unemployment broadly flat.

Latest figures show a record 28.15 million people in employment, up by 250,000 in the last three months and by 310,000 over the last year. This represents 74.6% of working age people in work. ILO unemployment is down over the year to stand at 1.48 million or 5%. Claimant unemployment is also down slightly at 0.93 million or 3%. Recent vacancy figures seem to indicate that they remain at historically high levels.

In terms of recent developments related to the labour market, in July 2003, the UK Government published a Skills Strategy White Paper entitled “21st Century Skills: Realising our Potential” ([www.dfes.gov.uk/skillsstrategy/](http://www.dfes.gov.uk/skillsstrategy/)), as described in the previous edition of this Review. This sets out a vision to raise the skills profile of all individuals and recognises that all partners must work together to tackle skills gaps, to support thriving, innovative, high performing workplaces and develop a highly skilled, well-rewarded workforce fit for the new century. The UK aims to ensure that skills provision responds better to employers’ needs, working in partnerships to offer employers greater choice and control over the funding they receive so they can ensure they have the skilled employees needed to compete and succeed. It is also important to help individuals access the right learning opportunities and so acquire the skills they need for employability and for personal fulfilment. In addition, the strategy sets out a reform of the supply side so that courses and qualifications respond better to employers’ and learners’ needs.

## Norway: Recent developments in the Norwegian labour market

Despite five years of low economic growth, Norway still has one of the highest employment rates and lowest unemployment rates in the OECD. In the period of recession the level of unemployment increased from 3.2 per cent in 1998 to approximately 4.5 per cent in 2003. In the third quarter of 2003 there were solid signs of a recovery in the Norwegian economy. Lower interest rates, higher demand from a strong household sector, increased investment and export demand are pushing up growth rates. Economic activity is expected to pick up further in 2004 leading to increased employment.

### ***Signs of a recovery in the Norwegian economy***

After a peak in 1998 growth rates in the Norwegian economy have been at a lower-than-trend-level for a couple of years, and in 2002 the economy went into recession. New figures show that growth in the mainland economy picked up throughout the summer of 2003. The growth rate in the third quarter of 2003 was 3.2 per cent (yearly rate). Low interest rates, high demand from the household sector and increased investment and exports have pushed up growth rates. The upswing is expected to be strong throughout 2004. With the unemployment rate having increased by more than one percentage point after the summer of 2001 – and with a decrease in the labour force participation rate – there is some slack in the economy. Inflationary pressure is thus expected to stay low despite increased growth rates.

### ***High labour market participation rates remain after a period of recession***

Norway has a high labour market participation rate. According to OECD figures, 80.3 per cent of the total population (15-64 years) participate in the labour force (2002). Comparable figures for the EU are 69.8 per cent and the OECD average is 69.9 per cent. The relatively high participation rate in Norway is partly explained by a high proportion of employment among women and older people. In 2002 and the first half of 2003, the labour market was affected by a decline in demand for labour. This resulted in a fall in the participation rate of one percentage point and a reduction in the number of employed people of approximately one per cent between the second quarter of 2002 and the second quarter of 2003. Challenging trends after the mid 1990s are: i) an increased number of people claiming disability pensions; ii) an increased number on early retirement schemes; and iii) increased sickness absence. These trends have contributed to lowering the effective labour supply. The upswing in the economy that we are now witnessing is expected to increase employment and halt the decline in the labour participation rate.

### ***Rising unemployment seems to have come to an end***

From a level of 3.2 per cent in 1998, the unemployment rate increased to approximately 4.6 per cent in the third quarter of 2003. Weak labour demand has contributed to lowering the outflow rates from unemployment to ordinary work resulting in a growing proportion of long-term unemployed. Joblessness among immigrants has increased at the same rate as ordinary unemployment in the past few years. Today, one in six unemployed persons is an immigrant. The rate of unemployment stopped rising in the third quarter and the economic forecasts indicate a slight decrease in the next couple of years.

### ***Declining activity in the manufacturing sector***

The manufacturing sector is the part of the economy that experienced the steepest fall in activity and the sharpest decline in employment during the recession. From the third quarter of 2002 until the third quarter of 2003, employment decreased by about 7 per cent in this sector. The reduced activity is due to an international recession, low domestic demand and a strong Norwegian currency.

**Table 1: Macroeconomic main figures, Norway**

Yearly growth rate			
	2002	1st – 3rd quarter 2003 (yearly rate) <sup>1</sup>	2004 <sup>2</sup>
GDP (ex. the oil sector)	1.3	1.6	3.6
Private consumption	3.6	2.9	5.1
Investments	-3.6	-6.9	1.8
Exports	-0.5	0.5	2.2
Employment	0.2	0.5	0.2
Unemployment (level, rate)	3.9	4.4	4.4
Inflation (trend)	1.3	1.3	1.3

<sup>1</sup> Seasonal adjusted figures

Source: Statistic Norway

<sup>2</sup> Forecast

## **Norway: Use of private providers by the PES**

### ***Modernisation of labour market policy***

The most important task for the Norwegian Public Employment Service (PES) is to give everyone of working age a chance in the labour market. The PES should therefore be an agency for all labour market outsiders who are not able to find a job on their own. Job seekers should primarily be given assistance to find jobs and only participate in labour market programmes if they lack the qualifications necessary to obtain a job and after some time of seeking work on their own. The labour market programmes should be provided according to individual needs, and not, as in the past, as a “reflex response” of the PES.

The transformation of the PES from a traditional public employment agency to a service agency for a wider set of actual and prospective job seekers (i.e. people in danger of drifting into disability status) is one of the main objectives of the present government.

The aims of new instruments in labour market policy are to:

- increase the supply of labour and enhance adaptability in the labour market,
- offer improved and individualised services to PES clients,
- use resources more effectively (through more jobs mediated, higher numbers of programmes carried out, faster through-flow of job seekers, etc.),
- give a greater degree of freedom to clients to choose between different providers,
- enhance further decentralization of responsibility and authority.

### ***PES – from provider to ‘purchaser’ of services***

The PES has a long tradition for buying service from external education and training providers. On the other hand, follow-up services and placement has mainly been carried out by the PES itself.

The Government wants to strengthen the PES as a better and more professional purchaser of labour market services. Strengthening the purchasing role implies that the PES will extend the volume of service bought, i.e. clarification, follow-up and placement services.

Services from private providers can also contribute to make resources used within the PES more flexible to meet changing needs among the users. The PES is continuously working to develop quality standards and contract routines. The PES will, as a purchaser, provide the terms of reference for calls for proposals (RFP). Approval of potential programme suppliers, thorough supervision and the use of fixed term, renewable contracts are hoped to stimulate private actors to provide good services to users.

Since August 2002, the Government has introduced a wide spectrum of projects based on outcome and activity-based bonuses. The ongoing projects deal with both internal arrangements in the PES (i.e. unit price) for defined parts of PES service (such as the treatment of applications for unemployment benefit and the preparation of individual action plans) as well as with placement programmes buying services from external providers (i.e. placement service towards vulnerable groups such as people with disabilities and the long-term unemployed).

In more detail, the internal projects include the following points:

- The PES assists people with disabilities by working out an individual action plan, the PES receiving a bonus per person assisted.
- The PES receives a bonus for each application for unemployment benefit turned over within two weeks of receipt.

The 'external' projects include:

- Private providers receiving bonuses for helping disabled and long-term unemployed persons find a job. Private providers receive a sum when signing the contract with the PES and thereafter receive a bonus depending on the numbers placed in work. If permanent jobs are held for over 6 months, an extra bonus is paid. The users have the opportunity to choose among two or more providers.
- Private providers receiving a bonus for helping redundant persons find a job. There has recently been an increased number of redundancies in state-owned enterprises, mostly due to the restructuring of the postal, telecom and railway sectors. The persons who have been made redundant often have difficulty finding a new job due to age and lack of relevant skills. They receive a preferential state allowance rather than the regular unemployment benefit, but a large number of them stay on the allowance until eligible for old age pension.

The above experimental projects will offer necessary information about adequate framework conditions when using private providers in follow-up- and placement services towards different persons seeking employment. The following challenges are under discussion:

- What services are suitable for competition?
- Does the increased use of private providers bring better results?
- How can a cost-effective price system be created?
- How high should the bonuses be?
- How far should the PES go in describing the contents of each measure?
- How to use outcome/activity-based payments within a cash limit system?
- What impact will such systems have on the structure and work of the PES?

An evaluation is being undertaken to analyse some of these challenges and its results will be available in the summer of 2004.

## Czech Republic: The Czech labour market situation

### *Employment development*

According to the results of the labour force survey, in the first half of 2003 the total number of citizens above 15 years of age slightly increased to 8,620,800 people (an increase of 28,900, which is 0.3%). Development in population structure has influenced labour force sources (including the population between 15 and 59 years of age and employed and unemployed people above 60 years of age), which have increased by a total of 9,200 people (0.1%) to 6,847,300 where the share of women has increased by only 1,200 to 3,374,800 people.

The total number of economically active people in the first half of 2003, in comparison with the first half of 2002, increased by 8,200 people to 5,126,500. The number of women has increased by 14,400 to 2,272,700 people. This increase was a consequence of the increase in the number of unemployed people by 11,600 to 386,500 people (the increase of the number of unemployed women was 17,200 to 218,200). The number of employed people has decreased by 3,400 to 4,740,000 (with a decrease in the number of employed women of 2,800 to 2,054,500). The number of economically inactive people between 15 and 59 years of age increased minimally, that is by 1,000 people (0.1%) to 1,720,800 (the number of women decreased by 13,200 to 1,102,100 people).

The employment rate of the population between 15 and 64 years of age is currently 65.1%. The employment rate of women is 56.6% and the employment rate of men is 73.6%. The employment rate of older people (55–64 years old) is 42.1%.

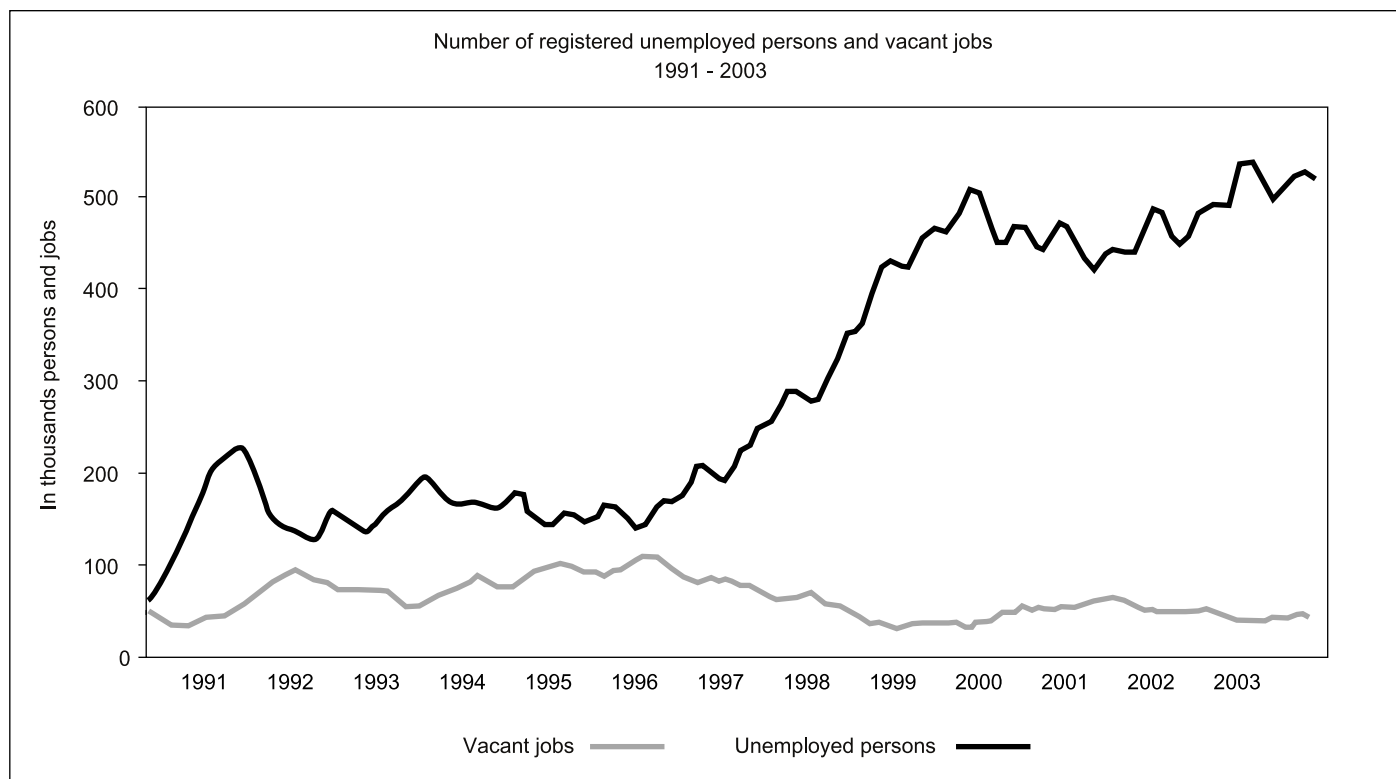
Employment has absolutely and even relatively increased in the tertiary sector. In the primary sector (agriculture) employment decreased in the first half of 2003 to 213,700 people. The primary sector rate of total employment is 4.5%. In the secondary sector (industry, including the building industry) employment during the evaluative period was 1,869,500 people. The secondary sector rate is 39.4% (industry 30.2%, the building industry 9.2%). In the tertiary sector (services) employment has increased in comparison with the first half of 2002 by 31,200 people (an increase of 1.2%) to 2,656,800 people. The share of total employment of the tertiary sector, is 56.1%.

### *Unemployment development*

After the increase of unemployment in January, during the first half of 2003 unemployment was decreasing. The decrease in unemployment was comparable to that of the year 2002. As a consequence of higher levels of unemployment at the end of 2002 and the beginning of 2003, the number of registered unemployed people to 30th June 2003 was, in comparison with the same period in 2002, 46,700 people higher (an increase of 10.3%). While in the first half of 2002 there were 320,900 new job seekers, in the first half of 2003 the number was 316,300.

This development also influenced the decreasing number of free placements offered through the employment offices. To 30th June 2002 there were 49,100 free placements registered, while to 30th June 2003 there were only 43,000 registered.

Unemployment is constantly a problem for physically handicapped people, young people, people with minimal qualifications, women with small children and older people. The rate of employment of



candidates younger than 25 years old is still high, even though it decreased in a year from 24.7% to 23.9% of all employment candidates. The rate of employment candidates older than 50 years increased from 19.0% to 20.9%. Regarding qualifications, the most significant category continues to be skilled candidates – 39.4% out of the total number of candidates (an increase of 0.5%).

With regards to regional aspects, up to 30th June 2003 the regions with the highest unemployment rate were 4 regions of Ústeck (Most, Teplice, Chomutov, Louny) and 2 regions of Moravskoslezsk (Karviná and Ostrava-city).

### ***Active employment policy development***

The basic material that is used by the employment services administration for the formulation of state employment policy objectives is the National Action Plan for Employment 2003. Its goal is to harmonize the implementation of employment policy.

The primary goal of active employment policy is the most intense decrease of unemployment possible, and an increase in motivation for active searching, finding and keeping a job. A special accent is being placed on the regions of North, Middle and South Moravia and North West Bohemia. A big emphasis and related support is being given to projects where the realization means significant new placement creation, mainly in the more problematic regions, and further development of small and middle sized business. In relation to the Czech Republic accession to the EU and the situation on the labour market there is a need to respect principles and goals of the European Employment Strategy when pursuing the national employment policy.

The employment policy of the Ministry of Labour and Social Affairs of the Czech Republic concentrated on the following priorities in 2003:

- To increase the support of active participation in employment for those who want and are able to work,

- To concentrate on the decrease of mainly long-term unemployment and on activating disadvantaged groups to search for employment,
- To increase the level, content and effectiveness of all non-financial instruments, methods and possibilities of the active employment policy spectrum, mainly in the area of counselling and mediation,
- To deepen active co-operation with employees, to concentrate on searching and the creation of new placements by employees,
- To widen the content of (suitable) preventive provisions for getting and mainly keeping employment, especially in mediation, education and counselling activities,
- To ensure getting the highest effectiveness possible in using the financial instruments given for active employment policy realization. Accent will be given to stable placement creation and re-qualification,
- To concentrate on the preparation of projects in connection to OP HRD and SPD 3 (for Prague) realization.

In the first half of 2003, CZK 4,827,501 (EUR 148,363) has been given for the state employment policy from the national budget, out of which CZK 952,697 (EUR 29,280) is allocated for active employment policy (AEP).

In the first half of 2003 there were 8,182 socially useful placements created and 8,174 candidates entered these placements. For publicly useful placements in the first half of 2003 there were 12,604 placements created and 12,253 candidates entered these placements. Employment offices used their financial instruments for AEP in the first half of 2003 for creating 3,284 placements directed at graduates and the gain of qualifications by young people. There were 3,175 graduates that entered these placements. In the first half of 2003, 22,558 employment seekers were placed on re-qualification programmes. In this period the employment offices also created 654 new placements for people with changed work ability and 666 such candidates entered these.



## Estonia: Developments in the Estonian labour market

### Employment

The Estonian labour market has gone through a major change during the past decade. Transition to the market economy, restructuring of the economy and liberal economic policy brought with it a decline in employment and an increase in unemployment. In addition to the increase in unemployment, the number of inactive people, who were unable to adapt to the new conditions and gave up their search for a job, also increased.

The total number of employed people dropped from over 800,000 at the beginning of the 1990s to 585,500 by 2002. The decline in employment was particularly fast in the first years of transition. Since the second half of 2000 employment has increased, but altogether it has fallen by more than 200,000 persons from its 1990 level. The employment rate has decreased in all age groups during last ten years, except in the 55-64 age group, where the increase in the number of employed was due to the increase of the retirement age<sup>5</sup>.

A stable macroeconomic framework combined with rapid privatisation and other market economy reforms has created an environment in Estonia that has successfully promoted a step-by-step convergence with developed industrialised countries. Economic growth has been strong during the last three years: 6.9% in 2000, 5.4% in 2001 and 5.6% in 2002. Due to the improvement in the economic situation, positive shifts were evident also in the labour market. The overall employment rate in 2002 was higher (61.7%) than in 2001, but nevertheless below the average for the EU. The employment rate of women in Estonia (57.8%) is higher than the EU average and, at present, exceeds the target set for 2005 (57%). Employment rate for older people is also higher in Estonia (51.3%) than in EU countries in average. In 2003 the overall employment rate continued to increase and the average rate for three quarters was 62.3%.

In the 1990s a significant restructuring of the labour force between economic sectors took place. Employment in agriculture and industry decreased substantially (by 2/3 and 1/3 since 1989), whereas the services sector expanded at a rapid pace. In 1990, 17% of the employed were engaged in agriculture and fishery, whereas by 2002 the figure had dropped below 7%. Wholesale and retail trade and communication are now among the most dynamic economic activities. Also, the number of people involved in financial services, insurance and real estate business, public administration and education has increased remarkably. In 1990 only 42.6% of employed people were working in the tertiary sector, by 2002 the number had increased to 61.6%. Such developments have led to similar employment patterns as in the EU countries.

### Unemployment

The unemployment rate increased rapidly in the first half of the 1990s – from 0.5% in 1990 to 9.7% in 1995 – mainly as a result of economic and labour market restructuring. The major economic crisis in Russia in 1998-1999 did not leave Estonia untouched but brought about a series of bankruptcies and raised the

unemployment rate to its 'record' level of 14.6% in the first quarter of 2000. The labour market situation did not improve until 2001, when the unemployment rate fell to 12.6%. Due to the improvement in the economic situation, unemployment continued to decrease in 2002, when the yearly average unemployment rate was 10.3%. Among men it was higher than among women (10.8% and 9.7% respectively).

Relatively favourable economic development has not brought about a significant job growth and reduction of unemployment because unemployment is structural. Even though unemployment is high, employers complain about the lack of a qualified labour force. The skills and qualifications of the unemployed often do not meet the rapidly changing needs of the economy and the labour market.

Unemployment is regional: the unemployment rate varies from a low 5.8% in Tartu County (Southern Estonia) to 18.9% in Ida-Viru County. The industrial enterprises in Ida-Virumaa that were established within the framework of the former economic framework either went bankrupt or suffered from restructuring, causing an extensive wave of unemployment.

Unemployment is well above the Estonian average also in the agricultural South-Eastern counties that could not rapidly adapt to the demands of the market economy after the liquidation of the state and collective farms. Labour supply and vacant jobs are often located in different regions, whereas labour mobility is restricted for several reasons (lack of financial resources, differences in living costs, inadequate public transport, etc.).

Long-term unemployment has a high prevalence: the proportion of the unemployed out of work for more than one year increased from 28% in 1993 to 53% in 2002, with long-term unemployment affecting 5.6% of the labour force. The more peripheral the region, the greater the probability of long-term unemployment. Transportation problems, such as the closing down of public transportation routes or high ticket prices, are hindering the job search of those living far from the centre. Thus, after the deduction of the cost of transport from the salary, income may not significantly exceed the unemployment benefits received. It is also more difficult to find a new job after having lost a job in a mono-functional community compared to having lost a job in a poly-functional community. Those with low educational level and the elderly run a higher risk of becoming long-term unemployed. Besides the long-term unemployed, risk groups in the Estonian labour market also comprise young people, people with disabilities and workers aged over 45. The youth unemployment rate is also high and reached over 22% in the third quarter of 2003.

Registered unemployment has been significantly lower than the unemployment according to the Labour Force Survey, because not all of the unemployed register themselves. Often, it is not only the case of a lower unemployment rate, but also different trends. Starting from 2000 however, and thanks to legislative changes this gap has started to close. If as a rule registered statistics followed the same dynamics compared to labour force surveys, then 2001 was an exceptional year: according to the labour force surveys unemployment fell, whereas registered unemployment increased. In the first half of 2002, both ILO unemployment and registered unemployment decreased due to economic growth.

As in 2002 there were 67,200 unemployed according to the Labour Force Survey, the number of registered unemployed was 48,200 (monthly average). All in all, employment offices registered 136,000

<sup>5</sup> Since 1994, the retirement age has begun to increase to reach 63 years for both men and women by the year 2016. In 2002 men retired at the age of 63 and women at the age of 58.5, while the respective ages in 1994 were 60 and 55 years.

unemployed in 2001 and 108,000 in 2002. The registered unemployment rate was 7.4%. There are significantly more women than men among the registered unemployed. For example, in October 2003 women comprised 58% of job seekers. This could be explained by women being more willing to turn to the employment office for help upon becoming unemployed and secondly, according to the current law, women who raise children under the age of 8 can register themselves as unemployed repeatedly.

### ***Inactivity***

Since 2001 there has been a trend towards increasing employment and decreasing unemployment; however, the economic inactivity rates continue to grow owing to increasing numbers of persons studying, taking care of children or other family members, persons with disability or long-term health problems. The inactivity rate increased from 26.2% in 1994 to 31% in 2002 and activity rate decreased during the same period from 73.8% to 69%. While comparing age groups the economic inactivity decreased only among elderly (aged 50-74) people. The participation of the youth in the labour force started to decrease only in the middle of the 1990s. In 1999-2001, the economic activity of the youth remained around 40%. In 2002 it decreased to 34%. The main reason is the growing number of students. In 1993-2002, the number of inactive people studying or receiving additional training increased by 32%. The number of discouraged persons grew constantly until 2001 and decreased for the first time in 2002 – from 22 000 to 18 000. These are persons who have given up job seeking because they do not believe in the possibility of finding a job. Two-thirds of discouraged persons are living in the rural area.

### ***Labour market policy***

The governing labour market institution in Estonia is the Ministry of Social Affairs. Within the Ministry the Labour Market Department and Labour Department are in charge of developing policy in this field. An operational body is the Labour Market Board, which works under the governance of the Ministry of Social Affairs. The Estonian Labour Market Board has a network of local state employment offices in each of the 15 counties and one in the capital Tallinn.

From the viewpoint of employment policy, the country aims to be ready to implement the European Employment Strategy. So far, Estonia has prepared three national employment action plans in co-operation with Ministry of Social Affairs, the Labour Market Board, the Ministry of Education and Research, the Ministry of Economic Affairs and Communication, the Ministry of Internal Affairs and social partners.

One of the priorities of Estonian labour market policy is the development of different active labour market measures pursuant to the needs of the risk groups and the requirements of the labour market and the modernisation of the PES. The Employment Action Plan defines risk groups as the young between 16-24, people with disabilities, the long-term unemployed, mothers with small children, low qualified job seekers, people released from penal institutions, workers aged over 45 and those who cannot speak Estonian. Special attention shall be paid to young persons, people with disabilities and the long-term unemployed.

To implement the Employment Action Plan, the Ministry of Social Affairs compiled a programme “Increasing employment, preventing long-term unemployment and exclusion of risk groups

from working life”. The programme aims at expansion of active labour market policy that comprises improving labour market services, applying specific programmes for integrating risk groups into the labour market as well as increasing the administrative competency of labour market institutions.

### ***Projects promoted in the period 2002-2003***

A project “Supporting the Employment of the Long-term Unemployed through Labour Market Training and Labour Market Subsidy to the Employer” was launched in all employment offices. The aim of the project was to provide different labour market services (individual counselling, labour market training, labour market subsidy to the employers, individual action plans) to the long-term unemployed, taking into account the specific needs of the target group and individual requirements. In employment offices a database of the long-term unemployed was compiled and 17 consultants were hired. In total, 354 long-term unemployed found a job through the project. As the project had proved to be successful, a follow-up project was started in October 2002 comprising 11 employment offices.

Based on the Employment Service Act, a new vocational counselling service was developed. Today, the service is being provided in all employment offices in Estonia. In 2002, 8130 unemployed received vocational counselling through the service.

Pilot projects have been launched in 9 employment offices, the aim of which was to decrease unemployment among the young and increase employment, adapting and implementing the already available measures (vocational guidance, information about training opportunities and labour market situation, labour market training, job mediation). In total, 291 young unemployed participated in the project.

Projects to create subsidised jobs for young people with disabilities were launched in 5 counties. Altogether, 68 people with disabilities have found a job through these projects. The object of the project was to better integrate the disabled young in regular work life, foster contacts between different parties and enhance collaboration between representatives of different levels and sectors to solve the problems more efficiently.

To support employment of long-term unemployed who are without specific skills or work experience, a new active labour market measure – work practice – was developed and piloted. The aim of work practice is to provide the unemployed with an opportunity to gain work experience and develop a work habit and obtain some simpler skills. As a result of this pilot implementation proposals for amending legislation (if necessary) and adding work practice to the list of labour market measures will be made.

A Phare project “Enhancing Employment Opportunities for People with Disabilities” in collaboration with the Ministry of Social Affairs and UK Department of Work and Pensions has been launched with the aim to enhance employability and integration of people with disabilities in the labour market.

A project for older unemployed (age groups 45+) was started in 7 counties in 2003. The aim is to offer different employment services and to create contacts with employers to arrange placement of the project participants at least for two years.

Further, the Ministry of Social Affairs is currently preparing new employment and social welfare strategies that also serve as a basis for necessary changes to legislation for Estonia. The new employment strategy analyses both the content and organisation of

the current Estonian labour market system and formulates proposals of forthcoming reforms. The aim of the new employment strategy is to develop a more effective and flexible pool of active labour market measures to ensure more individual help through tailoring the services to meet specific needs of the unemployed and inactive. For example, during 2004, a workplace adaptation programme for people with disabilities will be designed and set up within the employment services, with support from the Phare Twinning project. Together with the social welfare strategy, links between social security benefits and employment will be discussed and strengthened to establish better co-ordination of services. The new employment strategy will take into account both the guidelines for the European Employment Strategy and the Lisbon targets.

## Hungary: Recent labour market developments

Transition to a market economy took place in Hungary in a very short period of time. The labour market stabilised in the mid-90s and employment started to increase at a moderate pace. In accordance with the unfavourable trend in the world economy, economic growth slowed down in 2001 and employment growth came to a halt. The new government that came into office in 2002 worked out a new employment policy strategy. Its main elements were to increase employment by reducing the overall tax-pressure on employment, terminating individual tax-burden on minimal wage, supporting work at home (e-work), promoting temporary work and part-time employment and fostering re-integration of older workers into the labour market.

According to recent figures, the Hungarian labour market has undergone a significant activity growth. Both employment and unemployment increased and inactivity decreased. In the first half of 2003 about 60-70,000 more people were employed than a year before, resulting from approximately 150,000 new jobs and 80-90,000 job losses. In parallel to growing employment unemployment has also increased. Especially employment opportunities for the young have worsened. This is due to over-qualification, an increase of the retirement age, dynamic wage increases in the lowest wage segment. Activity growth suggests that the reserve work force has started to seek work.

A Government Office for Equal Treatment has been established in order to support the reintegration of people with disabilities into the world of work, to ensure equal treatment for men and women on the labour market and to improve the welfare and promote the integration of the Roma communities.

The National Institution for Adult Education has been set up and it has an important role in the implementation of lifelong learning. The Government would like to increase the number of participants in adult education by two to threefold in the next years. The proposal includes that up to 30% of the costs for adult education will be set against personal income tax dues.

The modernisation process of the PES started in 2003. According to the new service-oriented model, local offices will have the following main activities: 1. Self-information 2. Enhanced enterprise contact 3. Individual counselling 4. Restructured authority related tasks. The new service model will be introduced in 21 pilot offices.

## Malta: Recent labour market developments

Recent labour market developments in Malta were characterised by a contraction in the employed population and a corresponding gradual rise in unemployment. Employment figures covering June 2003 reveal that the number of employed persons, including self-employed and part-timers, stood at 148,818, showing a decrease of 215 persons, over June 2002. Female employment registered a higher decrease than male employment. In fact the female employment rate fell by 0.9 percentage points to 33.4% in June 2003 while the rate for males remained at a stable 75.6%.

A similar trend can be observed in unemployment levels. The unemployment rate in June 2003 stood at 7.5%, an increase of 0.6 percentage points or 996 persons when compared to June 2002 figures. However, the male unemployment rate increased by a marginal 0.1 percentage points to 6.4% while the female unemployment rate reached 9.9%, an increase of 1.6 percentage points. Meanwhile youth unemployment continued to rise at a higher pace when compared to that of other age categories. In June 2003 a 2.1 percentage increase, or 753 more youths were searching for work when compared to figures for June 2002. Lower unemployment rates were registered among persons aged 35 years and over.

This weakening in overall job creation can be mostly attributed to the increasingly competitive international environment in which the Maltese economy is operating. In fact job losses were particularly evident in the manufacturing sector. Export-oriented companies, such as those operating in the textiles, footwear and clothing sectors, closed down or undertook significant downsizing due to direct international competition. Other manufacturing clusters such as the furniture and fixtures sector and most locally owned small and medium-sized enterprises were mostly affected by the trade liberalisation process being undertaken domestically. This process involved the removal of protection previously enjoyed by manufacturing firms, which cater for the domestic market. Levies on imported industrial products were completely eliminated on 1<sup>st</sup> January 2003, whilst the process of dismantling the levies on imported agro-industrial products has been initiated.

Meanwhile, higher employment levels continued to be registered in market services. As in recent years market service activities are still considered to be the main source of job creation in the Maltese economy with tourism acting as the major contributor to employment within this sector. In fact significant job increases were registered in the financial intermediation, real estate, renting and business activities, and other community, social and personal service activities. However a decrease in employment levels was registered in the hotels and restaurants sector. This decrease may be directly related to the decline in tourist arrivals registered in recent years.

In view of the above labour market situation the Government considers the improvement of the economy's competitiveness as key to the attainment of high-level employment. All measures encompassed in the Government's labour market policy over the next years will be mainly geared towards the attainment of higher levels of job creation. Such policy includes the following aspects: encouraging more flexibility at work, improving the education and skill levels of the workforce, ensuring that the interaction between tax and benefit systems provides the right incentive for individuals to take up work, increasing the overall participation rate in the labour force – in particular that of females and persons with disability – and ensuring that productivity growth is higher than wage growth.

## Key policy documents

The Government has produced a number of key documents that outline the policies referred to above and its commitment to overall improve the present labour market situation. One such document is the *Gender Equality Action Plan 2003-2004 Promoting Equal Opportunities in the Labour Market* produced by the Employment and Training Corporation (Malta's public employment service). This document, apart from giving important information on the situation of men and women in the labour market, also sets out the measures to be adopted by the Corporation aiming at increasing the overall female participation rate in the labour market. Measures fall under four main headings: general measures; promoting equal access to employment; facilitating retention of employment; and enabling progression at work.

A series of initiatives listed in the Plan have already been taken up such as information campaigns that target young female school leavers to continue with their studies; seminars for advertising agents and guidance teachers on gender issues in employment; the development of a Manual on Gender Equality in Vocational Guidance for vocational guidance purposes; and the development of a project that provides assistance to employers with over twenty employees, local councils, childcare co-operatives, training institutions and other organisations in order to provide childcare services. The last project has been submitted to Government for final approval and will be co-funded through the European Social Fund.

A second document *Prosperity in Change: the Way Forward – National Industrial Policy* provides an in-depth analysis of the current economic situation, the state of the manufacturing sector, the policies that determine the business environment and the formulation of necessary policy changes that would lead to an enhanced business climate. One of the principal elements underlying this document is the setting up of Malta Enterprise. This entity will incorporate the work of other Government entities dealing mainly with assistance to manufacturing enterprises. The main objectives of the Enterprise will be to achieve better results in the overall development of Malta's enterprise strategy. This includes the development of human capital, mainly through innovation and technology, as well as assistance to enterprises that service both the local market or are export-oriented.

The document also sets out the requirements for effective restructuring in the manufacturing sector and what policies and measures should be adopted in order to improve the competitiveness of local enterprises, while at the same time providing enough alternative job opportunities that absorb the unemployment generated by the restructuring process.

The document also gives an outline of the new Technology Venture Fund whose aim is to promote the growth of knowledge based enterprises. The Fund, which was launched in August 2002, will soon start operating and will see financial assistance to new innovative business ventures and other companies seeking a capital injection for innovative projects.

Finally, Government has entrusted the Employment and Training Corporation with the task of drafting a national policy and strategy for the development of Malta's human resources. The principal aim of this document entitled *National Policy for Human Resource Development* is to construct a policy framework and an accompanying strategy for education and training entities, operating both in the public and private sector, in order to co-ordinate efforts and attain national learning targets. The document, which will be available soon to all interested parties, will cover the

following topics: employment services, training development and lifelong learning, vocational guidance, gender issues in employment and special focus groups. A committee has been formed with representatives of the Ministries of Social Policy, Education and Finance and Economic Services, private industry, trade unions and other organisations with the task of drafting this document and particularly to propose concrete measures for the adoption of the strategy. Government intends to launch the Strategy once approved at government level.

## Poland: The specificity of Public Employment Services

Public employment services in Poland date back to the year 1918. Since then their organisational structure and scope of tasks have undergone a lot of changes, depending on the economic and political situation in the country. The modern system of the employment service was provided for by the Employment Act of December 28, 1989.

- Between 1990-1993 there were district labour offices subordinated to the district offices, voivodship labour offices being a part of the voivodship offices, and the Ministry of Labour and Social Policy.
- Between 1993-2000 district labour offices were subordinated to the voivodship labour offices, while the latter were subordinated to the National Labour Office, that in turn was supervised by the Ministry of Labour and Social Policy. This is a hierarchical system build around the principle of direct subordination, called the Labour Offices System. In 1998 contracts were introduced as the basis for all the actions taken on the labour markets and for planning financial expenses for active forms of countering the consequences of unemployment.
- The subsequent change was introduced in 2000, when the Labour Offices System was abolished. This was implied by the change in the subordination, i.e. since 2000 poviats labour offices have been subordinated to local administrators (starosta), voivodship labour offices to voivodship marshals. Until April 30, 2002 the President of the National Labour Office was supervised by the Minister of Labour and Social Policy. Moreover, some tasks arising from the implementation of the Employment Act have been delegated to the voivods. In the meantime the task contracts have been significantly limited and the algorithm for funds allocation has been developed.
- As of May 1 2002, the National Labour Offices ceased to exist.
- On January 8 2003, the Ministry of Labour and Social Policy was merged with the Ministry of Economy. Thus at present the Minister in charge of Labour is the Minister of Economy, Labour, and Social Policy.

The competencies of the employment bodies are stipulated by the Act on Employment and Countering Unemployment of December 14, 1994 (unified text: Journal of the Laws, Dz. U. of 2001, No. 6, item 56 as subsequently amended).

The employment services are made up of 16 voivodship labour offices and 338 poviats offices with their regional suboffices.

The employment services system in its nature is a bridge between government and local authorities, and its essential feature is the independence of each organisational unit. The formal and organisational separation between the local authority bodies and government bodies makes it a decentralised model.

Decentralisation does not exclude, however, the existence of certain interdependencies between the employment bodies, and these relate especially to:

- the instance course of proceedings, i.e. appeals to decisions of the employment bodies of the poviát level are adjudicated by the government body (the voivod),
- mode of channelling funds for the servicing of the labour market and easing of the unemployment consequences: the Minister in charge of labour forwards Labour Fund funds to poviát and voivodship local authorities – for the execution of the obligatory and supplementary forms of countering unemployment and easing its consequences. Voivods forward funds from the State Budget for the functioning of the poviát labour offices (to the proper local administrator) and voivod labour offices (to the proper voivod marshall),
- fulfilment of control functions by the voivod in the scope of execution of government administration-related tasks by the local territorial authorities.

The decentralisation of the employment services allows a better understanding of the problems on the local labour market, thus enabling more effective solutions. This involves the transition from passive to active forms of countering unemployment and promoting employment, as well as creating an opportunity for a better utilisation of various measures available.

## Slovak Republic: The macroeconomic situation of the labour market

During October 2003, the International Monetary Fund executed a staff visit to the Slovak Republic. After the visit a statement was signed, the most interesting items of which are presented below.

Recent economic indicators for the Slovak Republic suggest that strong growth is continuing, macroeconomic imbalances are narrowing, unemployment is declining, and core inflation remains low. Real GDP growth eased to 3.9% in the first half of 2003, driven by exports. The volume of exports grew by an impressive 37% in the first half of 2003 despite weak economic growth in Europe.

Private consumption has slowed substantially though, reflecting the impact of price deregulation and indirect tax hikes on real disposable income. Investment has also been sluggish. The price and tax increases have led to a jump in headline inflation this year but apparently not to any significant second-round inflationary effects, and real wages have declined moderately. The short-term outlook remains favourable.

Assuming that wage increases and second-round price effects remain moderate, staff and the authorities project headline inflation will fall slightly next year, and decline towards Maastricht levels by 2006 (as targeted in Fiscal Policy in 2003).

The 2004 budget represents a decisive and welcome step towards further fiscal consolidation, as the government has approved an appropriate deficit target of 3.9% of GDP. The budget is based on a realistic growth assumption of 4.1%, although the average inflation assumption, at 8.1%, is half a percentage point higher than the updated IMF staff projections.

Appropriately the tax reform aims to provide better incentives to work and save. The reform features a more transparent and simpler tax law, a shift in the tax burden from direct to indirect taxes, and a flat income tax rate. The measures sought are likely to improve economic performance. The uniform rate of VAT should improve

administration and compliance, while leading to a more neutral taxation of goods and services. Lower direct taxation should encourage both the legalisation of firms operating in the grey economy, and foreign and domestic investment. Substantial legislation in the areas of health care, benefits, labour, and civil service reform still requires parliamentary approval.

## Positive developments in the Slovak labour market

The positive macroeconomic situation is also reflected in positive developments on the Slovak labour market as demonstrated by statistics from the National Labour Office.

September 2003 was the eighth month with a decreasing number of registered unemployed. The unemployment rate was 13.87%, which is 407,600 unemployed persons. The decrease in the number of registered unemployed (RU) has been caused by the lowest inflow in the list of RU since 1997. A high number of those registered were removed because of non-co-operation and generally through the application of stricter conditions according to the law. During September 2003, 42,400 persons were removed from the register; of which 62.1% found a job and 14.1% were removed due to non co-operation.

In total 15,864 vacancies went to the Public Employment Service in September 2003. This is equivalent to 1 vacancy per 11.58 RU. Only 16.2% of the 20,089 vacancies were appropriate for graduates.

A total of 26,296 RU were helped into jobs, which was two-thirds of the total amount removed from the register of RU. Thanks to active measures 2,100 RU were integrated, which is 8.1% of the total amount integrated into the labour market.

General features of the Slovak labour market in 2003 are:

- a declining unemployment rate;
- a high proportion of long-term unemployed;
- a high unemployment rate for graduates;
- substantial regional disparities; and
- a lack of qualifications and skills amongst the long-term unemployed.

## Slovak Republic: The performance of active measures in 2002

Due to the performance of active measures, 72,280 new jobs were created in Slovakia in 2002. In the same year 49,656 citizens underwent retraining activities. Financial support was given to 22,147 citizens in active measures which do not create new jobs – such as §86 and §90b (see below).

### The activation of RU

Based on the Action Plan, the objective was to activate 20% of the RU via programmes, projects and active measures.

The following programmes were active in 2002:

- DVPPMDN – negotiation of public-beneficial jobs for long-term unemployed
- PISZ – programme for the individualisation of employment services
- PPZML – programme for the support of the employment of young people

Active measure	No. of new jobs or no. of integrated persons
§ 82 Retraining of registered unemployed	48,143
§ 84 Retraining of employees	1,513
§ 86 Reimbursement of travel expenses	17,719
§ 88 Negotiated self-employment jobs	9,122
§ 89 Negotiated jobs with employers	11,815
§ 90 Negotiated jobs for school graduates or juveniles	1,309
§ 90a Fixed term negotiated jobs for a school graduate	410
§ 90b Graduates practice	4,428
§ 91 Negotiated public-beneficial jobs	22,973
§ 91a Negotiated public-beneficial jobs for the long term unemployed	17,472
§ 92 Negotiated special jobs	2,191
§ 93 Fixed term negotiated jobs	4,781
§107 Contribution to support the establishment of sheltered workshops	1,960
§108 Contribution for a handicapped person to start a business	157
<b>TOTAL</b>	<b>144,083</b>

The allocation of financial resources was as follows:

#### *DVPPMDN – negotiation of public-beneficial jobs for long-term unemployed*

The core of these programmes was concentrated in the regions in the south and east of Slovakia with the highest unemployment rate. The objectives of the programme – the decrease of registered unemployment, the increase of the flexibility of the labour force – were fulfilled partially and with a short-term effect. This was due to the short-term working contracts applied in this measure. After finishing DVPPMDN almost 100% of the participants went into the lists of the unemployed.

#### *PISZ – programme for the individualisation of employment services*

The objective of this programme was to improve the programme and project approach in the implementation of active measures within the Slovak labour market. The aim was to activate the group of registered unemployed via a flexible approach. The performance of PISZ is based on the unique conditions of districts. PISZ allows the provision of complex services – from counselling to job-placement via pre-selected active measures. The Districts Labour Offices prepared 186 projects within PISZ and 25,889 registered unemployed took part.

Measures/Programmes	Budget (000,SKK)	Expenditure (000,SKK)
Active measures financed from own budget	3,300,000	3,109,707
Active measures financed from the state budget	604,000	372,892
DVPPMDN	350,000	328,798
§86	200,000	38,030
§90	54,000	6,064
<b>TOTAL</b>	<b>3,904,000</b>	<b>3,492,599</b>

#### *PPZML – programme for support of employment of young people*

The main objective of the programme was to decrease the number of registered unemployed in the age group 15-29 years old, to improve their possibility of integrating into the labour market with the help of counselling and training activities, and to improve their adaptability via active measures. Counselling was performed with individuals or within a group. Internal or external experts were assigned as trainers. The total number of registered unemployed taking part in this measure was 11,374. By the end of the programme there were 6,457 registered unemployed excluded from the list of registered unemployed.

#### *Retraining*

Retraining was the core measure in 2002. The efficiency of the measure was 37.8%. The fields most in demand were management and entrepreneurship.

#### *Graduates' practice*

This measure was applied to enhance the employability and flexibility of graduates. The implementation of the measure started in 2002 and was financed from the NÚP budget. 4,428 new jobs were created and 46,833,000 SKK were invested in 2002.

#### *Contribution to support the employment of disabled people*

2,117 new jobs were created in sheltered workshops and workplaces where 2,019 jobs were assigned for disabled people. Within the measure (details in §110) the operational costs of sheltered workshops and workplaces were reimbursed. Via this measure 2,687 sheltered workshops and workplaces were financed with 76,786,000 SKK.

# PLACEMENT AND VOCATIONAL GUIDANCE

## Denmark: New profiling system

The aim of the new profiling model is to underpin and support individual and specifically targeted measures to bring unemployed persons into employment. The Danish National Labour Market Authority is presently working with the development and testing of profiling instruments which are to be common for the PES system and the municipal authorities: the plan is that these instruments should be ready for use in the spring of 2004.

The concept of profiling is mainly used in two different senses that are both of decisive importance for efficient employment measures:

1. Profiling in the sense of a check and assessment of whether the unemployed person will – without further measures – be able to find a new job on his/her own initiative or whether there is a need for special measures to bring the unemployed person back into employment.
2. Profiling as a decision on the concrete measures to be taken in relation to the unemployed person.

The profiling project – which is based on a common *profiling toolbox* – is to contribute to paving the road for more specifically targeted action in relation to *all unemployed persons*, i.e. both unemployed persons who without further measures will be able to find a new job and unemployed persons who have a need for early preventive measures.

More than 1.2 million persons are in contact each year with the employment policy system. Many of them are persons with strong resources and with little or no need for assistance to find a job. Others have a much longer distance from the labour market at the time they get into contact with the PES or the municipal authorities. It is therefore extremely important that the resources are used properly in relation to those unemployed persons who need an extra effort to get into employment.

The profiling model is also closely related to the ambition to develop a one-string system which will ensure that the employed will be offered coherent measures with only one-way entry into the employment policy system. The profiling toolbox makes it possible to use common tools and concepts across organisations and staff and may thus facilitate the co-operation between these two types of actors – the PES and the municipalities. It will also strengthen the possibilities for an on-going professional dialogue and development. Finally, it will mean that unemployed people will feel that there is coherence among measures and will be able to recognise the concepts used.

The profiling toolbox contains *four basic tools* that make it possible to apply the system in connection with substantiation of data across organisations and staff.

- A graphic illustration of the unemployed person's *support history*, i.e. periods since 1994 during which the unemployed person has been receiving public support, either in the form of social assistance or unemployment benefits or has been in activation measures. Furthermore, the profiling officer has further information at his disposal in the form of the CV of the unemployed person and/or information concerning previous activities.

- A *job barometer* that measures the likelihood of the unemployed person being in employment within a period of six months. The assessment takes place on the basis of data on the unemployment history and characteristics of comparable persons which may have an impact upon whether the unemployed person will obtain employment within a given time horizon.
- A *dialogue guide* which is a checklist of issues that the placement officer should be aware of in the dialogue with the unemployed person. The dialogue guide lists five attention points which may all have an impact upon the unemployed person's capability to perform a job. They are: the labour market perspective of the unemployed person, professional and practical qualifications, personal competences, economy and network, and health.
- An *introduction booklet* that is sent to the unemployed person before the interview with a view to helping the unemployed person to prepare himself/herself for the meeting with PES or the municipal authorities. The booklet gives a brief description of the purpose of the interview as well as some questions that the unemployed person is asked to reflect on before the meeting. These questions contribute to a clarification of how the unemployed persons themselves consider their possibilities of obtaining employment.

As an element of the project, a digital registration tool will be developed for collection of data from the interview with the unemployed person. This will make it possible for municipalities and the PES to share the data registered about the unemployed persons that are relevant to their casework.

As a *conclusion of the interview* an overall assessment takes place of the labour market distance of the person concerned. It will be decided whether the client is ready for placement without further action or whether there is a need for a more intensive contact programme. The conclusions from the interview are recorded in writing. The conclusions are structured in such a way that they follow the attention points in the dialogue guide so that the information can be used at a later stage in the process. The conclusions will form the basis of the planning/adjustment of an individualised contact process.

## Sweden: Labour market measures for drop-outs

To investigate how students leaving upper secondary school (*gymnasieskola*) early, manage on the labour market, the National Labour Market Board (AMS) has cross-checked its records with 'student panels' run by Statistics Sweden. New student panels are created every five years using a large number of background variables in the selection of students, such as details about any interruption in their studies. Three of these student panels were cross-checked against the AMS's own records using data going back as far as 1991 on unemployment, participation in programmes, the period during which the people in question were registered with a job centre, transitions to work, and so on.

The vast majority of students leaving school after their compulsory nine years' education now go on to upper secondary school. However, not all of them complete their studies; indeed, nearly 15% drop out. Some social groups are over-represented here, such as immigrants, students from working-class families and children of single parents. The report titled "Labour market for drop-outs from secondary schools" (ISSN 1401-0844) shows a clear link between dropping out of upper secondary school and

encountering problems in gaining a foothold on the labour market later on in life. This is reflected, for example, in the employment of people who have dropped out, which is nearly 20% lower than for students who went on to complete their education.

The decline in the labour market that occurred in the 1990s hit school drop-outs considerably harder than students who completed their school education. This is particularly true for those people who never went on to upper secondary school. One of the problems on the labour market faced by drop-outs is that those who did go on to complete their education there, but performed poorly, find it easier to enter the labour market – at least in the short term – than those who left school early. It also appears to be the case that it has subsequently proved much harder for school drop-outs to make up for the damage caused by failing to complete their education – such as through Komvux adult education initiatives – on their ‘saleability’ in the labour market.

The report also notes that school drop-outs of foreign extraction face greater difficulties in establishing themselves on the labour market than their counterparts of Swedish extraction. The students’ socioeconomic origins are also important, with the children of senior civil servants doing better than the offspring of workers.

Furthermore, it has been shown that dropping out of an upper secondary school education has a negative impact on future wages, the difference between the salaries of those who completed their education and those who did not tending to be apparent in the long term – and particularly clear at higher levels of income.

There are major differences between different ethnic and socioeconomic groups, as well as between different regions, both for the time spent registered with job centres and levels of unemployment. In autumn 2002, 85% of those who completed their upper secondary education and 75% of school drop-outs – irrespective of which of the three panels they belonged to – were taken off the books of job centres. A lower proportion of school drop-outs had found jobs, and a higher proportion of them were only offered fixed-term employment. As a result, school drop-outs were referred back to job centres more often.

Therefore, those students who left upper secondary school early have markedly poorer chances of succeeding on the labour market than those who went on to complete their schooling. Moreover, the difficulties they face in the world of work often persist for longer. The social groups usually over-represented in unemployment statistics are also over-represented among early school leavers.

In addition, the report notes that, in addition to the negative consequences for the school drop-outs themselves, leaving school early also causes substantial socioeconomic problems. Calculations about the cost to society suggest a drop in the level of employment and a fall in production over the next decade. In terms of the impact on the national economy, the cost to society merely in lost production being estimated at around €250 million a year.

In conclusion, the report underlines the extreme importance of making use of every available resource on the labour market, since the labour force is soon set to decrease substantially for demographic reasons. For the same reason, it is vital to create measures aimed at targeting studies and speeding up students’ passage through the education system.

## Poland: The ‘First job’ programme

This programme constitutes an integral part of the Polish Government’s Social and Economic Agenda for the years 2003–2005. It is interlinked with the ‘Entrepreneurship first’ programme and was originally developed in June 2002 on the initiative of the Minister of Labour and Social Policy, Mr. Jerzy Hausner.

Originally this programme was directed at all graduates. From July 2003 onwards it has also been open to long-term unemployed individuals aged up to 24 without any previous work experience.

The primary objective of the programme is to assist in providing initial work experience, and its intention is to stimulate the local activity and to address problems of social exclusion locally, by involving young people in non-governmental organisations as “volunteers” or interns. As well as earning an income, young people are enabled to use knowledge gained through education and improve other labour market relevant skills thus boosting their long-term employability as well as assisting local development.

The ‘First job’ programme encompasses the five following sections: Small and Medium-sized Enterprises; Self-employment; Education; Voluntarism; Information, Professional Advisory and Job Intermediation.

The Act on Employment and Countering Unemployment envisages a very wide array of instruments geared towards promoting the employment of unemployed graduates, including the refunding of graduates’ salaries; graduate internships; jobs in the social economy; training and education loans; loans for creating new jobs for the unemployed channelled through the local Labour Offices; and other special programmes.

In 2002 the implementation of the “First job” programme consisted of two stages. The first stage involved preparatory and support activities in relation to the programme, while the second stage (June – December 2002) was the actual introduction and implementation of the programme.

According to the information published by the Labour Offices, 100,300 graduates, i.e. 29% of the total graduates inflow to unemployment, were included in the ‘First job’ programme in the period from June to December 2002. It is also worth mentioning that the international agreements signed with Germany, France, Belgium, Switzerland and Luxembourg provide for the possibility of employing Polish citizens as interns. In 2002 a total of more than one thousand persons took up a job abroad as an intern or a regular employee (the annual quota is 2430 persons).

The first round of the programme was completed in June 2003, while in the second round (lasting from July 2003) the programme’s group of beneficiaries has been expanded to include long-term unemployed individuals aged up to 24 without any previous work experience. According to the data acquired in the process of monitoring the implementation of the ‘First job’ programme for the period from January to September 2003, 601,300 persons, of which 515,600 graduates, were covered by the various forms of professional activation. Within this aggregate:

- 156,700 individuals were involved in active labour market programmes, of which 141,200 graduates, which amounts to 38.3% of the total registered unemployed under this category in the said period,
- support activities, of which mainly: job intermediation and professional advisory accounted for 444,600 persons, of which 374,400 were graduates.



The most frequently used instrument of the programme aimed at activating graduates has been graduate internships, training and subsidies for the employment of graduates.

From the data received from the labour offices it appears that the measures proposed under the 'First job' programme have met with substantial interest and acceptance among graduates and persons aged 18-24, as well as among employers.

### ***New initiatives under the 'First job' programme***

Competition for grants to provide Career Centres in Schools which aim to prepare young people for entry into the labour market and assist in their choice of career.

Mobile Career Information Centres are intended to overcome existing barriers in the access to career-related information and to prevent social exclusion among young people.

Multimedia Kiosks (Information Kiosks) at Labour Offices intended to facilitate access for young people to vacancy and labour market information.

Additional funding for local authorities from the Labour Fund's reserves for the implementation of their own initiatives directed at the unemployed, including the groups of graduates and the unemployed aged 18-24.

Awards to Labour Offices and non-governmental organisations for the most effective implementation of the 'First job' programme.

New round of competitions for the creation of Communal Information Centres and the establishment of 430 new Centres.

New round of competitions for the expansion of the activities of the University Career Offices.

Simultaneously, the programmes initiated during the first year of the implementation of the programme continue to be implemented in co-operation with the social partners. These programmes include: 'A green workplace' (implemented together with the Ministry of Agriculture and the State Treasury's Agricultural Property Agency); 'My commune in the European Union' (in co-operation with local authorities); 'Jobs for graduates' (together with Bank Gospodarstwa Krajowego); Voluntary Work Initiatives within the 'First job' programme; the 'Junior' programme (implemented in co-operation with the State Fund for Rehabilitation of the Disabled), as well as the facilitation of employment of Polish citizens abroad as interns on the basis of international agreements signed by the Government of the Republic of Poland.

A database information service relating to the 'First job' programme was also implemented in 2002 and provides information on job search and vocational training advice.

## **Romania: the career guidance system**

The policy challenges for career information and guidance arise from a social policy context that seeks to ensure an equitable distribution of education and employment opportunities, with guidance services having a key role to play as active measures that combat early school leaving and facilitate the integration of at-risk groups into education and the labour market.

Career guidance systems are considered important social institutions for several reasons:

- **Economic efficiency**, helping the labour market to function more effectively;
- **Social equity**, through providing improved access to educational and vocational training opportunities; and
- **Individual liberty**, encouraging clients to be more proactive in their search for information and decision-making.

Career information and guidance – relating to education as well as the labour market – is central to any policy that seeks to increase access to learning, bolster learning completion rates, increase the national stock of skills, reduce unemployment, and enhance the individual's employability through competent career management.

The Romanian Government Programme supports the attainment of these social, educational and employment objectives through:

- the promulgation of legal instruments promoting career guidance and stipulating it as a right of citizens; and
- financing projects and activity, with career guidance services currently being provided free of charge within schools and public employment services.

Expectations from career guidance services are for:

- an education system that ensures a better transition from school to work; and
- the labour market to promote *lifelong learning and competence development*, closely linked to economic development and performance, *employment promotion, quality of work and social inclusion*.

According to this view, career guidance has an important role to play in encouraging everyone (young people and adults) to engage in career planning throughout their lives, with lifelong learning enabling them to respond more flexibly to the opportunities offered by a dynamic labour market.

In Romania, career guidance and counselling services are the responsibility of the Ministry of Labour, Solidarity and Family (through the National Agency for Employment) and the Ministry of Education, Research and Youth (MoE). Since 1995, the Ministry of Labour, Solidarity and Family (MoL) – in partnership with the Ministry of Education and Research and the Ministry of Youth and Sports (currently the Ministry of Education, Research and Youth) – has implemented the "Information and Career Counselling" World Bank Project (ICC). The goal of the project was to develop a sound, modern and flexible career counselling system in Romania. The project established a common national network concerning Information and Professional Counselling Centres (IPCCs) in order to enhance cross-sectoral collaboration between the ministries involved in the project and to establish relationships between schools and public employment services.

The ICC World Bank project has underpinned the development of the career guidance system. The following products are being developed, tested and implemented in IPCCs (227 in county employment agencies, 500 centres in school units and 47 in information centres for the young):

- **print products** (occupational profiles, posters, newspapers);
- a **video** on relevant topics for career guidance;
- **software** for the psychological evaluation of vocational abilities; and
- **Inter-options**, the Canadian test of vocational interests, which has been translated, adapted and distributed to the centres.

The centres have been endowed with video equipment and with computers.

Training courses have also been organised for career guidance professionals (a short-term training programme attended by 1670 people and a long-term training programme attended by 900 people). In Romania, quality standards for counsellors, as well as an ethical code for counselling, have been developed by a professional association: the National Association for Educational and Vocational Guidance.

### ***The organisation of Information and Professional Counselling Centres (IPCCs) in the framework of the National Agency for Employment (NAE)***

There are 227 IPCCs, located in all counties of the country as well as in the capital. IPCCs provide *comprehensive, professional services in career information and vocational counselling to adults to help them to improve employability and flexibility to change; channel unemployed people towards training and retraining tracks; inform them about employment opportunities; and act as mediators between them and potential employers.* Their staff provides individual/group counselling services as well as information related to career planning. The targeted population for them includes young graduates, people who are officially designated as unemployed, and adults searching for employment. There are also labour redundancy programmes, including a broad range of services, such as in-depth counselling and job placement. To sum up, IPCCs develop information, guidance and counselling activity relating to socio-professional insertion, job-search techniques, and entrepreneurial education and contribute to enhanced occupational mobility and the up-skilling of the workforce.

A special challenge is posed by lifelong learning, with guidance being seen as a key tool to facilitate personal development in relation to the need for a constant engagement with learning and training.

The legal framework is:

- The **Education Law no. 84/1995**, which stipulates in art 49 that: “In each county and in the municipality of Bucharest there are Psycho-Pedagogical Assistance Centres. These ensure educational and vocational guidance activities”. The specification of guidance services is carried out through orders and regulations that settle different aspects related to the Statute of the Psycho-Pedagogical Assistance Centres for educational staff, students and parents; the job description for the teacher (counsellor); and the Regulations for the Organisation and Working of the Psycho-Pedagogical Assistance Centres and the Inter-School Psycho-Pedagogical Assistance Offices.
- The **Law no.76/200**, dealing with the unemployment insurance system and employment stimulation, which stipulates in Art 58:
  - 1) Professional information and counselling represents a set of services delivered free of charge to the job seekers to:
    - a) provide information on the labour market and any changes in occupations;
    - b) evaluate and self-evaluate people for professional guidance;
    - c) develop the ability and self-confidence of the job seekers to enable them to make decisions about their own careers; and
    - d) provide training on job-search methods and techniques.
  - 2) Professional information and counselling is carried out in specialised centres, organised within the employment agencies, as well as in other centres and by other accredited service providers from the public or private sector that, in

accordance with the law, conclude contracts with the employment agencies.

- 3) Information on the labour market, the establishment of a career path, evaluation and self-evaluation is delivered by individual or group counselling services that are delivered, on request, to the job seekers or in the job clubs organised by the employment agencies.
- 4) Professional counselling and training on interviews and job-searching methods and techniques are generally conducted by career counsellors in the career information and counselling centres or, upon request, in other places of training.

### ***National Action Plan for Employment (NAP) (approved by GD no 759/2002)***

Romania has signed up to the European Employment Strategy and the Ministry of Labour, Social Solidarity and Family has established the introduction of a national system to monitor its implementation. The activity of the Career Information and Professionals Counselling Centres (CIPCCs) is monitored as part of this framework. To this end, an inter-institutional network and a reporting system have been set up.

Guideline 1 of the NAP deals with “Tackling youth unemployment and preventing long-term unemployment”, and career information and counselling is a major active measure to prevent and combat unemployment among young people and adults (especially long-term unemployment people). Unemployed people will be included in active career information and counselling programmes before they are unemployed for between six and twelve months.

- The New Start programme has been established to combat unemployment among young people. It has provided vocational information and counselling services to young people who are newly registered as unemployed. Therefore, as many people as possible are given counselling and oriented towards active measures that will give them the chance to be reintegrated into the labour market before being unemployed for 6 months.
- The programme “From school to working life” has been introduced to prevent unemployment among young people. Young people who are about to complete some form of education have benefited from counselling services based on an individual counselling plan. This programme has been aligned with and supported other similar activities provided by the counselling centres.

The NAE concluded a protocol with the MoE for the implementation of this programme with the purpose of working out a joint action plan to advise pupils in the final years of their secondary education (general schools, high schools, vocational schooling groups and apprenticeship schools). The plan included activities on specific themes, run jointly by the career counsellors of the County Employment Agencies and School Inspectors.

As national co-ordinator, the Ministry of Labour monitors the implementation of the NAP and gathers all data from all ministries involved. The monitoring reports are presented to the National Commission for Employment, where ministries and social partners are represented.

The National Agency for Employment is responsible for the collection of data concerning information and career counselling activity for unemployed people, such as the number of users of services and their characteristics (age, gender, educational level, etc).

## Types of gathered data

### Concrete examples for August 2003

(unemployment rate 6.6%):

Number of people benefiting from counselling services (approximately the total number of unemployed people):

- Those having individual counselling, 86%; those having group counselling, 14%;
- Proportion of women, 49%; proportion of men, 51%.

By age: < 25 years old, 29%; 25 – 34 years old, 32%; 35 – 45 years old, 25%; > 45 years old, 14%.

By educational level:

compulsory school, 23%; vocational training school, 35%; secondary school and colleges, 35%; university graduates, 7%.

Categories of people benefiting from counselling services:

*Paid Unemployed* – 59.3%, of whom:

- long-term unemployed young people (> 6 months), 20%
- long-term unemployed adults (> 12 months), 28%
- Unpaid unemployed, 40.7%
- People with disabilities, 0.6%
- Ex-offenders, 0.2%
- Young people coming from orphanages, 0.85%
- Roma, 2.8%
- Repatriated people, 0.1%
- Asylum seekers, less than 0.1%
- Other job seeker categories, 8.8%

### Calculated performance indicators

Proportion of people finding employment after one session of counselling, 23%

Proportion of people receiving recommendations to attend a vocational training course, 38%, of whom 71% registered at a vocational training course (and 48% of them graduated)

Proportion of people receiving recommendations to start their own businesses, 2.3%, of whom 68.6% receive specialised support to set up their own business (of whom 54% start up their own business)

Proportion of people scheduled for new counselling sessions, 27.2%

Other situations, 9.5%

### Other calculated performance indicators

Medium number of people benefiting from counselling services per day: 10 people

Medium duration of an individual counselling session: 28 minutes

Medium duration of a group counselling session: 65 minutes

Number of counselling activities undertaken in schools per month (to ensure a better transition between school and work): 1.3

It is necessary to collect data direct from the clients, in order to examine their expectations. Twice a year, the publisher of the career newsletter linked to a World Bank project conducts an important survey on Romania. The newsletter, “A future for everyone”, is distributed widely (one in three pupils and one in five unemployed people receive a free copy). The results of a survey in issue 10 show the most important forms of information requested by clients and their areas of interest. Three major groups were interviewed: pupils and graduates, unemployed people, and employed people.

*Interest in information and career counselling:*

- employed, 67.5%
- pupils and graduates, 42.5%
- unemployed, 27.5%

*Interest in information about employment policy:*

- unemployed, 55%
- employed, 42.5%
- pupils and graduates, 37.5%

*Interest in adaptability to labour market changes:*

- pupils and graduates, 82.5%
- unemployed, 42.5%
- employed, 35%

*Inability to resolve their own problems:*

- pupils and graduates, 67.5%
- unemployed, 57.5%
- employed, 37.5%

*Interest in crisis situations:*

- pupils and graduates, 57.5%
- unemployed, 42.5%
- employed, 37.5%

*Interest in self-assessment tests:*

- employed, 57.5%
- pupils and graduates, 42%
- unemployed, 35%

There is a wide variety of data that needs to be collected and a wide variety of tools that can be used. Policy-makers need to establish what the best ways are of improving the collection of data, enabling them to design efficient career guidance policy that responds to current and future labour market needs.

The general picture of the guidance and counselling model functioning in Romania involves:

Counselling integrated into the educational process (by having the “**Counselling and Guidance**” introduced into the national curriculum, mainly as a group activity);

Educational and vocational guidance (mainly individual, operated in the **County Psycho-Pedagogical Assistance Centres** and the **Inter-School Psycho-Pedagogical Assistance Offices**);

Vocational counselling focused on career development and placement (individual/group) in the **Information and Professional Counselling Centres** (in the framework provided by the National Agency for Employment).

In the future, it will be necessary to design coherent strategies in the field of career guidance that have policy objectives, respond to individual expectations and that measure outcomes more effectively.

# JOB CREATION

## Hungary: job creation for graduates

Many elements of the new employment policy support the activation of the population. Tax exemption on minimum wage increases the income of workers in the lowest wage category. The decrease of tax-pressure on low-wage earners has a favourable effect on employability in this wage group.

The Government has reduced social contributions for employment through the use of a 'casual work card' in order to promote temporary work. When hiring registered unemployed with the 'casual work card', businesses can pay lower rates and taxes than usual. The casual work card allows for maximum 4 months employment in a year and contributes to the reduction of undeclared work. Last year approximately 140 thousand days were worked in this form of employment, which could be accelerated due to the new regulation.

The Ministry of Employment and Labour made co-operation agreements with many institutions in order to enhance atypical forms of employment, especially working at home and part-time employment. As a result of the support, increased employment and improved flexibility in the labour market can be expected. In the work at home programme employers get compensation both for purchasing technical equipment and for the wage of their home workers. In the first part of the programme more than 1000 jobs were created.

The new employment policy strategy aims to fight against youth unemployment. The labour market situation of young people has worsened in recent years. Recent graduates especially have fewer job opportunities. The Government has launched a central programme "*graduates into public administration*" for young people with a high-school degree to get work experience in some public institutions for one year. Participants receive a fixed salary resembling a scholarship.

The Government is planning to reduce working time in order to promote part-time employment. Substantial employment growth, primarily in the service sector, is anticipated as a result. According to the proposal, the weekly working hours will be gradually decreased from the recent 40 hours to 38 hours by 2006.

## Lithuania: Local Employment Initiatives – the new way to achieve job creation

Large regional unemployment differences are one of the major problems of the Lithuanian labour market. National registered unemployment stood at 9.4 per cent on 1 July 2003. However, 6 municipal territories had an unemployment rate in excess of 20 per cent at the beginning of 2003, with three territories in a similar situation by the middle of year. Hence, the difference between the highest and lowest unemployment rates in different regions is nearly fivefold. Active measures aimed at stimulating labour market and enhancing employability in such regions, leading to reduction of regional disparities, is high on the agenda.

Promotion of the Local Employment Initiative (LEI) project is one of the measures of the *Unemployment Reduction Programme of the*

*Republic of Lithuania for 2001-2004*. According to the *Procedure for the Implementation of Local Employment Initiatives*, in 2001 the Lithuanian Labour Exchange (Public Employment Services) started to prepare pilot projects with the aim of providing government assistance for employers creating new jobs.

This "Neighbour helps neighbour" programme, implemented by Lithuanian Labour Exchange, is aimed at employment and business promotion in the regions remote from major towns, mostly in rural areas, and having high unemployment rates. It aims at active community job creation efforts and seeks to jointly solve unemployment problems.

Aims of LEI projects:

- Creation of new jobs with the view of increasing employment and reducing long-term unemployment.
- Provide the local population with better opportunities to participate in economic activities and helping to independently solve their socio-economic problems.
- Reduction of vulnerability of different territories to structural changes in the economy, provision of better possibilities for further development.
- Helping to form a more active and mature community capable of solving its socio-economic problems independently.

Entrepreneurs, having business ideas and ability to deliver entirely new products and services, can apply for financing and receive a grant up to 17,200 LTL (EUR 5,000) for the creation of one new job. Contracting employers shall undertake the obligation to use the newly created jobs to employ socially vulnerable persons identified by local labour exchanges, such as long-term and young unemployed, persons of pre-retirement age, the disabled, etc.

LEI projects are financed from the State and Municipal Budget and Employment Fund. The State grant (subsidy) for the creation of one new job shall not exceed 40 minimum monthly wages. The project applicant together with its partners shall provide at least 35 per cent of the total project value.

In 2001, the use of over 1.2 million LTL (EUR 347,500) from the State Budget for these projects led to the implementation of 16 pilot projects in 9 territories and the creation of 151 new jobs. Nearly 48 per cent of the projects were intended for providing services, 40 per cent for production and 12 per cent for agriculture. Employers and sponsors contributed 60 per cent of the total value of the projects.

Local Employment Initiative projects are popular among employers. In 2002, 36 projects creating 377 new jobs were implemented. In 2003, 167 eligible applications were received. Currently 89 projects, which are expected to create about 800 new jobs, are backed by 7.4 million LTL (EUR 2.1 million), including 3 million LTL (EUR 868,800) from the Employment Fund.

About 68 per cent of LEI projects for 2003 cover the manufacturing industry: wood processing, food and sewing industries. Other projects have the purpose of creating new or enhancing old services, such as agro-tourism, car repair or beauty salon services. More than 70 per cent of new jobs will be created in rural areas.

The main project assessment criteria are as follows:

- Meeting the key needs of the local labour market (unemployment reduction, development of viable economic activities, solving employment problems of specific groups of the unemployed).
- Helping to reduce the number of social benefit recipients.
- Financial support for the project from at least two partners.

- Organisation of vocational training or retraining of the unemployed.
- Municipal support (financial means, premises, equipment, tax concessions, etc.).
- Added value of the project (possibilities for broader application, chances to increase employment in other socio-economic spheres, etc.).
- Focus on new economic activities and/or social services.
- Training curriculum and methodological material to be used when organising training on project preparation for the employees of local labour exchanges (project preparation management, evaluation, selection, financing, supervision and control) are under way.
- Training curriculum and methodological material for the staff working on project preparation (project preparation and management, financing and reporting) are under way.

Additional measures were also taken at the municipal level. A training programme and the methodology of organising the preparation of projects for the staff of territorial labour exchanges, as well as a training programme for the employers, as organisers of programme projects, were prepared. Experience gained by project administrators and their organisers should be useful in the future when seeking support from the European Union economic and social cohesion, and business support programmes.

## Slovak Republic: Jobs for the registered unemployed

A programme aiming to increase the working skills of registered unemployed (RU) through new jobs managed by municipalities was approved by the self-governing body of the National Labour Office, the Board of Directors, in March 2003. The Programme finished on 31 December 2003.

The objectives of the programme are:

- To integrate the activities of the RU with a permanent stay in a town or a village. The relevant District Labour Office (DLO) will sign an agreement with the representative of a town or village located in the DLO region.
- To establish conditions to recover and maintain the RU's working skills through performing different jobs organised by towns or villages. The jobs will be oriented towards the improvement of living conditions, the environment, or the economic and social conditions of inhabitants of a city or village.
- To improve the chances of the RU of integration into the labour market,
- To decrease the unemployment rate.

The responsibilities of participating towns or villages are to sign an agreement with a DLO and to select the most appropriate RU from the list of RU (which is provided by the DLO) who could be incorporated into the programme. The minimum period of unemployment is 3 months.

The following types of jobs can be performed through this programme:

- A citizen of a village or town is obliged by law to perform simple jobs organised by a town or a village for the reasons of the improvement of living conditions, the environment, or economic and social conditions of the inhabitants of a city or village.
- Jobs must be defined as 'public service' and be performed directly in the interests of citizens of a town or village.

- Only towns or villages are allowed to organise these types of activities; bodies managing entrepreneurial activities are excluded from the programme.

The obligations of the registered unemployed person participating in the programme include:

- To perform jobs within the framework and the timetable according to the agreement between a DLO and an RU.
- To send written notice within 3 days where a predefined job is not performed.
- To co-operate in counselling.
- To abide by health and safety rules.

On the other hand, the obligations of a municipality participating in the programme include:

- To assign responsible people to control and monitor the quality performance of jobs.
- To announce the names of the RU to be included in the programme.
- To organise training in order to meet health and safety rules.
- To monitor the activity of the RU within the programme.

## Slovak Republic: Graduates in the Slovak labour market

Slovakia is facing an increase in youth unemployment. This phenomenon is common for many post-socialist countries, and the Slovak PES, the National Labour Office (NUP) is trying to tackle this problem and find solutions. Graduates are defined as individuals within 2 years of completing their studies.

The development of graduates has been influenced by the following main features in 2002-2003:

- variations in demographic development;
- changes in legislation; and
- applied active measures.

A general feature of the period 2000-2002 has been a decrease in the number of young people employed. The year-to-year decrease was 12.9% in 2002 and 5.1% in 2001. This demographic development has also influenced the number of unemployed graduates. There were on average 33,000 graduates on the list of unemployed at 30 June 2003.

Registered unemployed graduates (RUG) in thousands					
Term	2/2002	6/2002	9/2002	1/2003	5/2003
No. of RUG	46	50	44	35	29

Selected active measures/activities have been applied by NUP to mitigate the unemployment of graduates. 36,566,000 SKK (EUR 916,500) were allocated in 2002 and 49,020,000 SKK (EUR 1.2 million) the end of June 2003 to active measures in order to minimise the unemployment of graduates.

The core activities/measures that have been implemented are:

- retraining; and
- counselling and job mediation.

There were 4,848 RUG in 2002 and 873 in the first half of 2003 included in retraining.

In 2002 the programme ‘Short-term programme to support youth employment’ was executed. The financial amount allocated to this programme was 42,598,000 SKK (EUR 1.07 million) and 11,374 RUG participated. Thanks to the programme 6,457 RUG were excluded from the list of unemployed up to 31 December 2002 which was the closing day of the programme.

Since 01 January 2002, NUP has applied other specific active measures to deal with RUG. The measures have been financed from the state budget as well as the financial resources of NUP itself:

- The measure performed under §90a of the Employment Act: NUP provides financial funds to employers from the state budget to cover RUGs salary plus health and social insurance, where graduates have been employed for at least 6 months. Financial resources are provided/channelled by NUP for a maximum of 3 months. The amount spent to finance this measure was, in 2002, 6,064,000 SKK (EUR 151,899), and, up to 30 June 2003, 128.000 SKK (EUR 3,206).

- The measure performed under §90b of the Employment Act: NUP provides a lump sum to a graduate of 500 SKK per month (EUR 12.5) and to an employer a lump sum of 1,000 SKK per month (EUR 25). The objective of the measure is to help RUG to integrate into the labour market. The assumption is based on a contract of 8 months duration with 4 working hours per day. The financial amount allocated to finance this measure was 20,861,000 SKK (EUR 522,199) in 2002 and 14,833,000 SKK (EUR 371,304) to 30 June 2003.

In conclusion, the general assumption is that the number of RUG will be 33,000 in the short term. The consequence of this status, together with the high ratio of the long term unemployed/total number of registered unemployed, will put pressure on NUP (and its successor) to implement additional activities/measures towards targeted groups. That will be one of the most important objectives of the new organisational body of PES in Slovakia – after the reorganisation that has been approved by the parliament.

# TRAINING

## Cyprus: A new training scheme for Trade Unions

The Human Resource Development Authority of Cyprus (HRDA), the national body promoting HRD and Vocational Training on the island, within its overall effort to further support continuing training initiatives, introduced as of the 1<sup>st</sup> of January 2003, a new training scheme specifically targeted to members of trade unions. It is widely recognised that the development of co-operation between employers and employees and the existence of good industrial relations contribute to the smooth running of an economy with positive consequences for both enterprises and their employees.

Even though Cyprus has a good record of tripartite co-operation (the HRDA itself is governed by a tripartite Board of Directors with equal representation of all social partners), the new scheme is expected to contribute in further developing the co-operation between employers and employees for their mutual benefit as well as that of the whole economy. The continuously changing international economic environment and the effort of enterprises to adapt themselves to these changes, influence the way unionists think and act. There is a permanent need for unionists to improve their knowledge and understanding of the new environment and adapt themselves and their practices to the new conditions.

Through this scheme, the HRDA is aiming to boost the effort of Trade Unions for upgrading the skills and knowledge of their members through continuing training activities. Trade Unions wishing to organise and implement training activities to satisfy the training needs of their members on aspects directly related to their union duties, can apply for training aid to the HRDA, by submitting the training programmes they plan to organise. The applications are evaluated based on a set of predefined qualitative criteria, and those approved receive an HRDA subsidy.

The content of the programmes which can be submitted under this scheme cover a broad number of themes including subjects which aim to increase the capacity of the Unions to participate actively in social dialogue and to harmonise their movement with the *acquis communautaire* in view of the country's accession to the European Union in May 2004. Some characteristic examples of such programmes which have been submitted are: "The role of unionists in promoting equal opportunities"; "Women in the labour market"; "Social dialogue in Cyprus and the EU", "Health and safety at work", "Collective bargaining and collective agreements".

The Trade Unions have responded very positively to the new scheme. An indication is the number of programmes submitted for the current year by the four major Unions. Over 100 programmes were submitted aiming to train nearly 4000 Union members, with an expected HRDA subsidy of approximately 500,000 euro.

## Latvia: Reform of the education and training system

One of the main goals of the educational system is to ensure the relevance of the qualifications of the workforce to the development tendencies of the labour market. Higher, vocational and adult continuing education fails to react adequately to the rapid changes in the requirements of the labour market in Latvia. The content of education itself as well as teaching and training equipment are

outdated. Improvement of the quality of education at all levels, and in the effectiveness and accessibility of education is crucial.

The Concept of the Development of Education for 2002-2005 (third phase of the reform of the educational system) was adopted in Saeima on 17 October 2002. The goals of the Concept are:

- to transform the educational system of Latvia into a system promoting the formation of a knowledge-based integrated society;
- to increase the competitiveness of the people and economy of Latvia;
- to improve the quality of education in matching the needs of the economy;
- to ensure access to lifelong learning for all residents, and also to raise the cost efficiency of education.

The educational system still does not provide teaching staff with adequate remuneration, which hinders the attraction of well-educated teachers and the introduction of new programmes, subjects and methods of teaching. There is also a shortage of resources for maintenance of the educational infrastructure.

The Ministry of Education and Science continues to work on activities for developing professional standards, licensing educational programmes, and developing information networks. The further implementation of the principles of the Bologna Declaration and the principles of the Lifelong Learning Memorandum in the educational system is essential.

The involvement of the social partners improving the relevance of educational programmes (especially in VET), financing and providing vocational education and training for employees, is important to stimulate the competitiveness of enterprises and employability of employees.

Although Latvia ranks third in Europe in terms of total number of students, the present structure of education is still rather one-sided and only approximately 17% of all students study technical and natural sciences. Thus there might be an overproduction of specialists in social sciences. To ensure the transition to the knowledge-based economy, the promotion of science and technology intensive sectors and the preparation of specialists for sectors vitally important for the economic development of the country is essential. In order to contribute to the formation of an information society, opportunities to acquire knowledge and training in ICT are of special importance.

To make education available to all groups of people, distance learning opportunities have to be developed.

In transition countries, where many of the qualifications held by the current generation of adults were acquired under the previous system and may not be appropriate to labour market conditions, adult continuing education is very important.

In Latvia continuing education for adults is grouped in the following way:

- Staff training organised and financed by companies themselves (this mainly takes place in big companies in Latvia);
- Training of unemployed people financed by the state within the limits of financial resources;
- Individual continuing education and training chosen and financed by individuals themselves.

In order to develop the balanced and modern educational system meeting labour market needs in the future, the measure *Development of Education and Continuing Training* is set out under the priority

*Development of Human Resource and Promotion of Employment* in the Development Plan 2004-2006. Within the measure support will be provided to public and private education and training institutions to manage the improvement of study programmes in science and technology intensive branches, expand training for adults through the development and implementation of continuing training courses and modules. Support will also be provided to partnerships involving social partners in education and training. There are also special measures within the National Employment Plan 2003 in the area of the promotion of development of human capital and lifelong learning.

### ***Professional training and retraining for the unemployed in Latvia – organisation and results***

In professional training and retraining courses organized by the State Employment Service (SES) the unemployed can obtain the following qualifications:

- A second level professional qualification, where basic education is needed before involvement in an educational programme;
- A third level professional qualification, where vocational or secondary education is needed before involvement in an educational programme;
- The improvement of qualification and professional skills (no official qualification) for the unemployed with appropriate professional education.

In 2002, 16.8% of the unemployed registered in SES expressed a wish to participate in professional training and retraining courses. Because of the lack of resources only one third of those who expressed a wish to study could be given this opportunity. In 2003 due to a new legal provision in unemployment insurance, the

financial means for training and retraining of the unemployed were decreased 2.3 times. In 2000 and 2001 SES involved 10.3 thousand unemployed yearly in professional training, whereas in 2002 only 4.8 thousand unemployed were sent to training courses.

SES organises the professional training for the unemployed in Latvia by means of tender for educational establishments. All educational institutions that are accredited according to the requirements of the law and offer educational programmes appropriate to the labour market situation can participate in tenders organised by SES. When choosing educational programmes several issues are considered. The most important considerations are the labour market demand for particular professions, employers' forecasts on their business development, and the job placement rate of the unemployed who previously attended the particular educational programme.

In recent years the most popular education programmes in courses organized by SES were computer skills, services (trade, hotels, restaurants), and accountancy. The job placement rate after the SES courses is gradually increasing. In 1999 50.6% of the unemployed found a job after the courses, in 2000 the figure was 66.3%, and in 2001 this figure reached 67.8%. However, in 2002, 79.7% of the unemployed found a regular job after training courses. Training has been performed mostly in regional centres – courses were organised as close as possible to the living places of the unemployed.

In 2002, 63.6% of graduates of the occupational training and retraining courses for the unemployed were from vulnerable groups of unemployed (long-term, disabled, pre-retirement aged unemployed, youth aged 15-25, persons discharged from imprisonment, and persons returning to work after maternity leave).



# SPECIAL CATEGORIES OF WORKERS

## The Netherlands: Parliament adopts law against age discrimination at work

In December 2003, the Senate of the Dutch Parliament (States General) adopted the bill intended to ban age discrimination at work, in business and in vocational training (*Wetsvoorstel gelijke behandeling op grond van leeftijd bij arbeid, beroep en beroepsomstandigheden*). Age-based distinctions may only be made if there is an objective justification for setting an age limit.

The ban on making age-based distinctions applies to the recruitment, selection and hiring of staff, to job mediation and conditions of employment, and to promotion and dismissal. It also applies to vocational training, career information and guidance, and to membership of employers' associations, trade unions or professional bodies.

An age limit may be set under certain circumstances, for instance to the dismissal of workers who have reached pensionable age (65 years old). Another example would be an employment measure specifically designed to help young people find work. For that reason, there remains a separate legal minimum youth wage, since its purpose is to give young people a better chance on the job market.

Frequently cited examples of age limits include extra holiday and shorter working hours for older workers and other such schemes. In the future, such cases will need to be objectively justified. From 2 December 2006 this will also apply to arrangements made, for example, in collective agreements on the pension-linked dismissal of workers at a certain age under 65. The age must be specified in the collective agreement before the law enters into force.

The (existing) Equal Treatment Commission (*Commissie gelijke behandeling*) will monitor compliance with the ban on age discrimination and may launch investigations if complaints are made.

The law will enter into force on a date to be specified by royal decree.

## Sweden: Social exclusion of young people

A Government-commissioned report on young people with unknown occupation has recently been published. The study "Young Outside" (ISSN 0375-250X) shows that there are an increasing number of young people who do not work or study and have an unknown occupation. The investigation has tried to measure the total number of young people who have an unknown occupation and are involuntarily excluded from the labour market and society. Furthermore, the study tries to explain the causes of social exclusion among young people.

There are about 940,000 people between 16 and 24 years old in Sweden. The most common activity among young people between 16 and 19 years is to pursue studies. In the year 2002 about 57% of young people between 16 and 19 were studying, 29% were working and 3% were unemployed. Among young people between 20 and 24 years 23% were studying while 60% were working and 5% were unemployed.

The largest change that has taken place regarding youth employment is that the number in fixed term employed has

dramatically decreased since 1990. Among young people between 16 and 19 years, fixed term employment has declined by 44% and among young people between 20 and 24 years the decline of fixed term employment has been 53%.

Young people move from one occupation to another more quickly and are therefore more difficult to categorise in statistics. Many young people choose to travel and change jobs more often and have therefore an unknown occupation and do not have any registered income. However, there remains a group of young people with unknown occupation for at least two years and who do not take part in any subculture of travelling or of job rotation.

Analyses show that this group had had difficulties in primary school, which continues to be a disadvantage when they get older. Among these people there is a considerable group who have not been in the country for more than 5 years and have had serious problems integrating in society. This group also originates from low income families. Very few persons from this group return to school, but rather return to the labour market in temporary jobs.

Causes of social exclusion among young people are multidimensional and complex. Some causes involve light mental handicaps, difficult family backgrounds but also a failure of society to meet the needs of this group. Studies show that this group face serious health risks in terms of psychiatric and/or abuse problems.

A broad and vast structural change in the work of several authorities dealing with young people is needed. Municipalities and local authorities also need to work more actively with prevention in order to address the problem of social exclusion among young people.

## Hungary: Reintegration of older workers

The labour market situation of older workers differs from most EU indicators. The Government has introduced several new regulations to increase the low employment level of older workers, as follows:

- Job search assistance was introduced for long-term unemployed persons exhausting their eligibility for unemployment benefit and who are willing to seek a job intensively. The entitlement period is normally 180 days, while in the case of older unemployed over 45 years, this is 270 days. According to individual agreements, those who succeed in finding a job will get half of the sum left until the end of the eligibility period in cash.
- From 1 January 2004 employers can be exempt from paying health care contribution when hiring long-term unemployed people over 50 years old.
- Wage subsidy schemes are available for older workers already after 3 months of unemployment (normally 6 months). Subsidies can add up to 70-100% of the wage and the maximum supporting time is twice as long (2 years) as usual, in the case of unemployed persons over 45.

## Latvia: Active labour market measures for risk groups of unemployed

In mid-2001 the State Employment Service of Latvia (SES) started the diversification of active labour market measures. There were 2 new measures for the unemployed started as pilot projects – *work practice for young unemployed* and *subsidized work places for unemployed people with disabilities*. These pilot projects were

implemented in close co-operation with employers. As a result 100 work practice places and 30 subsidized work places were created. In 2002 the scope of the measures was increased – an additional 150 work practice places were created. In work practice for young people, the participants work for 6 months, in subsidized work places they work for 10 months. In mid 2002 a new measure *subsidized work places for older unemployed* was also launched. In this measure, in co-operation with employers, 133 new subsidized work places were created for unemployed women older than 50 years and unemployed men older than 55 years. In all new measures the SES partially finances the salary of the unemployed not exceeding the official minimum wage and payment for work supervisors (if necessary).

At the beginning of 2002 a new measure “*Social enterprises*” for the employment of the long term unemployed and unemployed at pre-retirement age (5 years before retirement) was started. The measure “*Social enterprises*” is organized on the basis of business plans submitted by legal persons. In this measure, SES creates additional financial incentives for the recruitment of unemployed people by a single payment for supply of the necessary technical equipment. Thus SES stimulates the employers to create places for temporary employment of target group unemployed. The places are kept for 4 years. By the middle of 2003 there were 108 job places created within the measure “*Social enterprise*”.

After participation in these new measures 75% of young unemployed and 81% of unemployed people with disabilities found a regular job. Also for the older unemployed the placement rate is rather high – 83% of the target group who completed the programme found a regular job.

In 2003 SES started implementation of a wide range of additional measures for unemployed people with disabilities in order to improve their competitiveness. 221 employers are involved in these new measures. Already from the new work places created in this measure 8 are for work practice for young unemployed. There are also 84 subsidized work places for people with disabilities and 293 places for in job training. In-job training was introduced to give people with disabilities an opportunity to acquire new skills by means of 10 months subsidized work in case they are unable to return to work in their previous profession. There were unemployed people with disabilities without professional education involved in this measure. SES financially ensures adaptation of the work place according to the kind of disability if it is found necessary by an ergo therapist.

The financial means available for unemployed people with disabilities are not enough to cover all the needs expressed. 758 unemployed people with disabilities have expressed a wish to participate in the SES new measures, but the SES could afford to create only 395 places. In 2003 for this target group there were more opportunities to participate in professional training and retraining, to learn computer skills or the Latvian language. 760 unemployed wished to participate in professional training, but there were only 390 places available.

In 2003 there was special attention paid to disability problems in employment. There is a very active dialogue between SES and employers on these issues. There is a positive tendency that employers are becoming more interested in employment of people with disabilities. In 2001 SES did a survey where 22 employers expressed readiness to create 38 subsidized work places for unemployed people with disabilities. In 2002 36 employers were ready to create 87 subsidized work places. The results of the 2003 employers survey show that in addition to the existing 385 subsidized work places for unemployed disabled people, 183 employers are interested in creating another 375 places.

## ***Immigrant workers***

The regulation of the Cabinet of Ministers of the Republic of Latvia “*Procedures for the Employment of Aliens and Stateless Persons in Latvia*” prescribes the employment of immigrants in the territory of Latvia.

According to this regulation the main conditions that should be observed for confirmation of work invitation are:

- 1) the guest worker is applying for employment or a position which corresponds to his or her professional education and qualifications and this is certified by the documents;
- 2) the employer (commissioning party) has registered the vacant work position or opening for a specialist with the local office of the State Employment Service and it is vacant for more than a month after registration;
- 3) no unemployed person whose qualifications correspond to the speciality of the vacant position for which the guest worker is applying is registered with the local office of the State Employment Service.

In the period from 2000 to 2002, the State Employment Service of Latvia approved the work invitations for receiving work permits for 1670 guest workers every year, on average. On 1 July 2003 there were 2075 guest workers employed in Latvia. The five resident countries from where most of all guest workers arrived were: Ukraine (15.3%), Russia (11.9%), Lithuania (11.7%), Estonia (6.7%) and Germany (6.2% from the total number of guest workers employed in Latvia).

The majority of guest workers were employed in the following areas: manufacturing (26%), wholesale and retail trade (22%) and education (8.2% from the total number of guest workers). The occupations required most for employment of immigrants are: ship repair locksmiths and ship welders, counsellors of various areas, managers of trade units and teachers (in particular for training of foreign languages).

## **Lithuania: Measures designed to boost the skills of the long-term unemployed**

In Lithuania the long-term unemployed account for a rather large proportion of the jobless total. In fact, data from 2002 suggest that 55% (54% men and 46% women) are long-term unemployed (i.e. have been out of work for more than a year). Most long-term unemployed people are in the over 50 age group (30% of all long-term unemployed people are over 50). This has something to do with the skills acquired by older workers, but also with employers' preference for hiring younger workers. 10% of all long-term unemployed have undergone no occupational training and almost half have no professional qualifications. Moreover, 35% of all long-term unemployed have been out of work for longer than 2 years.

Back in September 2002, the Ministry of Social Protection and Employment launched a programme aimed at enhancing the organisation and boosting the professional know-how and practical skills of the long-term unemployed in a bid to help them find work. The programme entails local continuing training for the long-term unemployed, and the courses on offer cover both technical subject areas and job-finding skills.

There are already 35 short-term programmes covering the most popular occupations (carpentry/joinery, gas and electric welding, painting and decorating, whitewashing, cooking, tailoring, being a welfare officer, waiter, florist, car mechanic, and so on). These

programmes give the long-term unemployed a chance to refresh their skills and make it easier for them to look for a job.

Qualified career specialists and psychologists work together with small groups of unemployed people, working together to try and find acceptable solutions. Psychological support and aid with self-help are part and parcel of these efforts. Although the professional skills learnt on these courses can be relatively modest, the psychological support is intended to help motivate the unemployed individuals to take their training forward and thereby improve their situation on the labour market. Other training courses primarily concern innovative elements in the respective occupations and end in a final examination that assesses the participants' theoretical and practical skills.

During the first half of the year more than 5,000 long-term unemployed took part in such courses. Most participants were jobless individuals with no vocational qualification and people whose skills are not much in demand on the job market.

A survey conducted amongst the participants in these courses showed that 60% of them found what they learned to be generally helpful. A third of them felt their self-esteem had risen as a result, and a fifth found the course helped them plan their future. 62% of participants decided to go out and look for a job again, and 43% opted to undergo further training. Most participants came out in favour of seeing the measure extended.

In 2003 the number of long-term unemployed declined. On 1 July there were 40,100 long-term unemployed, a third fewer than in the previous year. The average number of long-term unemployed went down from 68,500 during the first half of 2002 to 49,500 in 2003. Two out of every five long-term unemployed have been seeking a job for more than two years.

## **Poland: Professional activation of persons aged over 50**

Statistical data show that professional activity and employment rates decrease with age, while there is a simultaneous decline in the unemployment rate. It is worthwhile to stress that persons aged 50 – 54 boast a higher-than-average professional activity rate – 63.7% (national average at 55.5%) and a higher employment rate – 54.2% (national average at 43.7%). In the next age group both rates are substantially below the national average values.

The basic source of income of persons aged over 50 is their pension. 5,225,300 persons of this age group draw on their pension, 2,508,300 persons rely on disability benefits and only 1,442,500 persons have a salary as their main source of income.

Over 500,000 persons receive a pre-retirement benefit.

The programme for professional activation of persons in the pre-retirement age '50+' will be implemented in the framework of the gradual phasing out of pre-retirement benefits. The objective of the action proposed by the Government is to enhance the professional activity rate of persons of pre-retirement age, as well as to limit the involvement of public funds and the Labour Fund in the disbursement of unemployment and pre-retirement benefits.

This will be achieved through: changes in the employers' policy towards employees and job applicants turning 50; active pro-employment policy towards persons entitled to become eligible for pre-retirement benefits and early pensions; policy of professional activation of the unemployed aged over 50.

At the beginning the effective execution of the programme should contribute to the professional activation in annual terms of some 50 – 80 thousand unemployed and recipients of unemployment and pre-retirement benefits. The programme execution will be initiated in 2004 by the Minister of Economy, Labour, and Social Policy's announcing a competition for projects, whose task will be the verification of the effectiveness of the professional activation measures. The condition for participation in the competition will be a project envisaging the professional activation of a given number of persons.

The "50+" programme envisages three major directions of operations: actions targeted at the employed threatened with dismissal; at the persons unemployed with an entitlement to pre-retirement benefits; and at persons losing entitlement to benefits.

# SOCIAL PROTECTION AND UNEMPLOYMENT BENEFIT SYSTEMS

## Austria: Reform of provisions on reasonable entitlement to unemployment insurance

Making the provisions on reasonable entitlement to unemployment insurance more flexible is an area covered by the Austrian federal government's programme. In November 2003, after in-depth negotiations, the social partners agreed on a joint plan to reform the provisions governing reasonable entitlement to unemployment insurance. In view of the difficult situation on the labour market, not only should an attempt be made to establish a fast, efficient placement process for job seekers, but the principle underlying that insurance also needs to be shored up. The aforementioned agreement takes account of the needs of both job seekers and businesses.

The following reforms will be implemented by the federal minister for economics and labour in 2004.

### *Assistance plan for the unemployed*

**At present:** No specific arrangement governing content.

**In future:** Wherever possible, the Employment Service (AMS) will be required by law to maintain and raise a job seeker's level of qualification when drawing up assistance plans. Accordingly, in cases where it is unlikely that the individual in question can be found a job in the field for which they are qualified, or where such a placement is not possible (e.g. for health reasons), the individual should not automatically be assigned the next 'assistant's job' (*Helperstelle*) that comes along. Instead, an effort should be made to establish whether additional qualifications could enable the individual to take up a different position, but one that requires training.

### *Traditional vocational protection in unemployment insurance*

**At present:** Vocational protection benefit (*Berufsschutz*) is generally available for the entire period during which an individual is entitled to claim unemployment insurance (between 20 and 52 weeks).

**In future:** Traditional vocational protection benefit will be available for the first 100 calendar days of entitlement to unemployment benefit. Vocational protection benefit will be supplemented or replaced by wage protection benefit (not impacting on vocational protection benefit under either disability or invalidity pensions).

The aim of shortening the entitlement period for vocational protection is to:

- facilitate rapid placement, and
- more effectively prevent the occurrence of long-term unemployment.

### *Wage protection benefit*

**At present:** In the past there has been no specific wage protection benefit. Only the collectively agreed wage had to be paid for any jobs offered.

**In future:** During the first 120 days, the remuneration of the employment offered may now be no less than 80% of the previous assessment basis for unemployment benefit (i.e. approximately 80% of the previous average earnings), and also no less than 75% of the assessment basis for the remaining period of entitlement to unemployment benefit. This wage protection applies to individuals offered a full-time job if they have been referred to a post in another occupational field, and to any individuals offered a part-time job in any field.

If the individual already had a part-time job before becoming unemployed, the income from the job offered by the placement service may not be less than that earned in the previous part-time position.

### *Travel time*

**At present:** There is currently no arrangement applying to local employment; where individuals are employed in a place other than the one where they live, due consideration must be given to their childcare obligations and providing accommodation for them at the place of work in the event that they are unable to return home on a daily basis. There is no fixed definition of what may render their return impossible.

**In future:** No more than one quarter of an individual's average daily working time may be considered reasonable travel time (from home to work and back). Travel time that is significantly longer than this will only be deemed reasonable in exceptional circumstances.

For part-time work, travel time of 1.5 hours (there and back) is considered reasonable, provided that the individual works at least 20 hours a week.

### *Seasonal work*

**At present:** The Employment Service can already place registered unemployed individuals in seasonal work outside their immediate region. However, during the winter of 2002-03, such seasonal placement was not as successful as hoped for. An annual national programme is drawn up to boost nationwide placement and meet the needs of the winter tourist trade.

**In future:** To meet the need for seasonal manpower as far as possible without resorting to foreign seasonal workers, the Employment Service will take immediate steps to set up a programme to promote the long-term placement of job seekers without dependants from all over the country, taking account of the interests of companies seeking labour and job seekers alike. When companies recruit staff, they must comply with legally stipulated and collectively agreed working conditions and also provide corresponding board and lodging. This measure should also help to significantly reduce long-term unemployment, particularly amongst young people.

## Austria: Recent legislative changes

Amendments to the 1977 Austrian Unemployment Insurance Act (AIVG) have resulted in the following changes in legislation:

**New arrangement for part-time work for older employees (Budget Accompanying Act – *Budgetbegleitgesetz* – 2003)**

**(Articles 27 and 82 of the AIVG) (Austrian Civil Code (BGBI.) I No. 71/2003, enters into force on 1 January 2004)**

- Extension under more favourable conditions of the current regulations governing part-time work for older employees (presently due to expire on 31 December 2003).

- For all valid claims made after 1 January 2004, the part-time allowance for older workers will be paid for a maximum period of five years if no later than five years hence the individual is set to reach the minimum age of entitlement to an old-age pension (from 2013).
- Prior to the aforementioned date, a longer duration of benefit due to a transitional arrangement by analogy with the raising of the early retirement age from 2004; the qualifying age for part-time work for older employees will go up by six months every year.
- Qualifying periods such as contributory periods of health insurance following the end of contributory unemployment insurance, and extension of the maximum duration of periods of childcare for children up to the age of 15 will be taken into account, to make it easier for women in particular to meet the qualifying requirements.
- The minimum number of normal working hours and the minimum period for averaging working time is one year (if changing companies, the individual must provide evidence of having been employed by the new company for at least three months).
- The amount of reimbursement depends on whether additional labour is employed (where a replacement worker is hired, 100% of the additional cost is reimbursed, but if no replacement worker is hired, only 50% will be reimbursed).
- ‘Blocking’ (a period of full-time work and a period of leave instead of a period of continuous part-time work) will be prohibited (apart from short, unavoidable breaks) except where an additional unemployed individual or an apprentice is hired at least during the period of leave. At the beginning of the period worked by this replacement worker, an interim settlement is paid out and the hitherto unpaid 50% of the difference is paid out proportionately for the remaining period, in addition to the current part-time allowance for older workers.
- Repayment in full of the part-time allowance for older workers if the obligation to hire a replacement worker is not fulfilled.
- Under a temporary regulation, the part-time allowance for older workers will be paid for longer to all older workers whose part-time work began in either the second, third or fourth quarter of 2003 and will run until the earliest possible retirement age (this age has now been raised).

**Extension of the period of entitlement to unemployment benefit by the duration of a training course authorised by the Employment Service under Article 12 (5) of the AIVG (Budget Accompanying Act 2003) will now apply to all groups (with no age limit)**

**(Article 18(4) of the AIVG), (BGBl. I No. 71/2003), entered into force on 1 July 2003**

Up until 30 June 2003, unemployed individuals aged 45 or over could have their entitlement to unemployment benefit extended by the duration of a training course authorised by the Employment Service. As from 1 July 2003, all individuals, regardless of their age, could have the period of entitlement to unemployment benefit extended by the duration of a training course authorised by the Employment Service. Accordingly, they are legally entitled to claim unemployment benefit for the entire period during which they attend the course, so the period during which they received benefit to which they were entitled before the course began is not used up and does not expire.

**Extension of the maximum period of qualification for unemployment benefit (Budget Accompanying Act 2003) (Article 15 of the AIVG in**

**connection with Article 80(10) of the AIVG), (BGBl. I. No. 71/2003, entered into force on 1 July 2003)**

As a general rule, the maximum period of non-contributory periods of employment (e.g. work as an employee in another town with which no relevant agreement has been concluded, or self-employment) may either not be extended at all, or may only be extended by a maximum of three years, and the periods of employment upon which the entitlement to unemployment benefit was based must have occurred within this maximum time-frame. In contrast, for all valid unemployment benefit claims made before the end of 2003 where proof of independent employment can be provided in the form of contributory health insurance in accordance with the Farmers’ Social Insurance Act (*Bauern-Sozialversicherungsgesetz*, BSVG) or the Industrial Social Security Act (*Gewerbliches Sozialversicherungsgesetz*, GSVG), the maximum period is extended not just for three years at the most, but for an indefinite period.

This indefinite extension for periods of independent employment (upon presentation of proof of contributory health insurance in accordance with the BSVG or GSVG) will now be extended by one year (until the end of 2004).

**Consideration of periods of employment in other EU/EEA countries when assessing qualification (Budget Accompanying Act 2003)**

**(Article 14 (5) of the AIVG), BGBl. I. No. 71/2003, entered into force on 1 July 2003**

As from 1 July 2003, periods of employment in other EU/EEA countries will only be taken into consideration when assessing qualification for a benefit in Austria if the applicant can provide proof of at least one day’s contributory employment in Austria prior to submission of the application. Up until 30 June 2003, this requirement was not compulsory under certain conditions. “Legitimate” cross-border commuters (“*echte Grenzgänger*”) and “non-legitimate” cross-border commuters (“*unechte Grenzgänger*”) will remain exempt from the obligation to provide evidence of one day’s employment in Austria.<sup>6</sup>

**Changes to the Parental Leave Act (KGG):**

**New provisions on part-time support (Budget Accompanying Act 2003)**

**(Article 14 of the KGG), (BGBl. I. No. 71/2003), entered into force on 1 July 2003**

- Definition of part-time support, in accordance with the Constitution, for dependent employees (transitional cases) by including fathers (adapting provisions to apply equally to both mothers and fathers). A father who is a dependent employee may be granted part-time support if, had he been a mother, he would have been able to claim a maternity allowance on account of his being an employee, an independent employee, on a training or apprenticeship contract, or if the only reason he would not have been able to claim maternity allowance is because the relevant provisions of health insurance legislation make no provision for such a claim (e.g. in the case of certain training contracts).
- Amendment of arrangements governing the reimbursement of and subsidies for parental allowance and part-time support to comply with the Childcare Act (*Kinderbetreuungsgesetz*). With respect to regulations governing subsidy, the reference to non-completion of the second year of life – which was accidentally left in when the possible claim period was extended – was deleted, making it clear that a subsidy may only be granted while a parental leave allowance or part-time support is payable.

<sup>6</sup> “Legitimate cross-border commuters” are workers who are employed in the neighbouring EU/EEA country and return to their place of residence in Austria at least once a week.

“Non-legitimate cross-border commuters” are workers who are employed in the neighbouring EU/EEA country and continue to be based primarily in Austria, but who do not return to their place of residence at least once a week.

**The following changes will be made to the Aliens' Employment Act (*Ausländerbeschäftigungsgesetz*, AuslBG):**

**Amendment 2002 (BGBl. I No. 126/2002, entered into force on 1 January 2003)**

This amendment and an amendment to the 1997 Aliens' Act (*Fremdengesetz*, FRG) helped create, amongst other things, a uniform set of criteria for the re-registration of key foreign workers and a separate registration procedure for self-employed and dependent key workers, extended the seasonal model to all sectors where there are labour shortages, implemented the findings of the 2001 study carried out on behalf of the BMWA on the impact on the market of employing foreigners (integration study), and secured unlimited access to the labour market for foreigners who are permanent residents by entitling them to a certificate of residence. This amendment also removes decree authorisations and other rules that no longer fit in with the modified admission system and which have so far never been invoked.

**Special provisions for re-registration of key foreign workers and drafting of a list of criteria (Article 2, paragraphs 5-9 of the AuslBG)**

Key foreign workers must have training that is in particular demand on the Austrian labour market. If they do not, they must at the very least have specialist knowledge or skills and relevant practical experience that Austrian workers do not have. They must earn a gross monthly wage of no less than 60% of the highest assessment basis as set out in the General Social Insurance Act (*Allgemeine Sozialversicherungsgesetz*, ASVG) – currently €1,962 – plus bonuses. The transfer of investment capital must either be at least €100,000 or must create at least one additional job for an Austrian worker or a foreign worker who has already been integrated into the labour market.

**Establishment of a separate registration procedure for employed and self-employed key workers (Articles 12 and 24 of the AuslBG)**

Under the re-registration procedure outlined in Article 12 for key workers who are not yet resident in Austria, the 'one-stop shop' principle has been implemented to the furthest possible extent. Before a key foreign worker can be re-registered, the appropriate authorities must check whether a permit is available under the government's annual Residency Rights Ordinance (*Niederlassungsverordnung*), whether all requirements under the AuslBG have been met, and ascertain that there are no doubts under the legislation pertaining to aliens regarding the registration of the foreign individual. Key workers are registered for a maximum period of one year, during which they are entitled to residency and to take up employment with an employer. Any individual changing employers within that one-year period must re-register. They may only switch to the normal AuslBG system after the first year, when the key worker may correspondingly be issued a work permit.

Self-employed key workers are registered by the Aliens' Office on the basis of an expert report by the appropriate regional (*Land*) office of the Employment Service (Article 89(1a) of the Aliens Act). Such registration is governed by Article 24 of the AuslBG.

**Extended possibilities for the registration of individuals employed for a limited period by applying the seasonal model to all sectors requiring skilled labour for limited periods (Articles 5 and 7(3) of the AuslBG)**

The federal minister for economics and labour is authorised to issue decrees governing the temporary employment of foreigners not only in seasonal sectors, but also in other sectors which require additional manpower for a temporary period but do not experience seasonal fluctuations dependent on the time of year. Under such decrees, work permits may still only be issued for a maximum period of six months.

If stipulated in the decree, permits may be extended up to a maximum period of six months (provided that the labour shortage cannot be filled by an equally qualified Austrian or foreign individual who is registered as unemployed). If a foreigner extends his work permit for the maximum six-month period and is therefore employed continuously for one year, he may be issued a fresh work permit no less than two months after the expiry of the previous work permit. In addition, foreigners who, under Article 5 (quotas) have not worked continuously for two maximum periods of six months, but who were legally employed several times by the same or different employers, may be employed for no longer than 12 months out of any 14.

**Decree authorisation by the federal government to conclude an intergovernmental agreement with neighbouring countries on the employment of key workers and commuters (Article 1(5) of the AuslBG)**

This decree authorisation enabled the conclusion of agreements with neighbouring countries to allow a certain number (as specified in the agreement) of nationals of neighbouring countries to emigrate to Austria to take up employment as key workers. It also created a means of establishing how many commuters may travel to Austria on a weekly basis to work.

**Facilitating secondment by employers in the context of joint ventures**

**(Article 18(3) of the AuslBG)**

This provision aims to facilitate the training of foreign workers in the context of joint ventures (i.e. companies with a foreign partner operating together to execute jointly acquired contracts). Sending employees of the foreign partner company on a training course no longer requires either a sub-contracting permit (*Entsendebewilligung*) or a work permit, provided that the secondment lasts no longer than six months. The only paperwork required is a confirmation of notification (*Anzeigebestätigung*) from the Employment Service.

**Extending periods for which no work permit is required for the employment of foreign artists as part of joint artistic productions**

**(Article 3(4) letter b of the AuslBG)**

The period for which artistic work may be carried out without a work permit as part of an artistic joint production has been extended from three days to four weeks. However, to be exempted from the requirement to obtain a work permit as part of a joint production lasting up to four weeks, in accordance with the Aliens Act (FRG) foreigners must be issued a residence permit by the respective employment authority.

**Entitlement to a dispensation certificate for all young resident foreigners who have completed their final year of compulsory schooling in Austria (Article 15 of the AuslBG)**

All young resident foreigners who have completed their last complete year of compulsory schooling in Austria, and whose parents are resident in and have worked in Austria for at least three of the previous five years are henceforth to receive a dispensation certificate.

**Legal securing of labour market integration of permanently resident foreigners by linking residency and employment legislation**

**(Article 17 of the AuslBG)**

Foreigners who can prove either that they have been employed for long periods or that they have been married to an Austrian national for at least five years, or individuals who, as dependents of Austrian nationals or EEA citizens, were previously excluded from the scope of the act are to remain entitled to receive or extend the validity of a dispensation certificate.

### **Adaptation of the exception applying to recognised refugees to the 1997 Asylum Act (*Asylgesetz*) and of the exceptional arrangement applying to non-Austrian/EEA spouses and children of Austrian and EEA nationals to bring them into line with EU standards (Article 1(2) of the AuslBG)**

The exception applying to recognised refugees – i.e. foreigners awarded asylum in Austria and who for this reason are entitled to enter and remain in the country for perpetuity – was adapted to the 1997 Asylum Act.

Taking into account the judicature of Austria's Constitutional Court (VfGH), the exceptional arrangement applying to spouses from third countries and children of Austrian and other EEA nationals was brought into line with EU standards. In the standardised exceptional arrangement, family members of Austrian and EEA nationals from third countries will be entitled to reside in Austria without being required to produce a residence permit as a precondition for gaining free access to the labour market. EU Council Directives 90/364/EEC, 90/365/EEC and 93/96/EEC were also taken into account, and the requirement that the EEA national in question must be in gainful employment was removed since it did not comply with EU rules.

### **New arrangement as regards checking the availability of candidates for vacancies on the labour market and other registration criteria**

#### **(Article 4b of the AuslBG)**

The new arrangement on checking the availability of candidates for vacancies on the labour market (*Arbeitsmarktprüfung*), which follows the current judicature of the Constitutional Court, is intended to simplify the so-called *Ersatzkraftprüfung* (process of checking the availability of replacement candidates for vacancies on the labour market). However, the principle of checking the availability of candidates for vacancies on the labour market in respect of all new permits, including registration of key workers, will continue to apply. By the same token, when checking the availability of candidates for vacancies on the labour market, potential substitution processes and any other effects on benefit entitlements arising from unemployment insurance (unemployment benefit, part-time allowance for older workers etc.) also have to be taken into account.

## **The Netherlands: benefit for sick employees extended to two years**

From 1 January 2004, employers will pay sick workers 70% of their previous wage for two years instead of one. The practical implications of the extension to wage payments will first be felt in 2005. Furthermore, any payment of disablement benefit will be delayed by one year. As laid down in the Autumn Agreement (October 2003), the government expects the social partners not to agree to any additional payment in the second year of illness over and above 70% of the wage, although at present the social partners often include this in collective agreements. However, if workers do receive more than 70% of their wage whilst not working during the second year of illness, under the planned new Disablement Insurance Act (WAO) system they will no longer be eligible for disablement benefit. During the first year of illness, employers are required by law to pay no less than the statutory minimum wage, but this is not the case during the second year of illness. The extension of the continued payment of wages (from one to two years) is expected to lead to a drop in absence through illness and in the number of people applying for benefits, which in turn will result in a reduction in the total costs for employers. The expected

structural reduction of the tax burden is estimated at €300 million.

This is the thrust of the *Wetsvoorstel verlenging loondoorbetaling bij ziekte* (bill on the extension of the payment of wages during illness) adopted by the Dutch parliament in December 2003. This measure was proposed by the government with a view to motivating employers and employees to make every effort to ensure that the employee returns to work.

The law is part of a reform of the Disablement Insurance Act (WAO) announced in the coalition agreement of the second Balkenende government (2003). The main elements of the reform were put to parliament in September 2003. The government would like to implement the other sections of the new work disability system by 1 January 2006 (see the article entitled New Decisions on Employment and Incomes in this EEO Review). As such, the *Wet verlenging loondoorbetaling bij ziekte* had to be ready to enter into force on 1 January 2004. This means that the first group will enter the new work disability system starting in 1 January 2006.

To offset the extension of the payment of workers' wages by employers, the law offers employers a shorter period of contributions towards disablement payments for the so-called 'PEMBA premium', the size of which depends of the number of employees declared unfit for work. The law bases this premium on the first four years of benefits rather than the first five, and also provides for an increase in labour costs for employees during their second year of illness, while work disability premiums will be reduced by 0.35% in 2005 and by 0.7% in 2006. This should, on balance, entail no change in overall expenditure for employers. The law is also expected to help reduce absences due to illness and the number of people applying for benefits by prompting a change in the behaviour of employers and employees. This will result in a reduction in the financial burden on employers of no more than €100 million in 2004 (€300 million in structural terms).

Furthermore, the law will extend the maximum period during which benefits can be paid under the Sickness Act from one to two years. Since 1996, when employers were first required to continue payment of wages in the event of illness, the Sickness Act has served as a safety net for workers who do not or no longer have an employer because their contract has terminated, e.g. flexiworkers and temporary staff. While these employees cannot claim a wage whilst they are ill, they may claim a wage loss benefit (*loondervingsuitkering*) under the Sickness Act.

Moreover, the law also provides for the abolition of subsidies for those employers who help their employees who are sick or partially unfit for work to find a job with another employer. The government believes it is the responsibility of the private sector to help sick employees back to work and cover the associated costs. There are limited transitional provisions applying to employees who have fallen ill prior to 1 January 2004.

## **The Netherlands: Work and Benefits Act in force from 1 January 2004**

The Senate (*Eerste Kamer*) of the Dutch Parliament gave its final approval to the introduction of the Work and Benefits Act in October (see also the previous edition of the EEO Review).

A number of concessions have been made to municipalities in the Act. The budget they will receive to implement the new law by 1 January 2004 has been doubled from €20 million to €40 million. Municipalities must now also spend just 70% (instead of 80%) of their budget on helping people back to work in private companies.

In two years' time it will be ascertained whether the reintegration market can be expected to develop positively the following year (in terms of transparency and fair competition between private and municipal reintegration agencies). If so, municipalities will not need to continue to pay out that amount.

The aim of the Work and Benefits Act is to help people to find work more quickly. To achieve this goal, municipalities are being given greater freedom to customise their approach, along with considerable financial responsibility. Municipalities need to adhere to fewer regulations and considerably fewer reports now need be sent to the government. In addition, municipalities will now receive a budget for benefit payments (benefits budget) and a budget for helping people to find a job (reintegration budget). They are no longer able to claim benefit allowances from the national government. Therefore, it is in the financial interests of the municipality to help as many people as possible to find work and combat benefit fraud.

For the time being, municipalities will need to spend most of the reintegration budget on the private sector. Market forces are expected to help guarantee that value for money is obtained. Municipalities are free to determine which resources to use to help people to find work. Options include training, a wage cost subsidy, mediation by the CWI (Centre for Work and Income) or subsidised employment. The budget for helping benefit recipients back to work may only be used for this purpose.

The national budget for the payment of benefits allowances is set annually based on the estimated number of benefit recipients expected. In so doing, various factors are taken into consideration, including economic development and changes in government policy. Distribution of the benefits budget amongst the municipalities is based partly on a number of objective criteria (such as the number of low-income households in a municipality) and partly on the municipality's spending on benefits in the past. The larger the municipality, the greater the influence of the objective criteria. In addition to the budget, the government will keep an emergency reserve which may be used if a municipality seriously overruns the benefits budget through no fault of its own. If municipalities have any money left over, they are free to choose how to use the surplus.

In an attempt to reduce the number of people caught in the so-called poverty trap, municipalities are no longer allowed to pursue their own income policy by awarding additional benefits (special benefits) to groups of benefit recipients. Special benefits may only be awarded on an individual basis. Exceptions are to be made for the over-65s and for public health insurance. People can fall into the poverty trap if their net income does not increase when they switch from receiving benefit to a job because they are no longer eligible for income-related benefits. An additional annual allowance (€454 for married persons) will be given to people on a minimum income who have had no job for five years and have no prospect of finding work.

Following the debate in the Senate (*Eerste Kamer*), one other group will be temporarily exempt. People with chronic illnesses and people with disabilities will, as a group, continue to receive special benefits until the new care system enters into force in 2006. From that time, an income-dependent care allowance will be provided.

Benefit recipients must agree to do generally accepted work and, if this not possible, to participate in activities designed to make that eventuality possible in the future. Failure to comply with this requirement may affect their benefits. By contrast, the law also states that benefit recipients may request help in finding work.

Whole groups may no longer be exempt from the requirement to apply for work. However, a municipality may make exceptions to

this requirement in individual cases. For single parents with children under 12 years old, the municipalities will need to take account of the wishes of the parents and options for combining work and care when making their decision. For people over 57.5 years of age, social activity (voluntary work or volunteer aid) may provide an alternative if there is no prospect of finding work.

## Portugal: Social integration income

Regulation No. 13/2003 of 21 May was published on 8 November 2003. This regulation revoked the 'guaranteed minimum income' (*rendimento mínimo garantido* – RMG) and created the 'social integration income' (*rendimento social de inserção* – RSI). The need for this change became clear upon assessing five years of practical experience with the RMG. The design of each tool reflects specific and, to some extent, different objectives. For instance, the RMG sought to ensure that individuals and family units were given resources to help them meet their subsistence needs and encourage their gradual social and professional integration; the RSI seeks to provide *support appropriate* to the family situation of individuals and family units in order to meet their subsistence needs so as to encourage their gradual integration into the workforce and society.

The following changes should be pointed out in the new regulation of 8 November (Decree-Law No. 283/2003):

The new regulation encourages the integration of individuals and family units, but does not overlook their social role as a means of support for the most deprived. In addition, the concept of integration – and this is different from the RMG – is described in detail and at the same time includes a greater range of activities. Accordingly, the integration programme's actions (Article 54, point 3) include:

- 1) professional integration actions, such as acceptance of work or vocational training; involvement in employment programmes or other temporary programmes which encourage integration in the job market or which meet social, community and/or environmental needs; fulfilment of vocational guidance and training actions; fulfilment of professional retraining measures; job creation incentives on the individual's behalf or to create his/her own job;
- 2) social actions such as developing activities in connection with social welfare organisations; using social support resources; home help.

Within the RSI we can see, at various levels of intervention, a strong preoccupation with the changes to the characteristics of each family unit or individual. In this respect, increases were added to the subsidies to be granted in the event that the entitled person, the spouse or the person living with entitled person in a de facto union becomes a mother, as well as in the event that there are disabled individuals or individuals suffering from chronic illnesses and who are dependent to a large extent on the entitled person. Provision is also made to increase the subsidy to compensate for expenditure on housing. In other words, a family-support policy underlies the RSI.

The RSI regulation modifies the list of sanctions as well as the tax system in order to eliminate irregular situations.

Lastly, the RSI regulation includes provisions to organise the services involved, regulating their powers so that this employment and social policy tool can actually be useful and effective in developing a fairer and more inclusive society with a greater sense of solidarity.



# WORKING TIME

## Greece: Part-time employment in the public sector in Greece

Despite earlier attempts, part-time employment remains limited in scale in Greece. Given this, the **Government introduced part-time employment in the public sector in the provision of social services**. A recent legislative provision (**Law 3174/2003**) allows public sector institutions to recruit unemployed people on a part-time basis to provide services of a social character. This legislative measure aims at facilitating access to employment for certain groups at risk of unemployment. Within the context of the said Law, there are five key target groups:

- *Unemployed persons registered with the Manpower Employment Organisation (OAED) (35% of all beneficiaries), and especially the long-term unemployed.*
- *Unemployed persons registered with OAED, who are five years from retirement (25% of all beneficiaries):* Apart from the psychological benefits to these individuals of active employment, their reintegration into work would bring numerous social benefits, particularly with regard to their retirement schemes.
- *Young people up to 30 years old (20% of all beneficiaries):* the acquisition and renewal of skills as well as the identification and exploitation of the potential of the labour force depends on the way the entry of young people into the labour market is handled.
- *Women with children 0-12 years of age (10% of all beneficiaries):* the employment of women and particularly those with young children is an objective of strategic significance, both for development and for social reasons. In this context the problem of single-parent families is particularly acute, fully justifying the policy of making them a priority.
- *People with disabilities (10% of all beneficiaries):* the active involvement of disabled individuals would have many positive effects. Emphasis will be placed on the social inclusion and involvement of people with disabilities both in the workplace and the broader social context.

In all the above categories priority will be given to the unemployed by virtue of collective redundancies.

The implementation of part-time employment has already been under way in policy areas such as health, welfare and education.

## The Netherlands: Simplification of the Working Time Act

The number of rules governing night work and the maximum number of hours a person may work needs to be considerably reduced. Separate regulations on overtime will no longer need to be included in the law; it will be sufficient to establish a maximum of 12 working hours per day and 60 hours per week.

These are the proposals in the government paper on simplifying the Working Time Act submitted by Minister for Social Affairs and Employment De Geus to the Second Chamber (lower house) of the Dutch parliament (States General) in December 2003. The government paper is intended to serve as a basis for a parliamentary debate on the simplification of the law.

The proposals are part of the action plan entitled '*Simplifying*

*regulations issued by the Ministry of Social Affairs and Employment*' resulting from the coalition agreement of the first Balkenende government (2002). The government believes the new Working Time Act should merely contain a limited number of basic rules. The simplified law will follow international standards on worker protection. The simplification of the law should consolidate the Netherlands' position on the international labour market.

The government believes the Working Time Act needs to offer employers and employees greater freedom in reaching collective and individual agreements on working hours and rest periods. The Working Time Act should not impose more limitations or contain more rules than those necessary to protect workers' health, safety and well-being.

According to the government, the new Working Time Act should prescribe maximum working hours of 12 hours a day and 60 hours per week. Employees will be allowed to work an average of no more than 48 hours per week over a period of 13 weeks. This will give employers and employees considerable freedom to decide for themselves about the hours worked per day and per week.

At least one 15-minute break will have to be taken during a working day of at least six hours. Employers and workers will be responsible for deciding the practical details, such as the frequency and timing of breaks. Night workers may work no more than 10 hours per shift and the average number of hours per shift over a period of 13 weeks may not exceed 8 hours. Additional regulations currently in force governing the rest period to be taken after one or more night shifts, the maximum number of night shifts during a given period and the maximum number of successive night shifts will no longer apply. Unsociable working hours, such as Sundays and nights, and work in special shifts are only admissible if laid down in a collective agreement with the representative advisory body or individual worker. They must also be necessary owing to the type of work or the company's situation.

Due to international requirements, amongst other things, the weekly rest period must also coincide with the customary day of rest, Sunday, as far as possible. This principle will continue to guide future arrangements.

## Turkey: New legislation increases flexibility

One of the most important criticisms levied against the system of labour market regulation in Turkey was its perceived lack of flexibility compared with other countries. Such criticism related for example to protective employment legislation with regard to severance payments (seniority payment and notice payment), the lack of flexibility with regard to part-time work and temporary work, which were seen to have led to rigid market conditions. This situation has changed with new Labour Law enacted by the Parliament in January 2003.

Greater flexibility was mainly introduced under two headings. One of them is related to so called "atypical work" and the other is related to working time. The main new provisions of the new legislation are outlined below:

### a) Temporary work

Temporary work is seen to occur when the employer temporarily transfers a worker for employment on the condition that it is within the holding or in another business subsidiary to the same group of companies or in employment similar to the worker's current work,

provided that the employer receives the written consent from the worker at the time of transfer.

According to the new legislation such temporary employment cannot exceed a period of six months and can be renewed maximum two times when required.

Because of this restrictions, it is expected that this form of temporary work will not become widely applied.

### ***b) Part-time and working time regulation***

A worker is considered to work part-time if his/her working week is considerably shorter than that of a full time employee.

The law enshrines the principle of equal treatment for part-time workers, unless there is a substantive reason justifying differences in treatment. Salary and benefits are to be granted in proportion to the number of hours worked.

The new regulation of part-time work is particularly intended to stimulate this form of employment among young workers and women. The latter in particular currently have a very low employment rate in Turkey.

### ***c) Temporary and open ended employment contracts***

Temporary contracts concluded between employers and employees need to be grounded in a substantive reason explaining why the work is of a temporary nature. A temporary contract of employment cannot be renewed more than once in succession without substantive reason. In the absence of such grounds, the labour contract is considered to be of an indefinite period.

### ***d) On-call employment***

The legislation allows for contracts to be agreed on a part-time on-call basis.

If the contract does not specify a weekly, monthly or annual working time, weekly employment is deemed to be agreed as twenty hours. The worker is entitled to be paid for the number of hours actually worked.

The employer is entitled to require the worker to fulfill his/her on-call commitment as long as the employee is notified at least four days in advance of the required work, unless otherwise agreed. Unless a daily working period is agreed in the contract, the employer has to employ the worker during at least four consecutive hours for each call.

It is hoped that this new type of employment will make a positive contribution to job creation.

## ***The flexible regulation of work hours***

In many countries, flexible working time has been introduced to meet the needs of employers who experience strong fluctuations in market conditions.

### ***a) Working time***

Maximum working time is set at 45 hours per week. Unless otherwise agreed, this period is achieved by assigning hours equally to each day of the working week.

It is possible to assign different hours to each day of the working week, but daily working time cannot exceed eleven hours per day, upon agreement of the parties. In this case, the average weekly

working hours may not exceed normal weekly working hours during a period of two months. The compensation period may be increased by up to four months by collective agreement.

Previous legislation was more restrictive and provided that daily working time could not exceed 7.5 hours a day where six days work a week are performed.

### ***b) Compensatory work***

If working time temporarily falls substantially below normal work time or ceases completely as a result of force majeure, temporary closure of the workplace prior to or after national festivals or general holidays or due to similar reasons, or the worker goes on leave on his/her request, the employer may effect compensatory work for vacant periods within two months. Such work is not considered as overtime.

Compensatory work may not exceed three hours a day, provided that it does not exceed daily maximum working time. Compensatory work may not be performed during holidays.

### ***c) Overtime pay***

If average weekly working time exceeds 45 hours, provided daily maxima are not breached, these additional hours worked are not considered as overtime.

Any overtime worked is compensated as time and a half.

In cases where weekly working time is determined below forty-five hours through contracts, any hours worked which lie between the contractual maximum and the statutory 45 hour limit are compensated as time and a quarter.

By individual agreement an employee can agree to be compensated by time in lieu rather than pay (e.g. one hour and thirty minutes would be received for each hour of overtime worked). Free time accrued in this manner must be used within six months.

All these new regulations are expected to increase the employment in Turkey. It is currently still too early to assess their impact.

# MISCELLANEOUS

## Ireland: Childcare policy

Historically, the employment rate for women was low in Ireland due to the tendency for women with young children not to remain in employment. Until the mid-1970s, married women were not encouraged to participate in the work force. Indeed, women were obliged to retire from holding many public service positions on marriage. Over the last 20 years, female participation in the Irish labour force has grown dramatically. Cultural changes, improved labour market conditions and rising educational attainment all contributed to the female participation rate increasing by 33% over the Nineties.

In the period 1993-2000, employment grew by an average 4.7% per year with female employment growing on average by 7% compared with a 4% growth rate for men. As a result, the 2002 female employment rates for Ireland (55.2%) and the EU (55.5%) were almost identical. To meet the future demand for labour it is vital that the female employment rate continues to expand. Policies designed to encourage female participation include reviews and reforms of the tax and welfare systems and placing a greater emphasis on flexible working arrangements and a greater provision of childcare services.

### *Current policy*

The Government agreed at the Barcelona Summit to the provision of sufficient childcare places for 90% of children between 3 years of age and the mandatory school age and at least 33% of children under 3 years of age by 2010.

Under the National Development Plan (NDP), the Department of Justice Equality and Law Reform has introduced the 'Equal Opportunities Childcare Programme 2000-2006 (EOCP) to spearhead the development of childcare provision. The total funding that has been made available under the EOCP amounts to €437 million over the lifetime of the NDP (2000-2006). The main objectives of the EOCP are:

- to improve the quality of childcare;
- to maintain and increase the number of childcare facilities and places; and
- to introduce a co-ordinated approach to the delivery of childcare services.

The programme will make available:

- Capital Grants for community based/non-profit organisations towards the establishment, upgrading and enhancement of childcare facilities;
- Grants for community based/non-profit organisations towards the staffing costs of qualified childcare workers in childcare facilities; and
- Capital Grants for self-employed childcare service providers who cater for not more than 20 children at any one time towards the establishment, renovation and upgrading childcare facilities.

It is estimated that the grants to childcare providers and community groups will create almost 27,000 new childcare places and support nearly 26,000 existing places. The quality of existing services is being enhanced and, in many instances, the funding has enabled childcare services to extend their hours of operation to meet the needs of working parents.

County Childcare Committees have been established to advance childcare service provision at a local level with the objective of advancing the provision of quality childcare services in local areas.

In addition to the continued rollout of the EOCP it is hoped that the provision of childcare services will increase by encouraging employers to consider the extent to which they can assist with the childcare needs of their staff.

One of the industrial development Agencies of the State – IDA Ireland – has recently invited tenders from childcare providers for the purchase of sites in a number of its Business Parks to facilitate the creation of quality childcare facilities in order to increase the supply of childcare places for employees of companies located in the Parks and for employees of other local businesses.

The Civil Service has also launched an initiative to provide more childcare places. The Government has allocated €12.7 million capital expenditure to provide for up to 15 Civil Service crèches for the children of people who work in Government Departments. Two crèches have already been established under this initiative and work is under way for the establishment of others.

As can be seen, Ireland has significantly increased investment in childcare in recent years with the objective of creating an infrastructure that will allow for the development of high quality affordable services. This investment will allow working parents to better balance work and family life and help those outside the labour market to participate in the labour force or in education/training. In the medium to long term increased childcare provision could also shorten the length of time that new mothers stay out of the labour market.

### *Recent survey findings*

The Central Statistics Office, through its Quarterly National Household Survey, recently completed a paper on childcare. It found that:

- Over 73,000 families, or 42.5% of all families with pre-school children, regularly rely on non-parental childcare arrangements for minding these children during normal working hours.
- Usage of non-parental childcare facilities is less common for minding primary school-going children, with 67,500 (25.3%) of all families availing of it on a regular basis.
- Couples, where both partners were at work, had the greatest need for regular non-parental childcare facilities.
- Parents who paid for childcare for their children spent on average €97.47 per week on the main type of childcare used. This varied from €79.42 in the Border, Midlands and West region to €118.96 in Dublin.
- Almost 23,000 families relied on unpaid relatives for minding pre-school children on a regular basis, with 31,000 families relying on this source of childcare for school-going children.

The findings of this survey will be considered by policy-makers in the ongoing review of childcare provision for the future.

### *Reform of tax and welfare systems*

Finally, policies aimed at reforming the tax and welfare systems are continually being examined and examples of recent changes include:

*Child Benefit:* Over the past three years the Government has granted major increases in Child Benefit payments. Payments have

more than doubled over this period and currently amount to €131.60 per month for the first and second child and to €165.30 for third and all subsequent children. These increases are intended to enable parents to meet the costs of childcare and to provide them with the option of choosing their preferred form of childcare for their children. The impact of policy on child benefit, insofar as it impacts on childcare provision, is to treat all parents equally regardless of whether they care for their children themselves or engage childcare services.

*Capital Tax Allowances for Childcare Providers:* In 1999, the Government introduced capital tax allowances for childcare providers and employers who are involved in the provision of childcare facilities. A benefit-in-kind exemption is also available when an employer is involved in supplying subsidised or free childcare for their employees.

## The Netherlands: New choices regarding employment and incomes

The Netherlands is about to make some far-reaching decisions on employment and incomes, according to the 2004 budget drawn up by Minister De Geus and Secretary of State for Social Affairs and Employment Mark Rutte. Social security regulations are being invoked more than ever before and people are being written off too quickly. As a result, an urgent overhaul of the Disablement Insurance Act (WAO) and benefits is also required. The Government believes greater emphasis should be placed on looking at what a person is still capable of doing instead of focusing on what they can no longer manage. De Geus and Rutte believe this is important for both social and economic reasons.

In an effort to maintain the level of public handouts, the ministers are seeking to increase the size of the active population. In the budget, they state that anyone who is able to work should do their bit. A policy designed to get more people working can only succeed if there is sufficient growth in job opportunities. The ministers believe this underlines the need for wage restraint.

The ministers set five priorities for 2004 to:

- create a new system for dealing with incapacity for work (WAO);
- help more people who are currently on benefit get back into work;
- reverse the expected downward trend in the proportion of older people in work;
- provide better opportunities for combining work and care; and
- reduce administrative charges on businesses.

Measurable objectives have been set for these priorities.

### *Socio-economic policy*

The current economic downturn is the worst experienced by the Netherlands for some years, and it has affected the Netherlands more deeply than its neighbours. The low growth rates are closely connected to the high pay increases awarded in past years. This had a negative impact on the competitiveness of the Netherlands. Poor economic growth has led to a rapid rise in unemployment. According to Statistics Netherlands, on average 400,000 people were unemployed between April and June 2003. Statistics Netherlands expects this figure to rise further in 2004 to 540,000. According to estimates, the number of people drawing unemployment or social security benefits is set to rise from 665,000 this year to 780,000 next year.

2003 saw the first drop in employment for some time. This decrease mainly affected young people. In 2002, 78,000 young people between the ages of 15 and 25 were jobless (8.7%). By the second quarter of 2003, this figure had risen to over 100,000.

### *Wage trends*

It is essential to lower labour costs. The ministers maintain that the social partners have a key role to play here. It is their responsibility to exercise long-term wage restraint and pave the way for viable pensions. The content of pension schemes can be adapted to discourage further rises in pension premiums. Moderate pension premiums help to reduce labour costs.

Pay and benefits in the public sector are being held in check. The government is also strongly urging the private sector to opt for wage restraints and thereby bring a solidarity-based joint trend in income within reach.

### *New incapacity for work system*

According to the ministers who wrote the budget, sweeping changes to the incapacity insurance system are unavoidable if the growth in number of people declared unfit for work is to be halted. The key is not to provide insurance against *incapacity* for work, but rather to activate people's capacity for work. The new system, to be introduced in 2006, will aim to do just that, stemming the flow of long-term, fully incapacitated people to a maximum of 25,000 per year in 2007.

Any person who is genuinely no longer able to work will receive a permanent guaranteed income of 70% of the last wage they earned. This will apply to long-term, fully incapacitated people. For people who are partially unfit for work, the so-called *Resumption of work for the partially incapacitated* regulation will apply. Those who are less than 35% unfit for work will continue to work for their employer. Financial incentives will be provided for employers to encourage them to hire or retain people who are partially incapacitated.

By 1 July 2004 the government intends to tighten up the rules for assessing whether someone is capable of continuing to work despite their limitations and how much they can earn in so doing (the so-called 'assessment decree'). The National Institute for Social Security (UWV) will apply the new rules when assessing new recipients of benefits under the Disablement Insurance Act (WAO) and when reassessing people who are already entitled to incapacity benefit.

Reducing work incapacity begins with the prevention of absence due to illness. De Geus and Rutte, the two ministers responsible for the budget, see occupational health and safety agreements as an important weapon in this fight. The second series of covenants on this will take effect in 2004 in around 20 high-risk sectors. These covenants are reached between employers, employees and the authorities, and are designed to reduce absence due to illness and lower the number of additional people declared unfit for work by at least 20% in comparison with 2002.

### *Unemployment Act (WW) designed to get more people to work*

The ministers also highlight the need for the Unemployment Act to encourage more people to work. In future, anyone wishing to claim

unemployment benefit will need to have worked 39 of the previous 52 weeks (the current requirement is 26 of the last 39 weeks). Under the present system, people who meet the 'weeks-worked requirement' alone receive short-term benefits. However, this benefit is to be discontinued under the new system and, to receive unemployment benefit, people will need to meet the 'weeks-worked requirement' and also to have worked for at least four of the past five years. Furthermore, the government is shortening the maximum period for the receipt of unemployment benefit by abolishing 'follow-up benefit'. Follow-up benefit is paid once payment of the benefit based on the last wage earned is discontinued. This measure does not apply to people made redundant prior to 11 August 2003. Some supplements paid by previous employers on unemployment benefits will be deducted from the benefit paid out. These measures will encourage people to return to work more quickly and will limit expenditure on unemployment. The ministers have announced that they are to issue an exploratory memorandum on the future viability of unemployment regulations.

### **Reintegration**

The new *Work and Benefits Act* was introduced on 1 January 2004, allocating municipalities a budget for the payment of welfare benefits and a budget to help people get back to work. Municipalities are being given full financial responsibility for implementing the policy and also greater freedom to decide on their approach to policy on reintegration. If, due to the success of their reintegration policy, municipalities have any funds left over from their benefits budget, they may use it as they see fit. The aim is to motivate municipalities to focus on reintegration in order to reduce the number of recipients of benefits.

The ministers responsible for social affairs and employment have concluded performance-related agreements with the National Institute for Social Security (UWV) on helping disabled job seekers and unemployed people to find work. These agreements cover rapid initiation of the reintegration programme, set the period within which a reintegration course needs to be offered, and stipulate the percentage of cases in which the efforts made must lead to a long-term job. Thus, 95% of people on unemployment benefit should be offered a reintegration programme within 12 months. Half of these programmes must lead to a job lasting longer than six months. Those who fail to do their bit with respect to reintegration will see their benefits cut.

€225 million will be saved by abolishing employers' subsidies for reintegration programmes during the first and second years of illness. This is in line with the government's plan to make employers fully responsible for helping employees to work during the first two years of illness. The government will also be cutting the costs of implementation.

The aim is for 25% more people to have regular employment after completing a reintegration programme by 2007. Reintegration agencies began to be paid on a commission basis back in 2003. Greater use will be made of market forces when putting courses out to tender.

### **Combating youth unemployment**

The government is seeking to ensure that the percentage of young people in unemployment between 2003 and 2007 does not exceed double the overall unemployment rate. In light of economic forecasts, this would mean limiting youth unemployment to

between 10 and 15%. This figure applies to unemployment among young people aged 15 to 22, excluding students and schoolchildren. The objective is for every unemployed young person to start or return to work and/or school within half a year. Locally, employers, employees, municipalities, educational establishments and other interested parties are reaching agreements on preventing long-term unemployment among young people. A taskforce has been set up to offer them support.

The ministers want to ensure that 40,000 new jobs are created in the public sector and business during its present term of office. Young people are also being reminded of their own responsibility. Furthermore, De Geus and Rutte are offering tax incentives to enable employers to train workers who were previously unemployed until they obtain a so-called basic qualification. This scheme also applies to young people.

### **More older people at work**

The two ministers are aiming to reverse the expected downward trend in work amongst older people (55 to 64 years old) by no later than 2007 and turn it into an upward trend, and are introducing a whole raft of measures to achieve this. To make stopping work less attractive for older workers, the government intends to abolish the present tax incentives concerning early retirement and pre-pension schemes. From 2004, older workers who become unemployed will once again need to apply for work, beginning with those people who have recent work experience.

### **Work, care and equal opportunities**

The aim of the work and care policy is to reduce the gap between the desired combination of work and care and the actual situation by 25% by 2007. Efforts are underway to develop a 'career development savings scheme' (*levensloopregeling*) to make it easier for workers to bridge periods of unpaid leave financially. The new scheme will be based on the existing one, but provide for a wider variety of possibilities. Workers will be entitled to sign up to the scheme. The employer needs to be consulted when leave is taken unless the worker is legally entitled to it, e.g. as with parental leave. Employees may save a maximum of 12% of their gross income each year, the maximum amount being increased from an amount equal to their annual salary to one-and-a-half times that amount. The so-called fiscal return scheme (*omkeerregeling*) applies: i.e. tax only needs to be paid on the assets if the employee withdraws it. The employee may use the money for any type of leave. Employees may also use it to switch to part-time work two years prior to retirement, provided that they continue to work at least half of their usual working hours. The scheme provides for the possibility of offering a career development savings account (via banks) or career development insurance (*levensloopverzekering*) (via insurers). Insurers still need to flesh out the details of the insurance products to be offered.

In the area of childcare, the government would like to see more than 182,500 places provided in 2004, 10,000 more than in 2002. A specific payment will enable municipalities to maintain the present number of subsidised places. Under the new *Childcare (Basic Provision) Act*, parents will receive a contribution towards the cost of their chosen childcare option from 2005. An additional €100 million per year will also be available for childcare from 2005. In the run-up to the introduction of the new law, the government is extending tax deductions for employers who offer childcare to workers during the transition year (2004).

The ministers are using covenants with regional partners – including companies, municipalities and Centres for Work and Income – to reach agreements on helping women who return to work to find a job. 50,000 women returning to work should be helped to find paid employment in 2005. The aim is to increase the percentage of women in work to 65% by 2010.

The priorities of the government's equal opportunities policy include improving women's safety, encouraging more women to work and be financially independent, and promoting participation by women in decision-making and management. A special commission has been set up to enable more women from ethnic minorities to join the workforce. A plan is also in the pipeline to tackle equal opportunities for, and the integration of, foreign women.

## The Netherlands: Performance-related agreements applicable to work and income implementing agencies

In autumn 2003, work and income implementing agencies – in particular CWIs (Centres for Work and Income), the National Institute for Social Security (UWV) and the SVB (Social Insurance Bank) – submitted their annual plans for 2004 and their longer-term plans for 2005-2008 to the ministers at the Ministry of Social Affairs and Employment in accordance with the SUWI Act (Work and Income Implementation Structure Act). On 28 November 2003 the cabinet members then presented their opinion on the content of these plans in a letter to parliament. In that letter, they also assessed the implementation of the SUWI Act at the end of the third quarter of 2003. Below is a summary of the letter's contents.

### Implementation by SUWI agencies in 2004

The SUWI Act was introduced in 2002 to improve the structure of work and income implementation. The law focused on 'work rather than benefits', customer-orientation and efficiency. The annual plans for SUWI agencies serve as an important indicator of the progress made towards full implementation of the SUWI Act, since in the plans the agencies list their aims, what they need to achieve these aims, and the costs involved.

The ministers responsible for social affairs and employment believe that the annual plans for 2004 from the SUWI agencies contain the right package of plans and activities needed to raise the quality of implementation in 2004. At the same time, they were generally also satisfied with the way in which the organisations in question had worked within the set frameworks. Where improvements were needed, this was pointed out to the organisation in question. Therefore, the decision was taken to approve the annual plans for 2004 and accompanying budgets and fix corresponding budgets.

In 2004, the planning and monitoring cycle for SUWI agencies will use performance indicators for the first time, i.e. a cycle from 'annual plan 2004' to 'responsibility for 2004'. Performance-based indicators will be used as a starting point for work in 2003, whilst the aim for 2004 was – and still is – to provide guidance in the form of a comprehensive set of performance indicators. The accompanying standards needed to be both ambitious and realistic.

Since January 2003, the Ministry of Social Affairs and Employment has worked constructively with CWIs, the National Institute for Social Security (UWV) and the SVB – each within the scope of its own responsibility – to develop a set of performance indicators.

Clear SUWI-related results in the form of performance indicators have now been agreed. The performance indicators will also play a central role in administrative responsibility for the performance of SUWI organisations in quarterly reports and the 2004 annual report. Indicators should be both quantitative and qualitative. The sets of performance indicators will be optimised in future years. It is important to understand that the set of performance indicators and connected standards form a dynamic unit, which will be adapted where necessary and desirable.

### Work rather than benefits

The most important aim of the SUWI Act is 'work rather than benefits'. This is being achieved via the activities undertaken by various SUWI organisations as part of their 'primary process'. In this primary process, the need for co-operation with various partners in the chain needs to be taken into consideration. Since the SUWI Act was introduced, the different partners in the chain have largely focused on 'putting their own house in order'. However, SUWI agencies are increasingly shifting their main priority away from their internal transformation to co-operation with other partners in the chain in an attempt to ensure that their customers find (new) work.

When we look at the activities that SUWI organisations are going to undertake in their own work process, a number of points stand out. In its annual plan, the National Institute for Social Security (UWV) provides a clear summary of the aims of the National Institute for Social Security in 2004 in the context of 'work rather than benefits' and what needs to be stressed in this regard during implementation. This includes:

- changes to working practices concerning the reassessment of those unfit to work under the Disablement Insurance Act (WAO);
- extra measures to prevent an increase in the number of young women applying for benefits under the Disablement Insurance Act (WAO);
- getting long-term recipients of disablement benefits back to work, and the 'work rather than benefits' project;
- improving support for sick unemployed people and sick flexiworkers;
- structuring AG and Unemployment Act (WW) customer management;
- nationwide introduction of the reintegration hotline and 'second chance reintegration course'; and
- implementing the final approach using tailor-made work practices.

The CWI also makes it clear that 'work rather than benefits' is its central aim. This can be seen, amongst other areas, in:

- the intensified services provided for employers;
- the encouragement of self-employment via the creation of *werk.nl*;
- a tailor-made approach to services for job seekers;
- an approach to youth unemployment and also the Autumn Agreement concluded with the social partners; and
- various moves to simplify the 'phasing' of customers from their application for benefit to the data transfer.

In the annual plans for 2004, strong emphasis is placed on mutual co-operation. The various partners in the SUWI chain are increasingly consulting one another. The entry into force of the Work and Benefits Act (WWB) on 1 January 2004 will make solid co-operation along the chain even more important. Of course, this

is no end in itself. However, it is important for sharing opinions and listening to others. Amongst other benefits, this will lay the foundation for a more efficient and effective exchange of data for joint use and/or reporting white-collar fraud.

Maintenance is an important aspect for all SUWI agencies and is a key task for these organisations. As such, they also give sufficient consideration in the primary process both to the implementation of rules by interested parties and to combating fraud. The authorities, the basis of social security and community interests, are intensifying anti-fraud measures and developing a joint approach to implementation by the SUWI agencies.

### **Customer orientation**

In addition to 'work rather than benefits', customer orientation is another aim of the SUWI Act, whereby the customer is to take centre stage in implementation. Resources for meeting this objective include initiatives that are better tailored to taking account of the individual wishes and needs of the customer, more active involvement in the reintegration process, the provision of sufficient information and enabling participation through 'customer councils'. The plans from the SUWI agencies highlight this more intense focus on the customer.

### **Efficiency**

Co-operation in the chain also requires interfaces between the activities of the various implementation organisations. If the chain partners work well together and ICT is improved, these processes will become maximally efficient. A process is also under way to improve the efficiency of individual implementing agencies.

## **Latvia: Improvement of the business environment**

Small and medium-sized enterprises (SMEs) in Latvia, like everywhere else in the world, are the basis of the economy, being a significant source of jobs and entrepreneurial ideas. There were more than 42 thousand economically active enterprises in 2002 or 99% of the total number of enterprises in Latvia. The basic indicator of business activity is the number of economically active SMEs per 1000 residents. In Latvia according to the newest estimates this indicator is 18.3. To compare: the average in the European Union fluctuates between 40 and 60. Therefore, business activity in Latvia has not yet reached sufficiently high levels and there is still potential for growth and job creation in the coming years.

A favourable business environment is an important factor for creation of more and better jobs. The low number of entrepreneurs and self-employed workers in Latvia is the reason to facilitate the start-ups of new enterprises and self-employment. Targeted work at the improvement of business environment is carried out introducing requirements of *acquis communautaire* and implementing the *Action Plan to Improve Business Environment*. The *Action Plan* has assisted a considerable improvement of the entrepreneurial environment by lessening administrative obstacles, streamlining tax administration, customs and border crossing procedures, providing wider access to information and better protection of investors. The new *Action Plan* contains the most important recommendations of the Foreign Investors Council in Latvia. They refer to such areas as fighting corruption, state and municipal purchases, judicial powers and corporate law.

The government is planning a further reduction of the tax burden on businesses in accordance with amendments to the Law on Corporate Income Tax 2002, which foresee a gradual reduction of the tax rate from 25% to 15% (22% in 2002, 19% in 2003 and 15% in 2004).

*The Development Programme of Small and Medium-Sized Enterprises of Latvia 2003-2006* is being worked out. One of the most important tasks at present is the streamlining of the complicated and until now poorly co-ordinated system of state support funds. *The Mortgage and Land Bank of Latvia* has an important place in the system of state support. The programme of crediting Latvian SMEs is implemented through this bank. In 2000-2002 the Mortgage and Land Bank of Latvia received state guarantees to support SME projects for the amount of 10 million LVL. In October 2002 the Cabinet of Ministers passed the decision on further development of the SME crediting programme for the next three years (second phase) and provided state guarantees to the bank in the amount of 20 million LVL.

The *Latvian Guarantee Agency (LGA)* might also become an efficient mechanism of SME support. In 2003 the agency was to receive 250 thousand LVL of state budget funds to support its work. Having the aim to perfect the state business environment and to shape the SME support policy in line with the best practice of the EU Member States, Latvia also participates in the EU SME support activities. On 23 April 2002, by signing the Maribor Declaration in Slovenia, Latvia together with other EU accession countries joined the European Charter of Small Enterprises. In September 2002 Latvia submitted the report on implementation of the Charter to the EU Commission which contained information of support activities to implement basic ideas of the charter carried out by different ministries, state support institutions, NGOs, etc. To implement the Charter of Small Enterprises, the EU Commission made a decision in December 2000 on the Multi-Annual programme for Enterprises and Business, especially for SME 2001-2005 implementation. Following the example of the EU Member States and accession countries in September 2002, the Minister of Economics signed the Memorandum of Understanding on participation of Latvia in this EU programme.

The main financial instrument of the EU Multi-Annual programme is the European Investment Fund (EIF), which is a co-operation partner for the EU Member States and candidate countries, in the area of providing guarantees for project implementation linked with drawing risk capital. In March 2003 the EIF also started to study potential partner institutions in Latvia to realise further co-operation.

It is important to ensure the access to financial support from the EU Structural Funds to the Latvian SMEs. These funds will be available to Latvia after accession to the EU. As a consequence of Latvia's strategy of changing the labour-based economy to a knowledge-based economy, it is necessary to promote innovations, to encourage the development of knowledge-based engineering and technological industries and to strengthen the links between education, science and entrepreneurship. Under these conditions, as well as taking into account that enterprises have to operate in the conditions of globalisation, the accessibility of training and counselling is of special importance. All these aspects are included into the Development Plan 2004-2006 (Draft Single Programming Document). The special measures in the area of job creation and entrepreneurship are set out within the National Employment Plan 2003 of Latvia as well.

## Poland: Professional Activation in Rural Areas

A programme focusing on the Professional Activation in Rural Areas (PARAP) is implemented on the basis of an agreement signed between the Government of the Republic of Poland and the International Bank for Reconstruction and Development (the World Bank). The following are among its main objectives: private sector development, human resources development, increased employment outside agriculture, improvement of education standards in rural areas, reinforcement of local and regional administration authorities, rural infrastructure development.

The Ministry of Economy, Labour and Social Policy is responsible for the co-ordination of the implementation of two components of this programme: 'Microloans' and the 'Reorientation/ retraining programme'.

The 'Microloans' programme provides one-off subsidies for fixed assets purchases and advisory as well as training within the area of conducting individual non-agricultural economic activity. This component is implemented in rural communes, rural-urban communes and towns with a population of a maximum of 20 thousand inhabitants: Zachodniopomorskie and Małopolskie and Kujawsko, Pomorskie, Warmińsko, Mazurskim and Podkarpackie. It is directed at the unemployed, graduates, farmers running agricultural estates of less than 10 accounting hectares, as well as persons starting or running non-agricultural economic activity. This programme was launched in January 2003 and will be continued until the end of May 2004. As of the end of August 2003, 1242 microloans were granted to the approximate amount of PLN 15 million (EUR 3.3 million) (90% of the total number envisaged for granting until the end of the third quarter of programme execution).

The objective of the Reorientation/ Retraining Programme (R/RP) is to support economic growth, increase the income and professional activation of the inhabitants of rural areas through the provision of assistance in enhancing and utilising their professional potential.

The following types of activities are financed under the R/RP: active forms of countering unemployment (employment-related services – employment intermediation, training, temporary employment); support of small business development (business support centres, business incubators); creation of local development plans geared towards the development of small business and creation of new jobs.

The programme beneficiaries are persons of low economic status, the unemployed, persons during the notice period of their employment contracts, persons whose only source of income is an agricultural estate of less than 3 accounting hectares, youth living in households with the above-mentioned persons. These persons must reside in rural communes, urban-rural communes or towns of up to 20 thousand inhabitants.

Implementation of the R/RP commenced on 1 October, 2001 and will be continued until the end of 2004. Until 31 August, 2003 the Labour Offices concluded over 1400 agreements, under which all types of services were provided to more than 56,700 persons.



# QUALITY IN WORK: A PRIORITY FOR EUROPEAN EMPLOYMENT POLICY?

The promotion of quality in work has assumed a central role in the European Union's Employment Strategy. In fact, along with full employment and social cohesion, improving quality and productivity in work is one of the three overarching objectives in the Employment Guidelines of the European Employment Strategy (EES) for the period 2003-2005.<sup>1</sup> However, although the pursuit of quality in work is generally acknowledged to be a worthy objective, its importance as a policy goal in individual countries is not recognised everywhere. Several states – including Germany, Austria and several of the countries of eastern and central Europe – have placed far more emphasis on creating jobs rather than on some of the ten dimensions of quality to which the European Commission has drawn attention.

This article draws upon individual pieces on quality in work from all 29 countries that contribute to the work of the European Employment Observatory – the EU-25, Bulgaria, Romania, Turkey and Norway. The article identifies similarities and differences between countries in three broadly defined areas – skills development and lifelong learning; organisation of work and work-life balance; and quality and an inclusive labour market – and examines whether quality in work has an effect on overall work performance. This synthesis article also looks critically at the notion of quality in work, as the European Commission and the Council have defined it

The article is divided into several parts:

- definition of quality in work;
- the importance of quality in work;
- skills development and lifelong learning;
- organisation of work and work-life balance;
- quality and an inclusive labour market; and
- the impact of quality on overall work performance.

## ***Definition of quality in work***

Quality is a multi-dimensional, or multi-faceted, concept and it depends on a number of components that interact with one another.<sup>2</sup> Quality in work cannot be expressed in a simple, concise phrase. In its Communication “*Employment and social policies: a framework for investing in quality*”<sup>3</sup>, the European Commission defined quality in work with the help of ten “dimensions”. These dimensions are:

1. Intrinsic job quality
2. Skills, lifelong learning and career development
3. Gender equality

4. Health and safety at work
5. Flexibility and security
6. Inclusion and access to the labour market
7. Work organisation and work-life balance
8. Social dialogue and worker involvement
9. Diversity and non-discrimination
10. Overall work performance

The relevance of these ten dimensions to quality in work is challenged in a number of the national articles. In particular, there is a line of argument, evident in both the UK and Belgian articles, that questions the broad way in which quality has been defined. For instance, an important difference between the UK approach and that adopted by the Commission is that the latter has gradually broadened the notion of “quality in work” beyond simple notions of intrinsic job quality – including working conditions, pay, skills and productivity – to embrace others such as access to jobs, equality, diversity and social dialogue – and has lost its original narrower meaning relating to “good jobs”.<sup>4</sup>

Moreover, in some countries there are other factors left out of the Commission's ten dimensions, often relating to the structure of the economy or labour market, that are relevant to the idea of quality of work. Different countries confront challenges that are unique to their particular circumstances. For example, Italy and Latvia have large informal economies. Similarly, some countries, like Turkey and Romania, have a large proportion of their workforce concentrated in small-scale agriculture, which may have an impact on “quality”. For instance, one third of the Turkish workforce is employed in agriculture, many of whom are women.<sup>5</sup> It is likely that many of these people are in a precarious position, lacking formal training and genuinely secure employment.

The articles therefore confirm the conclusion of the Joint Employment Report 2003-2004 of the European Commission and the Council that only few Member States attempt to address each individual dimension of quality in a comprehensive approach. Rather, each Member State identifies its own specific *critical dimensions as a priority for action*. For example, the balance between flexibility and security and gender equality are highlighted as key issues in Italy, Spain, Greece and Portugal. Training is highlighted in Portugal and Spain, as well as in Member States with high levels of productivity (Denmark, France, Finland, and Sweden). Health and safety emerges as an important priority in many countries, with five (Denmark, Greece, France, Portugal and the UK) having set targets for the reduction of accidents. Working time, which is only indirectly covered by the ten dimensions, is also mentioned as an issue (Belgium, Luxembourg and Finland).

Finally, a number of contributions challenge the indicators employed in the Commission Communication to assess quality in work. For example, the level of training received in employment could be seen as an indicator of competence deficiencies among staff rather than job quality. Similarly the level of part-time employment among women could be an indication of the lack of affordable, high-quality childcare facilities rather than of flexible employment practices. Such views highlight the need for detailed analysis in order to understand general trends.

<sup>1</sup> Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, *Improving quality in work: a review of recent progress*. Brussels, 26.11.2003. COM(2003) 728 final, p.3.

<sup>2</sup> COM(2003) 728 final, p.3.

<sup>3</sup> “Employment and social policies: a framework for investing in quality”, Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, COM(2001) 313 final, 20.06.2001

<sup>4</sup> SYSDem United Kingdom Report on Quality in Work

<sup>5</sup> SYSDem Turkey Report on the Current Labour Market Situation

## ***The importance of quality in work***

The European Employment Strategy views quality in work as a factor that contributes to increased labour productivity, social inclusion and cohesion. It is argued that quality in work leads to increased investment in human capital and training and to a more motivated workforce.<sup>6</sup> Quality in work is also seen to enhance the integration of groups that are in some way “excluded” from the labour market – and, more generally, from society – by providing them with a job that enhances their ability to stay in work, avoiding long periods of unemployment. For example, social exclusion is often linked to people being trapped in prolonged bouts of unemployment, punctuated by periods of temporary or part-time low-paid employment. There is a positive link between overall employment performance and job quality. Those people who move from unemployment to jobs of low quality – particularly jobs without training opportunities – often remain at high risk of becoming unemployed again. Almost a third of these workers are unemployed again a year later, in comparison to around ten per cent of those in jobs of high quality.<sup>7</sup>

The value of quality in work is generally acknowledged in the articles on the subject from the 29 countries. For example, Denmark is often viewed as a country with high standards of quality in work. The International Labour Organisation (ILO) has used it as an example of a country that combines successful integration into the global economy with high living and working standards, with the high working standards seen as both a cause and consequence of economic growth and social development.<sup>8</sup> Positive interplay between quality in work, productivity, economic growth and social well-being is also emphasised on several occasions in the Danish National Action Plans for Employment (NAPs).

However, it would not be true to say that all countries have placed a great deal of *explicit* emphasis in their labour market policies on the idea of quality of work.<sup>9</sup> In several of the existing Member States of the European Union – including Germany, Sweden and Austria – there has been a greater focus on the *quantity*, rather than the *quality*, of jobs. With slow, or negative, economic growth and rising unemployment, the pursuit of quality in work has slipped into the background. In Germany, for instance, there is almost a reversal of the thinking behind the Commission’s drive for quality in work.

*“...talk is focused on the creation of jobs. Good working conditions – including appropriate wages – are even partly seen as a barrier to employment.”<sup>10</sup>*

In the countries of central and eastern Europe, job creation has also assumed greater importance than the pursuit of quality in work. The qualitative element remains in the background, as many of these countries are still afflicted by high levels of unemployment.

In Sweden the priority given to the quality of work would appear to have declined somewhat in the last 15 years. Previously, the vision of high quality in work (*det goda arbetet*) was clearly apparent in both government and trade union circles. It is likely that the lower priority given to this issue is related to massive job losses in the 1990s. Policy efforts have shifted perspective from how to improve

job quality in a full-employment society towards how to improve job creation.<sup>11</sup>

In other countries, there is little *explicit* focus on quality in work – though the pursuit of quality may be *implicit* in other policies. In Ireland, while it has been demonstrated that many relevant initiatives, with Government support or otherwise, have been pursued, quality in work has not been promoted as a single identifiable policy issue, nor has it been the subject of a focused debate.<sup>12</sup>

In the following sections and for the purpose of providing an overview, nine of the ten dimensions of quality in work identified in the Commission’s report are examined under four broad headings: first, intrinsic job quality; second, skills development and lifelong learning; third, organisation of work and work-life balance; and fourth, quality and an inclusive labour market. It is acknowledged that these four headings represent a rather artificial barrier to any real understanding of quality in work, since the dimensions tend to interact with one another. However, the four-fold categorisation is used for the sake of brevity.

## ***Intrinsic job quality***

*Job satisfaction* is seen as an indicator of intrinsic job quality. In the year 2000 in the EU as a whole, around 20 per cent of all employees declared themselves dissatisfied with their job. Relatively high dissatisfaction in Greece, Italy, Spain and the UK contrasts with very high shares (90 per cent or more) of satisfied employees in Denmark, France, Ireland, the Netherlands and, most notably, Austria. It is also apparent that levels of dissatisfaction seem to be rising, most notably in Germany, Italy and the UK. It may, however, be mistaken to assume that satisfaction is linked to the “quality” of the job: in the UK, the finding that low-paid workers have higher job satisfaction than higher-paid workers casts doubt on the notion that there are “good jobs” and “bad jobs”.<sup>13</sup>

For *transitions* between non-employment and employment and within employment by pay level, between 1999 and 2000 more than half of employees in the lowest earnings decile in the EU remained at the same level, while a quarter improved their relative situation and the rest moved into unemployment. In Finland, Denmark, Ireland, Spain and Portugal more than 30 per cent of the employees in the lowest earnings decile improved their relative earnings position. In the Accession States, there is evidence that simply having a job is a source of some satisfaction for many workers. In Slovakia, a recent survey has revealed that having a job is the highest priority for the young generation and unemployment is their greatest fear.<sup>14</sup>

## ***Skills development and lifelong learning***

*Skills, lifelong learning and career development* is an area in which there has generally been good progress in the existing EU Member States, though there is still a considerable gap between the best and worst performers. In Finland, for instance, as many as 18.9 per cent

<sup>6</sup> COM(2003) 728 (final)

<sup>7</sup> COM(2003) 728 (final)

<sup>8</sup> SYSDEN Denmark Report on Quality in Work

<sup>9</sup> The JER 2003-04 noted (in the footnote 4) that quality in work was not explicitly discussed in the 2003 for a significant group of countries

<sup>10</sup> System Germany Report on Quality in Work

<sup>11</sup> SYSDEN Sweden Report on Quality in Work

<sup>12</sup> SYSDEN Ireland Report on Quality in Work

<sup>13</sup> SYSDEN United Kingdom Report on Quality in Work

<sup>14</sup> SYSDEN Slovakia Report on the Current Labour Market Situation

of the working-age population participated in adult education and training in 2000. By contrast, in Greece only 1.2 per cent of people aged 25-64 participated in education and training in 2002, compared to an average of 8.5 per cent for EU-15. Several countries, including Portugal, Italy and Ireland, are taking active steps to increase participation in lifelong learning. Portugal drew up a specific strategy in 2001 to promote this goal, while the Basic Education Law will contribute to the integration of mainstream education and vocational training. A similar trend is apparent in Italy. In 2003, reforms were implemented with the aim of reshaping the entire education system. After completing lower secondary school, students can now choose to continue their education in either secondary school or in the professional training system. The two pathways are given equal weight. The aim is to ensure that all young people get either a secondary school certificate or a professional qualification before entering the labour market.<sup>15</sup>

The most important task is to ensure that everyone has access to training, since there are particular groups – such as the low skilled, older workers, people on temporary contracts or part-time workers, and workers in small firms – who are less likely to participate in training. Where people belonging to these groups are either unemployed or in danger of becoming unemployed, active labour market policies or policies encouraging training for employees are common. In the UK, for instance, the government is trying to increase the level of employer-sponsored and job-related training. The Employer Training Pilots, which provide financial compensation to employers who grant their staff time off for job-related training at NVQ level 2 (intermediate level), have recently been expanded following a broadly positive evaluation of their early impact.<sup>16</sup>

The proportion of people participating in education and training in the countries of central and eastern Europe is generally lower than in the existing EU. For the adult population (25 – 64 years), the proportion of people in formal education and training is 6 per cent in the Czech Republic, 3.3 per cent in Hungary and 4.3 per cent in Poland – although these figures are all lower than the EU average (8.5 per cent).<sup>17</sup> In the countries of central and eastern Europe, the educational level of the workforce is improving, though there is a need to increase the share of highly qualified labour with the skills required by high-technology, high value-added industries.<sup>18</sup> However, the countries of the region are often afflicted by the existence of a large pool of long-term unemployed or economically inactive people, many of whom are concentrated in under-developed regions.

It might also be worth questioning whether measuring the share of people of working age participating in education and training is a completely valid indicator of quality in work. In the UK, the high participation rate may be indicative of relatively low levels of workforce quality rather than high job quality, as employers and employees themselves seek to make up for gaps and deficiencies that have been seen as one of the primary factors behind the UK's low productivity rates.

### **Organisation of work and work-life balance**

This area covers four of the ten dimensions of quality in work identified by the European Commission: health and safety,

flexibility and security, work organisation and work-life balance, and social dialogue and worker involvement.

*Health and safety in the workplace* is an area where there have been considerable improvements in recent years. The incidence rate (defined as the number of accidents at work per 100,000 people in employment) fell between 1994 and 2000. In fact, some countries have set quantitative targets, including Denmark, Greece, France, Portugal and the UK. This is an area in which a large number of factors are at play. For instance, in Germany the downward trend in workplace accidents is attributable to, amongst other things, structural change in the economy, with the decline in heavy industries that place a severe physical strain on workers; improved preventive measures in companies; and lower numbers of old people with health problems in the workplace. However, with the decline of heavy industries, new challenges to health in the workplace have emerged, such as stress, mental illnesses and repetitive strain disorders. In Ireland, for example, between 1997 and 2003 the percentage of men suffering from non-physical ailments rose from 4.7 per cent to 8.8 per cent and for women from 7.9 per cent to 14 per cent.

Measures have been taken in several Member States to reduce accidents in the workplace. In France, dramatic events – like the explosion of the ASF factory in Toulouse – have mobilised public opinion in favour of such an approach. A national strategy for 2003-2006 has been drafted and an agreement between the social partners has seen the creation of Regional Observatories for Health in the Workplace. Similarly, Finland is implementing a medium-term action programme, “Prioritising occupational safety - occupational accident prevention programme 2001-2005”, to reduce the number and seriousness of occupational accidents in Finland.<sup>19</sup>

It is questionable whether the amount of sick leave taken by workers provides an accurate measurement of quality in work. There is a suggestion that absence through sickness in Sweden and Germany is a largely *cyclical* phenomenon. When unemployment is high, absence is low and *vice versa*. During Sweden's recession of the early to mid-1990s, workers were reluctant to be absent from work due to a fear of losing their jobs. When the labour market recovered, they became more prone to take leave.<sup>20</sup>

*Flexibility* refers to factors such as work organisation, working time, contractual arrangements and national or regional mobility; *security* refers to an individual's ability to remain and progress on the labour market. It includes decent pay, access to lifelong learning, good working conditions, appropriate protection against discrimination or unfair dismissal, support in the case of job loss and the right to transfer acquired social rights in the case of job mobility. Some authors have challenged whether flexibility and security can meaningfully become dual goals in labour market policy. In EU policy, it is a balance between flexibility and security that is widely being sought – an idea described by the term “flexicurity”.

One trend in this area has been an increase in part-time and temporary work. The highest, still increasing, rates of part-time employment are found in the Netherlands, the United Kingdom, Germany, Denmark and Belgium. However, while three-quarters of workers in the Netherlands declare that they do not want a full-time

<sup>15</sup> SYSDem Italy Report on Quality in Work

<sup>16</sup> SYSDem United Kingdom Report on Quality in Work

<sup>17</sup> (COM 2003) 729 (final)

<sup>18</sup> SYSDem Hungary Report on the Current Labour Market Situation

<sup>19</sup> SYSDem Finland Report on Quality in Work

<sup>20</sup> SYSDem Sweden Report on Quality in Work

job, in Germany and the UK around half of these workers choose this form of work owing to their caring responsibilities. This may say more about the absence of adequate child-care arrangements and facilities in some countries than about the “flexibility” of the labour market.

The lowest levels of part-time work in the EU are found in Greece, Portugal and Spain. While temporary work is common in Spain – 31.2 per cent compared to 13 per cent for the EU as a whole – the Greek labour market continues to be dominated by full-time, permanent employment. While fixed-term contracts may be seen as an instrument to enhance labour market flexibility and facilitate entry into employment, the reality has been that the transition from fixed-term to permanent employment has been limited in Spain.<sup>21</sup> In Norway, trade unions have fiercely opposed attempts by the government to loosen restrictions on temporary work. There seems to be a pervasive fear that temporary work with fixed-term contracts is leading to the emergence of a “two-tier” labour market, with “insiders” benefiting from higher levels of protection while an increasing number of “outsiders” remain under precarious employment conditions. In order to address this, some governments have taken steps to provide greater security to workers on fixed-term contracts. The Italian Biagi Law (2003) is one example of this. Combining flexibility with security is one of the goals pursued by governments. One indication of this is found in Denmark, where about one-third of employees change their employer each year – even though permanent contracts there provide employees with considerable security. The development of a better indicator on flexibility and security is currently being undertaken by the Commission.

In the non-EU Member States, there has been an increase in “flexible” forms of employment, though generally from a lower base than in the EU. In Poland, for example, in 2002 11.2 per cent of the workforce was in part-time employment (compared to the EU average of 18.5 per cent), but the share of fixed term contracts increased from four per cent in 1997 to 8.6 per cent in 2001. A similar picture is emerging in Slovenia. In Malta, there has been a 45 per cent increase in the number of people working part time as their primary job since May 2000.<sup>22</sup>

However, owing to the low pay that many flexible forms of employment provide, temporary and part-time employment is unattractive to many people in the countries of central and eastern Europe, including Bulgaria and Poland. Surveys in Slovakia have provided statistical evidence to support his contention.<sup>23</sup>

The key issue relating to *work organisation and work-life balance* is the effect that parenthood has on the labour market participation of women. The differences between women’s employment rates with and without children were particularly high in Ireland (16.3 per cent), Germany (21.4 per cent) and the UK (22.9 per cent). The EU average is 12.7 per cent. The existence of flexible work arrangements and adequate care services for children and other dependants is essential to ensure the full participation of women and men on the labour market. The inadequate supply of affordable childcare is a serious problem in several countries, including Germany and Italy. Efforts are being made to try to guarantee the rights of parents to try to balance their work and home lives. In the UK, the

Employment Relations Act (2002) increased the entitlement to maternity leave and introduced paternity leave and leave for adoptive parents.

Another issue relating to work-life balance is teleworking. In Belgium, a large majority of the population (73 per cent) is interested in teleworking as a way of bringing about greater balance between home and work.<sup>24</sup> One way in which this would be the case is through reducing “lost” time spent travelling to and from work, particularly if it relieves traffic congestion.

According to the European Commission, *social dialogue and worker involvement* is a key factor for improving quality in work and for ensuring the success of the European Employment Strategy. In particular, collective agreements are an important tool in the hands of the social partners to shape industrial relations and improve quality in work.<sup>25</sup> Social dialogue is highly developed in Luxembourg and constitutes a forum in which several issues relating to the quality in work are discussed, such as gender equality, health and safety, non-discrimination and training. Of the “new” Member States joining the EU in May 2004, Cyprus has a developed framework for tri-partite social dialogue.<sup>26</sup> Social dialogue in the countries of central and eastern Europe tends to be less developed than in the existing EU Member States. The Czech Republic lacks effective mechanisms for collective bargaining, while in Estonia trade union membership is small and declining (from 21 per cent in 1996 to somewhere between 14 and 17 per cent in 2002).<sup>27</sup>

### ***Quality and an inclusive labour market***

This broadly defined category covers three of the European Commission’s ten dimensions of quality in work: gender equality; inclusion and access to the labour market; and diversity and non-discrimination.

European countries, both EU and non-EU Member States, still face considerable challenges in bringing about real *gender equality* in employment, unemployment, pay and occupational and sectoral distribution. Although the differences in employment and unemployment rates between women and men have narrowed in recent years, the gaps remain significant. In 2002, the employment rate for women in the EU was still 17 per cent below the male rate.

There are some obvious trends and lessons that have been learnt in some countries and applied to others. The gender pay gap tends to be higher in the private than in the public sector. Women are also preponderant in certain sectors, such as public administration and education and health, and in lower income groups. However, one factor that seems to hold back the labour market participation of women is the inadequate provision of childcare, which is apparent in several states, including Austria and the UK. Finland has taken active steps to address this. According to the Labour Force Survey, 72 per cent of women and 96 per cent of men with children under the age of seven participate in the labour market. Every child under school age has a right to a place in day care provided by the local municipal authority. If the family decides not to use this right, it is eligible for home-care allowance until the youngest child is three years old. A parent who takes care of the child at home until the child is three years of age has a right to return to his or her previous job.

<sup>21</sup> SYSDM Spain Report on Quality in Work

<sup>22</sup> SYSDM Malta Report on the Current Labour Market Situation

<sup>23</sup> SYSDM Slovakia Report on the Current Labour Market Situation

<sup>24</sup> SYSDM Belgium Report on Quality in Work

<sup>25</sup> Commission Communication (2003) 729 (final)

<sup>26</sup> SYSDM Cyprus Report on the Current Labour Market Situation

<sup>27</sup> SYSDM Estonia Report on the Current Labour Market Situation

The whole of Europe faces problems relating to *inclusion and access to the labour market* and diversity and non-discrimination, though some of the target groups that are particularly problematic may differ from country to country. An inclusive labour market implies that it is possible for all citizens of working age who are willing and capable of work to enter and remain on the labour market.

There are certain groups that have difficulty accessing the labour market across Europe, including people with disabilities, older workers (50+), and young people (15-24). Each country has a particular configuration of problems. In Hungary, for instance, in 2002 fewer than 15 per cent of people with disabilities were active in the labour market, which is partly attributable to inadequate access to buildings for people belonging to this group.<sup>28</sup> Some EU Member States (Austria, Germany, Ireland and UK) have set national targets for the employment of people with disabilities.

Older workers encounter problems across Europe, from Spain to Lithuania. Not only are there low levels of labour market participation for people belonging to this group, they also have to face considerable barriers when seeking to re-enter the labour market after a period of unemployment or inactivity. In France, the problem is particularly acute. Some trade unions want their members to be able to leave the labour market and go into retirement as early as possible, while the state increasingly encourages active ageing. However, employers rarely favour the recruitment of workers aged over 50. Returning to work after 50 years old is deemed to be “quasi impossible” by APEC (Association pour l’emploi des cadres). In some southern European countries, like Greece and Spain, older women show particularly low levels of labour market participation.

Young people (aged 15-24) are also encountering problems accessing the labour market in a large number of countries, including Bulgaria, Estonia, Spain and Romania.

In the existing EU Member States and Norway, people belonging to ethnic minority groups and non-EU nationals experience relatively high levels of unemployment and low levels of employment. In Belgium, for example, in 2002 the employment rate for people of working age was 60.7 per cent for Belgian nationals, compared to 58.7 per cent for non-Belgian EU nationals and only 30.7 per cent for non-EU nationals.<sup>29</sup> In Norway, there are ethnic groups whose problems are particularly acute. Immigrants from Africa, for instance, had an unemployment rate almost five times as high as the national average.

In some of the countries of central and eastern Europe – particularly in Bulgaria, Hungary and Slovakia – the Roma have problems accessing the labour market.

It is also striking that much greater attention is drawn to regional disparities in the countries of central and eastern Europe than in the existing EU. People in predominantly rural, economically underdeveloped regions face severe barriers to labour market entry, owing to the lack of job opportunities.

## ***The impact of quality on overall work performance***

According to the European Commission, there is a positive link between quality in work, productivity and overall employment performance. There is certainly evidence to support this contention in the reports produced by the SYSDM experts. For example, in Spain the large number of workers on fixed-term contracts – and the failure of these temporary workers to progress into permanent employment – has deterred the entry of low-skilled women, young people and older workers (particularly women) into the labour market. The relatively poor productivity of the British economy is, at least in part, attributable to a deficiency of basic and intermediate skills. Denmark, by contrast, offers a combination of a high level of labour market flexibility, generous unemployment benefits and active labour market policies, which has made it an example of “flexicurity”.<sup>30</sup> Quality in work is valued in this particular setting.

There are some dissenting views. There is scepticism in Austria about the idea of a ‘virtuous circle’ leading from quality in work to productivity growth. The Austrian Federal Ministry for Economy and Employment has recently commissioned two studies to look into the relationship between quality in work and productivity. Neither study was able to establish any evidence of a clear relationship between quality in work and productivity growth in Austria. Both studies confirm the view that there are functional relationships that produce positive feedback between individual quality factors and productivity growth. What the studies fail to confirm is that this positive feedback definitely outweighs the negative feedback. In fact, one of the studies finds that in 2001 negative feedback exceeded positive feedback in quantitative terms.

Similarly, the positive link between quality in work and productivity identified by the Commission does not seem clear enough to the great majority of Portuguese companies, many of which are involved in labour intensive activities.<sup>31</sup> If these companies have no great need for high-quality, skilled labour, this may explain why they do not attach too much importance to many of the ten indicators making up the Commission’s definition of quality in work.

However, recent trends are encouraging. There are rising levels of educational attainment and increased investment by firms in human capital; employment rates are increasing; the incidence rate for accidents is falling; and gender gaps in employment and unemployment are narrowing – though they remain considerable. There is also scope for improvement under each of the ten headings. It is unclear whether all of the ten dimensions unambiguously contribute to higher productivity, but they are generally worthy objectives in their own right. In particular, maximising the proportion of the active population in work without sacrificing productivity growth is a clear and desirable goal.

<sup>28</sup> SYSDM Hungary Report on the Current Labour Market Situation

<sup>29</sup> SYSDM Belgium Report on Quality in Work

<sup>30</sup> SYSDM Denmark Report on Quality in Work

<sup>31</sup> SYSDM Portugal Report on Quality in Work

# Belgium

## *Importance of quality in work in policy debate and specific Belgian approach*

### *Growing attention to quality in work*

After the structural economic crisis and unemployment during the eighties, when having a “good” job was considered less important than having a job at all, the public debate on quality in work came to prominence in Belgium from the mid-1990s onwards. A growing number of industrial disputes are related to complaints about workload. The media is paying increasing attention to issues like stress and burnout. But employers have also become increasingly aware of the costs attached to low quality in work.

From a policy perspective, the interest in quality in work is supported by two other policy objectives.

- First, the importance of **lifelong learning** has been recognised. A broad range of policy initiatives have been implemented to increase participation in education and training. However, as informal learning at work – “on-the-job” learning – is the most important way to acquire, renew and expand skills for many workers, there is a growing consensus that good quality jobs should contain learning opportunities for workers. Indeed, one could argue that work without learning opportunities is “inhuman” work, as it equates workers to machines. Machines can also execute tasks, but the distinctive nature of workers is that they are not only able to execute tasks, but are also able to learn from executing them and thereby enhance their human capital. Learning opportunities in work may therefore be considered as an important feature of “quality work”.
- Secondly, there is the increasing awareness in policy circles that a lack of quality jobs impedes further implementation of the **active welfare state**. The debate about the cost of the “greying” of society – with a decreasing share of the population working and contributing to the social security system and an increasing share of retired people dependent on the social security system – has intensified in recent years. It is believed that older workers will stay longer on the labour market if they have good jobs. In Belgium, where participation is declining rapidly for people in cohorts over 50 years of age, this is an issue of major importance.

Moreover, both policy goals – lifelong learning and increased labour market participation – are clearly linked. When workers have few opportunities to learn in the workplace, opportunities in internal as well as the external labour markets diminish. The analogy drawn between workers and machines can be stretched. Since machines cannot learn, they have to be depreciated as quickly as possible to be replaced by better and smarter machines. But it cannot be the intention to depreciate and replace workers as quickly as possible. On the contrary, the policy objective is to extend the careers of older workers. To achieve this objective, jobs with good intrinsic learning opportunities are a prerequisite.

### *Major policy initiatives to enhance quality in work*

The growing policy attention to issues of quality in work is reflected in a number of initiatives. For example, a separate federal “State

Secretary for Work Organisation and Well-being at Work” was appointed in the new Belgian Government in 2003. The purpose of this state secretary is to elaborate policy initiatives to improve quality in work in order to increase the labour market participation of (older) workers. In doing so, the state secretary will support the efforts of the minister for work and pensions to reduce social security taxes on labour on the one hand and avoid a pension crisis on the other hand.

As responsibility for labour market policy has to a large extent been regionalised in Belgium, the regions play an important part in this field. In **Flanders** in particular, quality in work has attracted more attention in recent years. In 2001 the Flemish social partners and the Flemish Government concluded the “**Pact of Vilvoorde**”, containing 21 policy objectives to be reached in 2010<sup>1</sup>. Objective 4 of the Pact concerns improvements in quality in work.

“Due to a higher quality of work, quality of work organisation and quality of job careers, it has become attractive to get everyone to find and stay in work by 2010.”

It is, however, the only objective in the Pact for which no precise measurable indicator to be reached in 2010 has been defined. Indeed, the Flemish Government and social partners concluded on the basis of a scientific study (Van Ruyseveldt, 2002) that no representative data on quality in work are available. It was therefore decided to conduct a new representative survey among 20,000 workers on quality in work in Flanders in 2003, 2006 and 2009<sup>2</sup>. This monitor will deliver a wealth of data on stress, well-being and health at work, as well as on the work–life balance.

### *A distinctive perspective on quality in work*

Given the vast range of indicators on quality in work elaborated at the Laeken European Council in 2001, the conclusion that no representative reliable and valid data are available on the issue may be surprising. However, there is a lot of criticism among scientific researchers and (especially Flemish) policy-makers on the European approach to quality in work indicators. Major objections include the following:

- The set of indicators is very **fragmentary**, which the Commission justifies by the assertion that there is no clear and generally accepted definition of quality in work (Malfait, 2000). Among the scientific community, however, there is a broad but shared simple conceptual framework in which quality in work refers to work situations and their consequences for workers and organisations (for a common basis in approaches on quality in work, see Evers, 1999). It is also in this framework that the European Foundation for the Improvement of Living and Working Conditions performs its activities (e.g. European Survey on Working Conditions (ESWC), Paoli, 2001).
- Most of the indicators proposed for monitoring quality in work have already been described and included in other European targets and benchmarks. However, this does no service to the importance and specific circumstances of the issue.
- The indicators hardly refer to quality in work, but mostly to the quality of the labour market. While quality in work is essentially a characteristic at the micro-level – i.e. intrinsic job characteristics

<sup>1</sup> URL: <http://www.kleurrijkvlaanderen.be/doc/doelstellingen.pdf>

<sup>2</sup> URL: [http://www.serv.be/dispatcher.aspx?page\\_ID=03-01-05-00-000](http://www.serv.be/dispatcher.aspx?page_ID=03-01-05-00-000)

– the indicators are based upon macro-level labour market statistics (Van Wichelen, 2001). This is unfortunate as the intrinsic quality of jobs is not an entirely different concept to quality in work, but the very foundation upon which many of the macro-level labour market objectives can be achieved.

In Flanders, quality in work is more narrowly understood and refers also to intrinsic job characteristics such as stress risks, levels of autonomy, learning opportunities in the job, and the chances of getting support in work, which are determined by the way work organisation is implemented within companies. At the national level, as shown by the policy documents of the new state secretary, quality in work is also mainly perceived as relating to health, safety and stress risks at work. This follows the Belgian law on “well-being at work” adopted in 1996 and expands the responsibility of employers to conduct a preventive policy on health and safety risks to psycho-social risks at work.

### **Ranking with regard to “intrinsic” job quality**

The European Surveys on Working Conditions (ESWC) from the European Foundation on Living and Working Conditions (1990, 1995 and 2000) are the best available sources for international comparisons of the “intrinsic” quality of work. For many aspects of working conditions, Belgium has about an average score compared to other European countries. The most worrying aspect of the Belgian performance, however, is the increase in work-related complaints – such as those related to health, workload or stress – in 2000 compared to earlier surveys in 1990 or 1995.

The survey also makes it possible to investigate causes for such complaints. Data show that the complexity of jobs and the responsibility of workers have generally increased over the last decade, while – conversely – the number of workers in routine jobs has decreased. From a quality-in-work perspective, this is a positive trend, but only if workers have sufficient autonomy in their jobs to manage these additional responsibilities. The ESWC data for Belgium, however, shows a decrease in the reported level of autonomy at work. Comparisons with neighbouring countries (SERV, 2003), such as Germany and the Netherlands, show that the increase in the reported level of work-related stress in Belgium is not due to comparatively higher workloads, but rather to a decreasing level of autonomy in jobs, e.g. with regard to work method and work rhythm. This points to the importance of work content for the quality in work.

### **Relationship between quality in work and productivity**

In view of the multi-dimensional nature of quality in work, no overall assessment is available on the relationship between quality in work and productivity. Apart from case studies investigating this relationship at the level of individual organisations, most studies focus on the cost to society of low quality in work. We refer to the following studies:

- The study centre of the Flemish social partners “STV-Innovatie & Arbeid” estimates that about half of absenteeism at work is due to job-related complaints linked to health and well-being. Stress-related absenteeism leads to an annual cost of 2.5 billion euro for Belgian economic organisations (SERV, 2000).
- The Higher Institute for Labour Studies (HIVA) reports that problems related to quality in work play a decisive role for one in five older workers in their “choice” of early retirement (Straetemans, 1993). This is supported by ESWC data for

Belgium indicating that of those workers reporting stress in their job, 36% consider the continuation of that job until 60 years of age as feasible, while this share increases to 53% for those who do not report stress (Paoli, 2001).

- The human resource knowledge centre SD Worx reports that absenteeism raises labour costs by 19%. The same research shows that in 2002 almost one in four Belgian workers were looking for another job. The “turnover-intention rate” rose from 15% to 23% in five years. Qualitative aspects – such as nature of leadership and the availability of learning and promotion possibilities at work – play an important part in this turnover intention (De Standaard, 2002).

### **Aspects of quality in work**

As indicated above, quality-in-work issues are mainly perceived as relating to job characteristics, not labour market characteristics. Nonetheless, a range of policy initiatives are taken with regard to many of the other indicators on quality in work identified by the European Commission. In the following sub-sections, we briefly provide some additional data on Belgian performance and some major policy initiatives to improve this performance.

#### **Intrinsic job quality**

- According to the ESWC survey (2000), 88% of workers are satisfied with their job (EU average: 84%). This is in line with the annual APS (Administrative Planning & Statistiek – Administration for Planning & Statistics) survey (only in Flanders) reporting that 88% of workers are satisfied with their job (2001). Aspects relating to work content – rather than working conditions or pay – have the biggest impact on the overall assessment of work satisfaction (De Witte, 2000).
- Between 1997 and 1999, 52% of the lowest wage earners (lowest 10%) have been able to improve their income. However, they also have the highest chance of becoming unemployed or inactive (Kruispuntbank voor Sociale Zekerheid – Crossroads databank of Social Security (KSZ)).

#### **Policy measures**

Despite the importance of work content on work satisfaction, no specific measures have been taken or planned to support a “high road” in work organisation within companies<sup>3</sup>.

- Policy initiatives are mainly aimed at making work pay, by reducing taxes and social security contributions for low wages/incomes. Measures implemented during 2002 to lower fiscal pressure on low incomes include a higher minimum tax deduction for costs related to work and a system of negative tax credit that provides a surplus for low incomes.
- During 2002, social security contributions were lowered for 400,000 low wage workers at a total of EUR 20 million. In January 2003 this measure was extended in order to cover more workers and for a larger amount.

#### **Skills, lifelong learning and career development**

- Participation of people between 25 and 64 years of age in education and training remained continuously below the European average (e.g. 6.4% compared to the EU average of 8.3%, 2001, LFS – Labour Force Survey). Moreover, in 2002, participation dropped to 6%, indicating the sensitivity of formal education and training efforts to economic fluctuations.

<sup>3</sup> As stressed by the European Work Organisation Network (EWON: URL: [http://europa.eu.int/comm/employment\\_social/soc-dial/workorg/ewon/index\\_en.htm](http://europa.eu.int/comm/employment_social/soc-dial/workorg/ewon/index_en.htm)) and many European policy documents as e.g. the “Green Paper on work organisation” (URL: [http://europa.eu.int/comm/employment\\_social/soc-dial/social/green\\_en.htm](http://europa.eu.int/comm/employment_social/soc-dial/social/green_en.htm)).

- In Belgium 12.4% of young people left school prematurely without finishing secondary education compared to the European average of 18.8% (2002, LFS).
- Formal training has increased significantly within companies. Moreover, the average accessibility of training for workers has increased markedly from 16.3% in 1993 to 41.1% in 1999, indicating greater access for blue-collar workers (CVTS – Continuing Vocational Training Survey).
- Informal training seems to be widespread in Belgium, with 22% of companies relying only on this kind of training, one of the highest scores in the EU (CVTS).

### *Policy measures*

- In 2002, workers over 50 years of age received the opportunity to take part-time leave to train and support younger workers in the company within the system of “time credit”.
- Social partners have agreed to increase the budget for training of workers from 1.2% in 1996 to 1.9% of total wage costs in 2004.
- In Flanders, a system of “training vouchers” was implemented in 2002 through which the Government contributes half of the costs of either training, job career advice or competence evaluation by certified organisations.

### *Gender equality*

- The sectoral segregation index between sexes in Belgium was 19.6% in 1999, comparable to the European average of 18% (Eurostat).
- As in the European Union, wages of full-time working women are still lower than for men, irrespective of the occupation or sector (Eurostat).
- The inactivity rate of women between 25 and 55 years of age is 28% (men 8.8%). (2002, LFS).
- 40.9% of women work part-time (men 6.2%), a larger gap than the EU average (2002, LFS).
- 10.3% of women work on a fixed-term contract (men 5.5%). Again, this is a much larger gap than the EU average (2002, LFS).
- Women with higher education show a striking labour market performance. They are significantly less likely to become inactive during their career or to leave the labour market when they have children.

### *Policy measures*

- Efforts have been made to implement a sex-neutral, analytic and universal system of function classification as a basis for guaranteeing a more objective wage system.
- In June 2002, a law was adopted on the protection of workers against sexual intimidation, mobbing and violence at the workplace. The law provides a detailed procedure in which prevention advisers have a central role, but in which victims can also submit complaints to courts.

### *Health and safety at work*

- The number of accidents at work has decreased in recent years. However, in 2002 the Fund for Labour Accidents still registered 184,252 accidents in the private sector, with 121 deaths and 11,710 cases with permanent work incapacity (FAO – fonds voor Arbeids Ongevallen (*Fund for Labour Accidents*)).
- The safety risk (number of serious accidents compared to the number of employed) is still highest in the construction industry (risk percentage of 1.6% in 2002), although the safety risk in this sector continues to decrease (FAO).
- The share of workers complaining about work-related stress

increased from 23% in 1995 to 30% in 2000 (EU average 28%: ESWC).

- Only 49% of workers expect to be able to perform their current job until the age of 60 (EU average 54%, 2000: ESWC).

### *Policy measures*

- The Fund for Work-related Diseases has extended prevention campaigns from traditional labour illnesses to other work-related afflictions, such as a campaign on back pain of nurses during 2004.
- In January 2004 a law was adopted giving workers the right to a smoke-free work environment. Companies must take appropriate measures to guarantee this right in 2006.
- Additional funding is provided to hire more labour inspectors during 2004. Labour inspectors will also be more “visible” at the workplace, e.g. by reducing administrative tasks and better co-operation between inspection services.
- An initiative is being taken to elaborate sectoral experiments in 2004 to reduce stress risks at work. This initiative should serve as an example of best practice. This will be done by integrating the expertise available within sectors on work organisation to prevent stress risks, with the inter-sector expertise of prevention advisers that is more oriented to the treatment of the consequences of stress.

### *Flexibility and security*

- Part-time work has increased from 15.4% in 1995 to 21.3% in 2002 (EU average 18.6%, 2002: LFS).
- In 2002, 130,000 workers applied for benefits to reduce or interrupt their career, either part or full-time. The new system of “time credit” proved to be very popular with 54,000 workers applying in June 2003 (RVA – Rijksdienst voor Arbeidsvoorziening (*Federal Office for Employment Provisions*)).
- The share of fixed-term contracts has increased from 5.3% in 1995 to 7.6% in 2002 (EU average 13.0%, 2002: LFS).
- Atypical working-time arrangements (e.g. shift-work, evening, night or weekend-work) decreased from 25.9% of jobs in 1995 to 16.8% in 2002 (EU average 25.9%, 2002: LFS).
- Temporary unemployment has been decreasing structurally for about two decades (from 90,000 budgetary units in 1981 to 30,000 in 2000). However, it is also influenced by economic fluctuations and has increased again since 2000 (40,000 budgetary units in 2003, RVA).

### *Policy measures*

- Although structurally decreasing, Belgium’s specific system of temporary unemployment continues to play an important part in providing “flexicurity” for blue-collar workers.
- In 2002 the existing system of career interruption was replaced in the private sector with a new popular system of “time credits”.

### *Inclusion and access to the labour market*

- Compared to other European countries, the Belgian labour market for young workers is small with lower employment and lower unemployment (Eurostat). This is due to compulsory school attendance until 18 years of age.
- 61% of young unemployed people are offered an individual action plan before the sixth month of unemployment, and 52% of the adult unemployed are offered such a plan within twelve months (2001, JER). While this performance is weak in a European context, it is a remarkable increase compared to 1998 (19% and 17% respectively).



- The share of young people remaining unemployed for over six months is 26% of the initial inflow into unemployment, the second highest score in the EU. For adult unemployment this share after twelve months is 16.7% (2001, JER).

### *Policy measures*

- Substantial efforts have been made to increase the number of unemployed people receiving an individual action plan within twelve months (six months for young unemployed people).
- Since 2000 a First Job Agreement programme called the “Rosetta plan” has been in place as a tool for labour market integration. The programme obliges employers to recruit young people up to a share of 3% of their labour force.
- Several initiatives have been taken to lengthen the job careers of older workers by means of a number of flexible work regulations, such as half-time early retirement, “time credit” and “end-of-career jobs”, and initiatives to reduce the exit of elderly workers from the labour market, such as incentives for companies to hire older workers or to keep them employed by means of the obligation to provide outplacement in case of dismissal of workers above 45 years of age and the reduction of social security contributions for employers.

### *Work organisation and work-life balance*

- In 2002 12% of all Belgian workers performed night work (11pm–5am), 27% evening work (7pm–11pm), 28% worked at least one Saturday per month and 18% worked on a Sunday; 5.5% of all workers willingly perform variable working time, 7.5% do so against their will and an additional 4% work in another atypical work time arrangement (e.g. intermittent working times); 8.5% of workers have varying shifts and 8.5% have a stable shift-system (NIS – National Institute of Statistics).
- 14% of workers indicate that the demands with regard to working time flexibility cannot always be reconciled with family or social obligations (European Foundation).
- The effective weekly working time for men (in 2000) averaged 41.4 hours, for women 32.9 hours (ESWC, 2000). The preferred working time was lower with 36 hours for men and 30 hours for women (European Foundation’s “Employment options for the future survey”).
- According to the OECD, Belgium belongs to the countries that have the biggest increase in the share of men working more than 45 hours per week (OECD, 2003).

### *Policy measures*

- As indicated under the subsection “flexibility and security”, a new system of “time credit” was introduced in 2002 for the private sector.
- The federal government agreement in 2003 brought about an extension of the current system of parenthood leave during the government’s current term of office. Specific details still have to be decided.
- In 2003 an important extension of “service vouchers” was introduced that should lead to an additional 25,000 jobs in the next two years. These “service vouchers” allow households to hire people legally and at a subsidised wage for assistance in domestic tasks, allowing for a work-life balance.
- A large majority of the population (73%) are interested in telework (Gareis, 2003) and see it as a possible solution to traffic jams and work-life imbalance. Efforts are made to optimise current laws on telework and working at home in order to facilitate working at home.

### *Social dialogue and worker involvement*

- In the 2000 social elections, 22,300 mandates were available for the Work Councils and 31,700 mandates for the Prevention Committees. Unions proposed 55,800 and 67,700 candidates for these two posts respectively. A total of 1,203,000 and 1,377,000 workers were able to cast their votes in these two elections.
- In 2000, 100% of workers were covered by a collective labour agreement; 88% by sectoral collective labour agreements; 55% of workers are represented in work councils; 63% in Prevention Committees (MTA – Ministerie van Tewerkstelling Arbeid (*Ministry of Employment & Labour*)).
- In 2000 the number of lost days due to strikes per 1,000 workers was 8.0 days.

### *Policy measures*

- The new state secretary for work organisation and well-being at work will produce new brochures on work councils and prevention committees that should serve as working documents for elected representatives.
- In view of the social elections in May 2004, the state secretary will launch an information campaign to make workers aware of the importance of social elections and the impact these can have on their working conditions.

### *Diversity and non-discrimination*

- The employment rate for people of working age is 60.7% among Belgian workers, compared to 58.7% for workers of other EU nationalities and only 30.7% for workers with a non-EU nationality (2002, LFS).
- The unemployment rate (as a percentage of the population in working age) is 3.9% for Belgian workers, 6.7% for workers of other EU nationalities and 15.4% for workers of non-EU nationality (2002, LFS).
- Strikingly, while for Belgian and other workers of EU nationality unemployment rates decrease significantly with increasing school education, this is not the case for non-EU workers. The unemployment rate for non-EU men with high school education is 15.8% compared to 18.8% for those with a low level of school education. For women, unemployment rates are 14.8% and 9.6% respectively. In other words, their investment in school education does not deliver higher labour market participation, pointing to the persistence of discrimination in the labour market (2002, LFS).

### *Policy measures*

- At the federal level, the anti-discrimination law “Mahoux” (March 2003) provides the possibility for criminal as well as civic prosecutions in case of discrimination on ethnic grounds. In work situations, prosecution is also possible on other grounds, such as belief, age or sexual disposition.
- At the regional level, the Flemish decree “Mahassine” on equal participation in the labour market (May 2002) aims to guarantee equal treatment in which any form of discrimination on the basis of sex, race, ethnicity, nationality, etc., is prevented by guidance on the choice of occupation, training, career counselling and work mediation as well as in working conditions in public services and education. Moreover, employers or work mediators must put in place practices to allow all workers to participate on an equal basis in work, training or mediation.

### Overall work performance

- Productivity per hour worked increased 7.7% from 1997 to 2002. In neighbouring countries, like Germany, France and the Netherlands, the increase was 9.9%. However, this also points to a greater employment intensity of economic growth in Belgium (HRW – Hoge Raad voor de Werkgelegenheid (*High Council of Employment*), 2003).
- New technologies contribute to productivity increases. Public and private investment in R&D is 1.96% of GDP in Belgium (EU average 1.93%, 1999: European Commission).

### Policy measures

- As this is a very broad indicator, no specific measure can be identified supporting overall work performance.

### Conclusion

Policy relating to quality in work is confronted with a number of difficulties and inconsistencies that impede its further development:

- While the improvement of quality in work clearly supports labour market participation in the long term, a policy to increase labour market participation can, conversely, be at odds with quality in work requirements in the short term, as it is easier to raise employment by means of “hamburger” jobs. This refers to the debate as to whether lower quality jobs can be seen as a stepping stone towards future jobs of better quality.

This debate also includes different views on **liberalisation** efforts undertaken by the European Commission, considered by some as a way to increase employment, by others as detrimental to quality in work. The new Belgian state secretary on work organisation and well-being at work takes a strong position on the issue:

“Europe may well strive for better jobs, but there is a paradox between this goal and European directives such as the liberalisation dossiers (ports, postal services, railways,...). In these dossiers quality in work does not seem to be a priority. On the contrary, many of the liberalisation proposals aim to undermine social protection of workers achieved through a long social struggle. (Van Brempt, p. 6).

The recent rejection by the European Parliament of the liberalisation of port services was hailed by the state secretary as a victory for quality in work<sup>4</sup>.

- Policy initiatives have a “natural” tendency to give precedence to **compensating and remedial measures** over preventive measures on quality in work. A typical example is the provision of additional time off from work in order to “recover” from the workload or to improve work-life balance (career interruption, “time-credit”, additional holidays for older workers in some occupations). Such an approach may be “popular” as it provides additional rights for workers, but does not tackle quality risks at work itself. On the contrary, more opportunities to “recover” from work may allow a further increase in quality risks at work. The periodic absence of workers may lead to an increase in workload for the remaining workers. And while improvements in quality in work were originally supposed to reduce social security costs, a compensating approach may involve additional costs to pay for such additional rights.
- This lack of a preventive approach is especially clear with regard to **work organisation**. Ironically, while work organisation falls within the remit of the new state secretariat, policy documents hardly include any initiative with regard to work organisation in the strict meaning of the word, i.e. the way organisations shape jobs by

allocating tasks and responsibilities to workers. Similarly, the Belgian National Action Plan for Employment does not mention work organisation at all, which would be expected to appear under the pillar “adaptability of workers and organisations”. Policy-makers have yet to recognise work organisation as a significant factor in the achievement of major economic and social goals.

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<sup>4</sup> URL: <http://meta.fgov.be/pi/pib/nlib12.htm>

# Denmark

## Introduction

When considered in an international context, Denmark is often characterised as a country that has high standards of quality in work. In a recent series of studies of “decent work”, the International Labour Organisation (ILO) uses Denmark as an example of a country that has successfully integrated into the global economy whilst maintaining high living and working standards. This is particularly poignant since these standards are viewed as both causes and consequences of economic growth and social development (Egger et al, 2003).

As will be reflected in more detail below, the idea of a positive relationship between quality in work, productivity, economic growth and social well-being is also emphasised within the Danish National Action Plans for Employment. In the NAP for 2003 the Government stresses how the objective of improving job quality and productivity should underpin its wider strategy to increase labour supply in the years ahead (NAP, 2003, p. 10). Further improvements in work quality with respect to the work environment, flexible options for a life-work balance, improved conditions for people with disabilities and further education etc. are to be targeted. This will contribute to strategies to increase the overall employment rate in line with both the national policy priorities and the Lisbon strategy.

A distinctive feature of many of the quality of work studies is the multi-faceted nature of this concept; this of course applies equally to Denmark as it does for other European countries. If one particular aspect of the “job quality” concept were to be drawn out from the Danish case, it would be the relationship between the focus on individual employee progression and the efficiency and growth of the organisation or company. Concepts like “the developing workplace” and “the learning organisation” are characteristic of this trend (Danish Confederation of Trade Unions (LO), 1999).

Another characteristic feature is the role of both the Government and the social partners in promoting different aspects of quality of work. An observation that can be connected with this is that Danish workers are generally very satisfied with their work conditions, with only about 10% reporting to have a low level of job satisfaction (European Commission, 2003, p. 126). A recent study that looks at different aspects of job satisfaction indicates that Danish employees are particularly satisfied with the co-operation of their colleagues, the control they enjoy over their working life and the relationship they have with their supervisors (IFKA, 2003). This is representative of the non-hierarchical work structures and power sharing approach which is often considered to be an attribute of Danish society.

Finally, in this brief overview of the Danish agenda on work quality, it is important to highlight the issues of social inclusion. Social inclusion was the overall theme for the activities executed within the area of social affairs, gender equality and labour market policy during the Danish presidency of the EU in 2002. It was stressed that everyone should have the opportunity to use their skills and contribute to the community including the young and old, women and men, people from different ethnic backgrounds and those with disabilities (Ministry of Employment, 2002).

## Intrinsic job quality

The high employment rates for both women and men of all age groups suggests the important role that work plays in the lives of the majority of adult Danes. Work, therefore, contributes significantly to an individual’s identity and the creation of social networks. This is reinforced by a traditional work ethic and promotes a general consensus that work is a necessity, for both personal satisfaction as well as economic reasons. A recent comparative study demonstrated that 81% of Danes aged 18-59 years agreed with the statement that “they would be happy to work, even if they did not need the money”. This is the highest level found in a sample of 14 European countries; the equivalent percentage in France was 52% and in the UK it was 57% (Andersen, 2003, table 7.1). Denmark also ranks second amongst the Member States for EU-indicators of high levels of job satisfaction.

The flexibility of the Danish labour market, in various dimensions, contributes to economic aspects of job quality. In the first instance, about one third of Danish employees change their employer from one year to the next, leading to a low average tenure similar to the level found in the United States or the UK (Auer & Casez, 2003, Chapter 2). It also means that a high share of the workforce is unemployed for a period of time at some point, with 20 to 25% of the workforce being unemployed at one time or another in any calendar year. Despite this, Danes report strong feelings of job security, a significant feature of the Danish version of “flexicurity”.

In addition to the high level of job mobility, wage mobility is also a significant aspect of the Danish labour market. A number of studies have pointed to the high level of wage mobility of those in low paid employment (OECD, 1996; Dansk Arbejdsgiverforening, 1999; Finansministerie, 2002; Smith et al 2003). This observation is also confirmed in further comparative studies (The European Commission, 2003, Chapter 4).

## Skills, lifelong learning and career development

Aside from upward wage mobility in combination with job shifts, one can also point to the widespread use of adult and continued vocational training, which serves to encourage career moves. In 2002, 41% of the total adult population aged 15-69 years, who were not engaged in ordinary education, took at least one educational course that built upon their base education. In the same year, 18% took at least one course which moved them on to a higher level of education. In total, six out of ten adults took part in some form of further education (Danmarks Statistik, 2003).

In recent years, large-scale reforms of adult education and training have been implemented. The *Adult Education Reform*, which took effect from 2001, amalgamated all independently developed adult learning provision into a single, coherent and transparent adult education and training system. The reform is aimed at making the CVT-system (Continuing Vocational Training) more responsive to the changing labour needs by introducing the “common descriptions of competencies” as an important tool. Prior to the reform, the structure of the public CVT-system comprised 2,500 individual course descriptions, which will be reduced to 150 “common descriptions of competencies”. It is expected that the reform will create a structure that runs parallel to the CVT-system

and the educational system for adults. Basic adult education will match the VET-system (Vocational Education and Training) that is already in place for young people in further education and training (Ministry of Education, 2002a, 2002b).

### **Gender equality**

In terms of employment ratios, Denmark has reached a high level gender equality within the labour market. The average employment rate for women in 2002 was 71.1% and 78.2% for men. In the 35 to 54 year age group, the difference in employment rates was below 5%. The gender differences amongst some groups, however, have considerably higher gender differences within the labour market. Immigrants from non-Western countries have an average employment rate of 38.3% for women and 52.4% for men. The low employment rate for the ethnic minorities overall points to the difficulties that they experience in accessing the labour market in general, see below.

The Danish labour market, nevertheless, does to some degree remain segregated by gender both horizontally and vertically (Pedersen & Deding, 2002; Danish Confederation of Trade Unions (LO) & Danish Employers Association (DA), 2003). Women are more frequently employed in the public sector and in traditional areas of private service sectors such as the retail trade, while there is an overrepresentation of men in the construction sector. The employment roles of women and men remain quite defined. Women, for instance, will dominate secretarial work, whilst men are more likely to work in IT roles. There are still relatively few women employed within the higher echelons of the employment hierarchy. Finally, although women's education levels have increased significantly over the last few decades, they still lag behind those of men.

These differences result in different forms of employment segregation. A large part of the total earnings differences between men and women can be attributed to the formal skills gap between the sexes. When measured by wages per hour (contracted working time) the gender wage gap throughout the labour market is estimated at 20%, while the gap based on actual working hours executed is 12.4%. This demonstrates that women have less of a presence in the workplace than men. The wage gap is significantly higher in the private sector than the public sector. In the private sector between one third and a quarter of this gap can be explained by differences in education and career path that exist between men and women. In the public sector, the wage gap is much lower, probably as a reflection of the dominance of wage systems based on formal education and seniority in this part of the labour market (Pedersen & Deding, 2002). A recent study based on data obtained for the year 2000 within a large part of the private sector estimated that the total wage gap was set at 14 and 19% for blue collar and white collar workers respectively. Between 11 and 12% of the gap is attributed to differences in work functions, education, sector and work experience (LO & DA, 2003, Table 1).

The issue of the gender pay gap is still therefore on the political agenda in Denmark. Based on the study mentioned above, the social partners hope that this analysis might signal the starting point for a debate about wage levels within the labour market and contribute to discussions around the labour market and education policy. Social partners in the county/municipal sector have, to an increasing extent, been focusing on gender equality problems, including the development in men's and women's pay conditions (NAP, 2003, p. 34).

### **Health and safety at work**

Compared to a number of other European countries, the number of working days lost due to absence from work caused by sickness is relatively low (Beskæftigelsesministeriet, 2003, Chapter 9). Notwithstanding this, the figure is still large enough to cause political concern, at a time when the thrust of the Government's overall economic strategy is to increase labour supply in order to cope with imminent demographic changes. Significant variations were also observed between the numbers of workers absent due to sickness between similar firms, trades and regions. This indicates the potential for improvement through the dissemination of best practice. An ambitious plan to reduce sickness-related absence from work was introduced in December 2003 (Regeringen, 2003b). An important element of the plan is to improve the procedures and incentives for the municipalities to more efficiently manage those people who receive long-term sickness benefits. Initiatives have also been launched to make firms more aware of their responsibilities and options to reduce absence due to sickness, by creating partnership agreements between firms and municipalities. Finally a tripartite commission will prepare a revision of the legislation.

When the incidence of accidents at work is considered, the level in Denmark is well below the EU average. However, in the light of efforts mentioned above to increase the effective supply of labour, in June 2003 the Government launched a new strategy for promoting the work environment and safety at work (Regeringen, 2003a). In the 2003 NAP, the Government lists a number of quantitative targets to reduce the number of accidents at work and occupational diseases. This includes a 15% fall in the number of serious industrial accidents reported, a 10% fall in the amount of highly repetitive monotonous work and a 5% fall in the percentage share of employees exposed to psychosocial risk factors. Those targets are due to be met by 2005 and have been developed in co-operation with the social partners (NAP, 2003, p. 23-24).

### **Flexibility and security**

As already discussed, the Danish labour market is characterised by its flexibility in the sense that about one third of all employees change employers on a yearly basis. Between 20 and 25% of all workers are registered as unemployed at any point during the year. It might be expected that strong feelings of economic and social uncertainty would result amongst Danish wage earners, but paradoxically, this is not the case. In a survey conducted in 1996, the proportion of Danish workers *who did not* strongly agree with the statement "my job is secure" amounted to 45%, which was considerably lower than all other countries in the sample. This feeling of job security was discovered amongst all subgroups of workers (OECD, 1997, Table 5.2). Although this may be reflective of the buoyant situation of the Danish labour market at the time of the survey, there are no clear indications that Danish workers are reacting to the high level of job transition and flexibility with feelings of insecurity. Similar results were also found in a more recent survey (The Dublin Institute, 1999) and in the study by Auer and Casez (2003, Figure 1.1).

An obvious explanation for this high level of economic well-being is the generous benefits paid from the first day of an individual's unemployment which continues for a period of up to four years.

For low-income groups, this and other income-related benefits, combined with the effects of the high levels of income tax, result in high net income compensation rates (OECD, 2002). For an average production worker, for example, the compensation rate is around 70%. For low-income groups, the net compensation rate is around 90%, and is highest for single parents.

A final important aspect of the Danish flexibility-security nexus is the extensive programme of active labour market policies, which mean that after 6 to 12 months of unemployment, people must participate in mandatory labour market programmes. During the 1990s in particular, a more ambitious active labour market policy stimulated flows of workers to re-engage with the labour market.

This combination of a high level of labour market flexibility, generous unemployment benefits and active labour markets policies has made Denmark one of the preferred models of “flexicurity”, which combines a flexible labour market with a high level of social security. Thus the Danish experience points to the economic feasibility of a “hybrid employment system” that combines the traditional virtues of a liberal labour market with limited restrictions on the employment contract with a reasonable level of economic protection for the individual wage earner. The Danish model therefore demonstrates an effective interplay between flexible employment relations and a social protection system combined with active labour market programmes, which protects individuals from potentially negative impacts of low levels of employment security (Madsen, 2003).

### ***Inclusion and access to the labour market***

The highly dynamic nature of the Danish labour market, involving substantial transition between jobs, also involves an ongoing testing of the productivity of its employees. One outcome of this ongoing selection process is that some workers are gradually expelled from the labour market if they fail to meet the productivity criteria set out by employers. The few limitations that employers have to comply with in regard to redundancy may add to this risk of exclusion from the labour market. There could also be other, often inter-related, causes of exclusion from the labour market, such as health problems, a lack of formal or informal skills, age or ethnic background.

Over the 40-year period from 1960 to 1999, the number of full-time employees receiving some form of income transfer increased from about 200,000 people to over 800,000 people, which is equivalent to nearly one quarter of all adults aged between 15-66 years. Immigrants from non-Western countries face especially severe difficulties in accessing the labour market (Pedersen, 2002). The difficult employment situation for immigrants is clearly reflected in the participation and employment rates for immigrants, as compared with people of Danish origin. While participation rates for people of Danish origin are close to 80%, immigrants from non-Western countries display participation rates of about 50%. Immigrants from Western countries have participation rates higher than those of other immigrants, but lower than those of native Danes. Similar differences are found for employment rates. As is discussed in more detail below, this situation puts anti-discrimination and integration measures high on the political agenda.

From a broader perspective, yet still closely related to the overall political target of increasing total employment, several programmes aim to make the Danish labour market more inclusive for people with some form of reduced employability. Apart from initiatives to integrate ethnic minorities, the Danish NAP of 2003 thus points to a number of activities to promote a more inclusive labour market (The Government, 2003, pp. 38-39):

- Most general agreements in both the public and the private sector include some form of “social chapter”, where social partners declare their intention to apply any agreements in a flexible manner that allows for equitable and adapted work options for people with a form of disability.

- The Government also states its support for the promotion of corporate social responsibility. One example is given through the social index, which is a self-evaluation instrument for enterprises. Through dialogue between the management and the employee the extent to which the enterprise will be able to meet a number of social responsibility criteria will be determined.
- An important programme for promoting access to the labour market is the “flex job” scheme, which is targeted at people who have long-term work capacity limitations and who are not able to obtain or maintain employment on ordinary terms within the labour market. During the 1st quarter of 2003, a total number of 22,881 people were employed in “flex jobs”. Flex jobs may thus be established with both public and private employers. Subsidies might also be granted to self-employed people in order to enable them to continue with their work activities.

The overall aim, which is also integrated into the new Act on anticipatory pensions, is that active measures should take precedence over passive support. “Flex jobs” should thus be considered as an alternative to the anticipatory pension. In their recent survey of active labour market policies for disabled people in Denmark, Høgelund and Pedersen (2002), point to a number of positive effects of the flex job scheme and other similar programmes. The participants appear to find it satisfying to be productively engaged with activities. On the other hand, there are also some negative aspects due to the positioning of the flex jobs somewhere between the ordinary labour market and the social system. Participants sometimes find that this has led to contradictory expectations from both the employers and the colleagues. These negative experiences depend, to some degree, on whether the flex job employees are recruited directly from ordinary employment or from a social assistance scheme.

### ***Work organisation and work-life balance***

Denmark’s high employment rates, which encompass that of women’s employment, are reflective of effective child-care provision and other policies that diminish conflicts between work and family life which are at the core of the Danish welfare state. Thus day-care is provided for 68% of children between six months and two years and for 94% of children aged three to five years (NAP, 2003, p. 32). The leave scheme for childcare, which was introduced in 1993, was integrated into a new programme for maternity leave in 2002, with high levels of flexibility that allow both parents to continue with their working life whilst being responsible for caring for small children. Maternity leave can, therefore, be taken part-time or can be allocated over several years, until the child is nine years of age.

### ***Diversity and non-discrimination***

The low employment rates and high levels of unemployment amongst ethnic minorities of non-Western origin has placed issues of diversity management and integration of ethnic minorities at the top of the Danish political agenda (Integrationsministeriet, 2003). These issues played a central role in the last general election in 2001, and the new Government immediately created a new Ministry for Refugee, Immigration and Integration Affairs ([www.inm.dk](http://www.inm.dk)).

For newly-arrived immigrants and political refugees recent policy developments have stressed the importance of attaching integration processes as a whole to the labour market (Regeringen, 2002, 2003c). Emphasis is also placed on co-operation with the social partners within the integration process. In May 2002 a general agreement was reached between the Government, the social partners and the

municipalities with regard to their shared responsibility for the integration of immigrants. The agreement focuses on a step-by-step transition from introductory measures (basic vocational training etc.) to traineeships, on-the-job-training and ordinary employment. The social partners have committed themselves to adapt to general agreements in order to provide options for special conditions of work and pay that are compatible with this model that is designed for introduction into the labour market.

Another important element in the present strategy is the programme entitled start-help, which was introduced in July 2002. Individuals who have not lived in Denmark for at least seven out of the last eight years are not eligible for normal cash benefits, but instead to a lower social benefit, which aims to act as a strong incentive to seek normal employment. The difference between start-help and normal cash benefits varies according to family situation, but is typically between 30 and 50%.

A third element in the strategy is the use of individual contracts, which are prepared between each participant and the municipality. The contract defines the right and obligations for both the immigrant and the local authorities and lists the steps towards ordinary employment. The Act also implies that monthly cash benefits are reduced if the immigrant does not participate in the activities that are defined by the contract.

Those members of ethnic minorities who are not covered by the special programmes for newly arrived immigrants have access to the same programmes and instruments of labour market policy as the rest of the population. For unemployed persons who are members of an unemployment insurance fund, this implies the right to unemployment benefits and participation in labour market programmes (as defined by the law on active labour market policy). Non-insured unemployed people are the responsibility of the municipalities and may also take part in activation and other labour market programmes. A number of special initiatives have been taken in order to improve the situation of immigrants and ethnic minorities within the framework of general labour market policy. Thus unemployed people from ethnic minorities are often picked as one of the target groups for early activation programmes and programmes are tailored in order to meet the special needs of this group.

Only one measure – the so-called *icebreaker scheme for ethnic minorities* – is a wage subsidy targeted solely on persons belonging to ethnic minorities (defined by being an immigrant or a descendant of an immigrant from outside the Nordic countries or Northern Europe). The subsidy has a maximum of 11,000 DKK (EUR 1,480) per month and is calculated as 50% of gross wage for a maximum of six months. The icebreaker scheme for ethnic minorities was evaluated in 2001 (Arbejdsmarkedsstyrelsen, 2001). The evaluation showed that 71% of the participants continued in employment after the end of the project. Another 4% continued with further education. About two-thirds of the participants reported that they benefited from the education they received while participating in the scheme.

### ***Social dialogue and worker involvement***

The Danish labour market is highly organised. In 2002 about 83% of the wage earners were members of a trade union, and 85% of the employees were covered by collective agreements (Dansk Arbejdsgiverforening, 2003, p. 246). The collective agreements also stipulate that works councils must be established in all workplaces both in the public and the private sector. Furthermore, the employees have the right by law to elect representatives as members of the board in joint-stock companies

having more than 35 employees. A decentralised social dialogue based on various forms of direct representation is therefore a strong element in the culture of Danish work places. The high level of job satisfaction found among Danish employees probably also reflects this situation.

At a national level, the social partners support the development of quality of work through various methods. Thus the Danish Confederation of Trade Unions has launched a campaign for the promotion of the “developing workplace” (LO, 1999) and, as noted above, the social partners are strongly involved in the Government’s efforts to improve the work environment. This rather harmonic picture of the Danish labour market is also reflected in a rather low level of industrial disputes apart from those that are related to the regular negotiations concerning the renewal of collective agreements.

### ***Overall work performance***

By international comparison, the performance of the Danish employment system has been positive during the last decade. Unemployment was cut by more than 50% between 1993 and 2002. Employment increased by about 8% both in the private and the public sector; productivity and real wages have been rising and employment rates are the highest in the EU for most age groups. This positive situation is also reflected in most international evaluations of the Danish situation including those of the ILO (Eggers et al, 2003) and the assessments of the Danish National Action Plans. However, as it is also stressed in the Danish NAPs, the changing demographic compositions of the Danish population poses a long-term challenge, which calls for a further reduction of the share of the adult population outside the workforce. Special emphasis is on the weak employment situation of immigrants and on efforts to reduce the inflow to early retirement schemes of various kinds.

### ***Conclusion***

The quality of work is an issue high on the Danish political agenda. This is a reflection of several factors. Firstly, as spelled out in the Danish NAPs, quality of work is seen not only as important in itself, but also as a tool for reaching the overall target of increasing employment in the longer term. Secondly, the strong involvement of the social partners in the formation and implementation of labour market policy and a well-developed social dialogue strengthens the emphasis on work-related issues. Finally, the quality of work has become an important political issue, simply because working life for most Danes constitutes a very essential element of daily life, not only as a source of income but also as an important framework for their social identity and personal development.

As indicated by the overview of the various aspects of quality of work spelled out in this article, the outcomes are generally rather positive. The various policy initiatives show that there is still plenty of room for improvement, for instance with respect to the work environment or absence due to sickness. Measured by most indicators of quality of work, the Danish situation reflects a tradition for gradual, but steady improvements in working life.

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# Germany

## Quality of work

In the 1970s, “quality of work” was one of the major topics involved when employment policy and social policy were under discussion in Germany. The Scandinavian programmes designed to humanise work served as a model, and similar programmes were implemented in Germany. With the aid of public funds and intensive enterprise involvement in many action-based projects, occupational health and safety and accident prevention were improved, job requirements were expanded and enhanced, and employee participation was also improved. The social partners were integrated into these programmes and put the results into practice at sectoral level, often working together on this. Sometimes working conditions were even redesigned via collective agreements. An example of this is framework collective agreement no. II in Baden-Württemberg, which provided for minimum cycle operation times for the performance of work, thus effecting substantial changes in monotonous assembly-line work and repetitive individual jobs.

Nowadays this topic has receded into the background in Germany. High unemployment means that nowadays the talk is almost exclusively of creating new jobs. In some cases, good working conditions and, in particular, appropriate wages are actually seen, in employment-policy terms, as obstacles. In this context, it is often argued that a bad job is still better than no job at all. Action to improve job quality has to justify itself by helping to increase productivity. The packages of measures under discussion in the European Union under the heading of “job quality” are included in the public debate, but they are tackled separately from one another in various specialist discussions. At the same time, the link between quality of work and productivity is given a more central role in the

debate than hitherto. This illustrates the shift in emphasis. Improving the quality of work is not seen as an end in itself, but also and above all as something that helps to increase productivity and make companies more competitive.

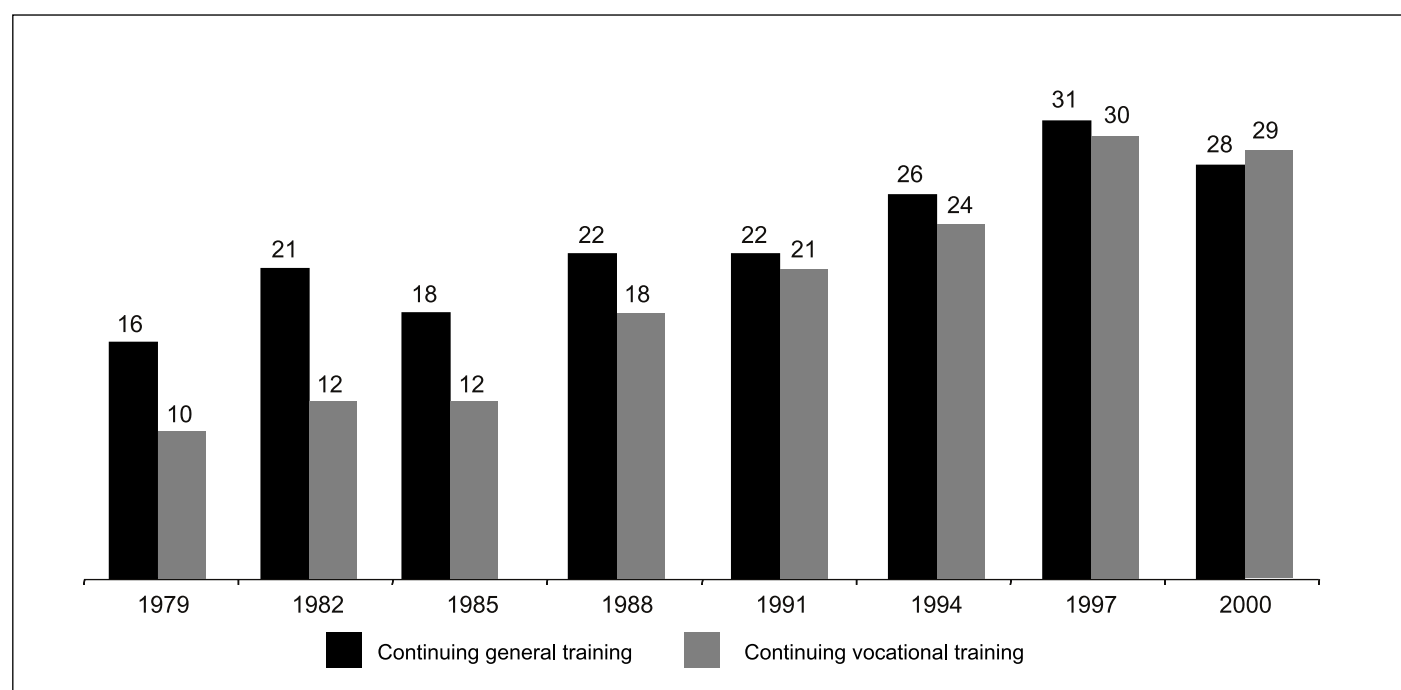
In what follows, we shall address certain selected aspects of quality of work. We cannot cover the whole topic here, and so we must bring out the main points. In Section 1, we discuss the various possibilities for participating in lifelong learning, and in Section 2 we outline new agreements between the social partners in this area. In Section 3, we address the issue of reconciliation of work and family, and in Section 4 that of occupational health and safety and intrinsic qualities. Flexibility and safety, and the link between quality of work and productivity, are treated as relevant aspects throughout the document.

## Lifelong learning and vocational development

Since 1979, the continuing-training reporting system has regularly surveyed the participation of 19 to 64-year-olds in formal continuing training, both general and vocational. There has been a marked increase in the participation rate since 1979, although it has fallen slightly again since 1997. In 1979 there were substantially higher rates of participation in continuing general training than in continuing vocational training, but this picture has since changed and the situation has now been reversed (Figure 1).

Participation rates are higher when other forms of learning are included. The “Financing of lifelong learning” committee appointed by the Federal Government commissioned two research studies analysing participation rates and prospects, and the costs

**Figure 1:** Participation in continuing general and vocational training



Source: Kuwan et al. 2003, p. 25 and p. 40



and benefits of continuing training. INFAS has developed its own survey, which it has used as a basis for analysing the structural characteristics of persons who do not participate in continuing vocational training. In addition to organised continuing training such as seminars and courses, this study also covers forms of continuing training relevant to work, “temporary” events such as specialist lectures or trade fairs, and self-organised learning provided it is purposeful and geared to the relevant occupation (Schröder/Schiel/Aust 2003). Büchel/Pannenberg analyse participation in formal continuing general and vocational training and the benefits of training, using the socio-economic panel (Büchel/Pannenberg 2003).

The broader definition of continuing training adopted enables INFAS to identify a substantially higher participation rate amounting to some two thirds within the past year. Using a narrower definition relating to organised learning, Büchel/Pannenberg find a rate of 30%. A comparison of the rates shows that more people take advantage of informal measures and learning situations than of formal continuing vocational training. Both studies find that both willingness to participate and opportunities for participating in lifelong learning are unevenly distributed. Multivariate analyses of the two studies produce the following results:

- There is a high risk that people with a low level of school-leaving qualifications and vocational training qualifications will also not participate in continuing training later in life.
- In comparison with people with qualifications from vocational schools and institutions of higher education, those with no vocational training qualifications are at greater risk of not participating in continuing training.
- Part-time workers and the unemployed have a higher risk of not participating than those in full-time employment. “Marginal” part-time workers are even more unlikely to participate in continuing training.
- Civil servants and white-collar workers are very likely to participate, but blue-collar workers are not very likely to do so. In contrast, participation is significantly higher among the self-employed than among employees.
- The smaller the company in which people work, the greater the risk that they will not participate. As from a company size of approx. 250 employees, the ratio of participation to non-participation ceases to change. Employees in large companies receive financial support from their employers more often than is the case for employees in smaller companies.
- Participation in continuing training is very strongly influenced by willingness to invest one’s own resources. This applies to all employees above a threshold level.
- Women without children participate less than women with children. As was to be expected, this “child” effect is not found in men with children. However, men who are single parents are in a situation comparable with that of women with children.
- Non-nationals are at particularly great risk of non-participation. Their level of participation in continuing training is well below that of the comparable German group.
- Surprisingly, when the other influencing factors are taken into account, age has no significant influence on continuing training activities. The lower participation rate of older workers is explained by the fact that on average they have fewer skills than the younger generation.

“No need to participate” is seen as the main reason for not participating in continuing training. Almost 60% of non-

participants cite this reason, and in particular people aged over 40, blue-collar workers, and employees whose jobs involve following orders or whose job specifications are changing only slowly (Schröder/Schiel/Aust 2003, p. 57). Other reasons cited were too many family, job-related and financial responsibilities, and a lack of appropriate provision.

When participating in continuing vocational training in particular, most participants also specifically expect to benefit personally. Of those surveyed in the context of the continuing training reporting system, 70% to 90% stated that the continuing vocational training measure had been worthwhile for them. “Soft” factors relating to quality of work (e.g. “can do my work better” or “got to know my fellow workers better”) were actually more important than hard factors such as promotion or a higher wage/salary (Table 1).

**Table 1:** Changes in working situation as a result of continuing vocational training in Germany, 1997 and 2000 (%)

Beneficial aspects	1997	2000
Can do my work better than before	82	78
Improved career prospects	65	62
Got to know my fellow workers in the company better	40	40
Helped me to cope better with everyday tasks	45	39
Know more about how things relate to one another at work	42	39
Gone up to a higher wage band	18	23
Have been promoted	17	18
Would otherwise have lost my job	13	12
Got a new job	11	11
None/no information provided	6	6
Major changes	1997	2000
None	45	40
No information provided	3	3
Total	100	100

Source: Kuwan et al. 2003, p. 295.

For the first time, Büchel/Pannenberg (2003) calculated specific returns on participation in continuing vocational training, with the following results:

- For Western Germany, in the 20-44 age group they found an average increase of 4.5% in gross monthly income following a continuing training measure (Eastern Germany: 7-8%). No increase was found in the 45-64 age group.
- A significant effect on careers was demonstrated only in the case of men with full-time jobs in Western Germany, for whom the likelihood of promotion owing to participation in continuing training increased by 2 percentage points.
- Only in the 20-44 age group did continuing vocational training reduce the risk of becoming unemployed (by 2 percentage points in Western Germany and 5 percentage points in Eastern Germany).

Improved earning and career prospects following continuing training can be assumed to go hand in hand with productivity increases at enterprise level.

A number of conclusions can be drawn from these studies for a policy of promoting lifelong learning in Germany:

- It may be entirely reasonable not to participate in continuing training. If older workers do not improve their prospects on the labour market despite continuing training, or if the requirements in the enterprise do not change owing to a lack of technological and organisational change, it may make no sense to invest in continuing training. If there is a wish that more low-skilled workers should take part, the best starting point is to change the work organisation in the enterprise and to create a working environment that promotes learning. The participation of older workers in continuing training in Germany fell owing to the policy on early retirement on a bridging pension, which reduced the return on training owing to the brevity of their time on the labour market.
- The strong influence of initial general education and vocational training on participation in continuing training shows how important it is to offer a second chance to workers with no school-leaving or vocational qualifications.
- The low level of participation in continuing training on the part of “marginal” part-time workers, part-time workers working very few hours, and women who have children and have had career breaks shows the risks implicit in deviating from the traditional standard employment relationship. Particular training opportunities need to be provided for “marginal” part-time workers.
- In a country of immigration like Germany, access for non-nationals to education/training and continuing training needs to be improved. There is a particular need to compensate for the substantial deficits in general education and language knowledge.
- Employees are fully aware of the importance of continuing training in improving the quality of work, and they see this as one of its main benefits. Education and training can improve many aspects of work, for example by reducing stress as a result of improved skills, improving co-operation in the enterprise, promoting health and safety, and reducing accidents at work.

The great importance of the work situation in the enterprise and a lack of change and innovation in the enterprise as factors inhibiting participation in continuing training indicates that appeals, improved provision, or even financial assistance are not enough on their own to motivate the missing groups to participate, if the work organisation is not changed. Financially speaking, it may be entirely reasonable not to participate.

### ***Social dialogue: agreements on lifelong learning***

In recent years, lifelong learning has become a key topic in the social partners' negotiations. Both sides agree that, firstly, lifelong learning by employees is a precondition for making companies more competitive and, secondly, passive protection for employees in the shape of protection against dismissal, etc., must be supplemented by an active component. Over this period, the social partners have concluded, at pay and enterprise levels, a number of agreements on the promotion of skills training. Some of these agreements are outlined briefly here:

- Under the collective agreement on skills training in the metal and electrical industries in Baden-Württemberg of 19.6.2001, employees are entitled to an annual interview to establish their individual skills training needs. After being with the company for five years, employees are entitled to leave of absence, with the option of returning, to participate in a skills training measure

that may last for up to three years. The parties to the agreement are jointly establishing a continuing training agency to promote continuing training in enterprises.

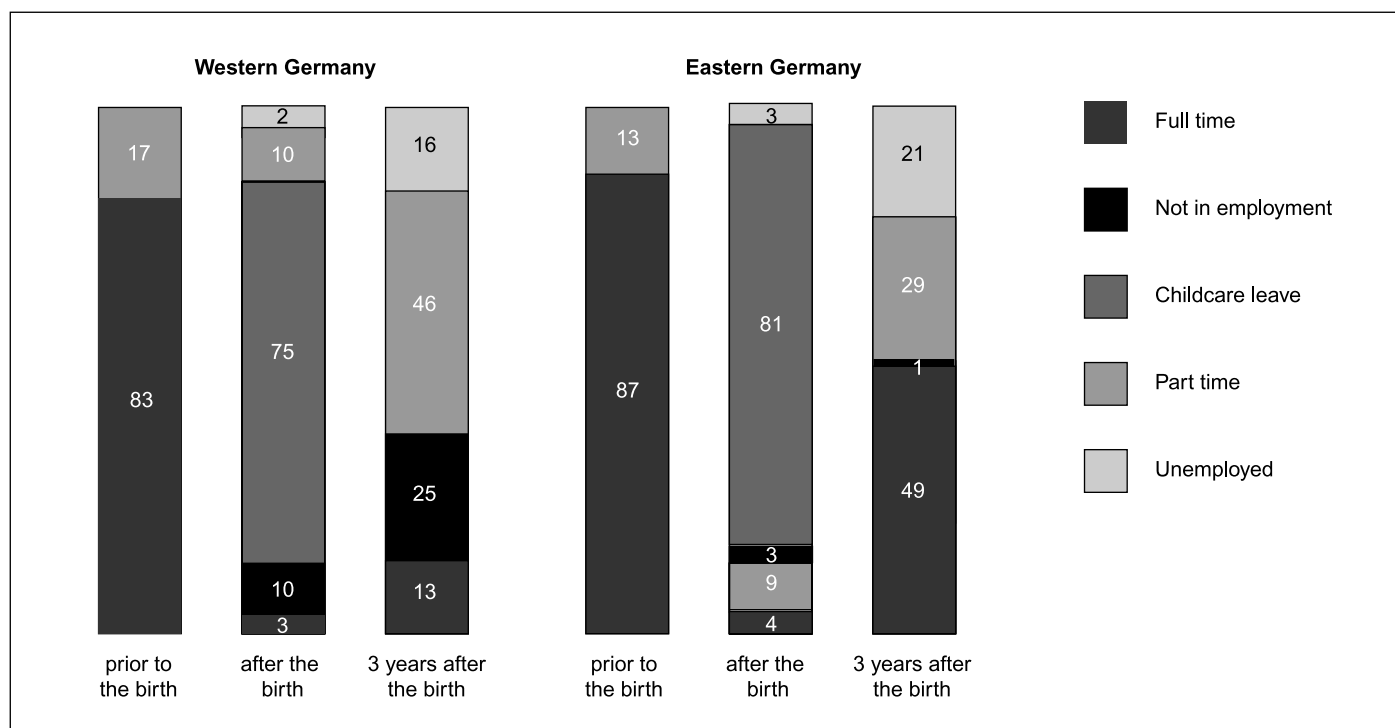
- In 2003, the mining, chemicals and energy trade unions and employers in the chemicals industry concluded a collective agreement on skills training. This agreement describes a framework that can be filled in by the parties within the enterprise – management and works councils – in voluntary agreements. By “skills training”, the parties to the agreement mean all enterprise-related and individual continuing vocational training measures. In contrast, job-related introductory training or training that is solely the enterprise's responsibility does not count as skills training within the meaning of the agreement. The costs of skills training are borne jointly by the company and the employee. The employee's contribution is normally provided in the form of time. This is “invoiced” via a working-time account in which employees save hours.
- The collective agreement concluded in summer 2001 for Auto 5000 GmbH, a subsidiary of Volkswagen AG, provides for three hours of continuing training time per week. Half of this skills training time is working time, and employees have to find the other half as leisure time. The company bears the actual costs of the skills training.
- An industrial agreement concluded by Deutsche Telekom in 1998 distinguishes between, firstly, specialist in-house continuing training geared to current in-house needs; secondly, continuing vocational training designed to extend the general skills level, and, thirdly, voluntary continuing training, which has to be self-financed. Funds amounting to 10% of the overall annual continuing training budget are reserved for the second form of continuing training cited.

Collective wage and enterprise agreements are, in particular, demonstrating new forms of cost sharing in vocational skills training. In the case of vocational skills training not aimed only at a specific job in particular, employees are expected to make a contribution in the form of time.

### ***Reconciliation of working life and family***

Germany is one of the EU Member States in which the employment rate of women with children differs most markedly from that of women without children (European Commission 2003: 18). Figure 2 shows the drastic effect of the birth of a child on women's employment situation. In Western Germany, only 13% of mothers of children aged under three work, most such mothers being on childcare leave. Once the child reaches the age of three, the majority (59%) return to work, but in most cases only part time. Some 25% of women are then unemployed. Very different employment patterns are found in Eastern Germany, with a considerably higher proportion of women returning to full-time work once the child reaches the age of three.

The author of the study stresses that if women had continued to work after the child's birth, if necessary with reduced working hours, problems in returning to the labour market would have been avoided (Engelbrech 2002: 144). The legislature had already come to this conclusion. When new regulations on childcare leave were introduced in 1992, they made it possible to work part time at the same time for up to 19 hours. Almost one company in two would have offered women this possibility. However, only some 10% of women entitled to do so made use of this possibility (Engelbrech 2002: 144). In addition, almost no use was made of in-house continuing training opportunities. Around 15% of companies

**Figure 2:** Employment status of women who worked prior to the child's birth\* in %

Source: Engelbrech G. 2002, p. 144.

offered women continuing training opportunities, but only 9% of women in Western Germany (8% in Eastern Germany) took advantage of them.

What women with children want by way of employment deviates considerably from their actual employment situation. In 15% of two-parent families with children under three, one partner currently works full time and one part time. However, 63% of women want this combination (Beckmann 2002: 5). Increasingly, it is not traditional concepts of the mother's role that are the crucial obstacle, but the lack of a childcare solution.

The childcare situation varies according to the age of the child. In Western Germany, the degree of childcare provision for small children under three is extremely poor (Table 2). In contrast, it is much better in Eastern Germany, and this goes a long way towards explaining the differing employment patterns of East German women. Childcare is available for most children aged between three and six. The good level of provision results from a statutory guarantee of nursery school places, which has been in place since 1996. In Western Germany, however, the majority of provision is available only in the mornings, which rules out full-time employment and often even makes part-time employment difficult, if it involves additional travelling time. In Eastern Germany, the majority of childcare provision is available all day. Only some 9.5% of all schoolchildren go to school all day, i.e. schools in which educational or childcare provision is offered for at least seven hours on at least three days a week. This means that many parents are additionally dependent on places in after-school care clubs (Standing Conference of Ministers of Education and Cultural Affairs 2004). In Western Germany, fewer such places are available for children aged over six than is the case with nursery school places for 3-6-year-olds, so that there is often another enforced break in employment. This too has long ceased to accord with the population's wishes. 87% of women and 79% of men see all-day schooling as a tool that makes it easier to reconcile work and family.

A majority of the population anticipate that it will improve individual support for children (68%) and their creativity (55%). Seventy-nine per cent support the introduction of all-day schooling in parallel with half-day schooling (Forsa 2003). The Federal Government has responded to this change in attitude and, following its success in the last Bundestag election, it has made €4 billion available for the expansion of all-day schooling.

As yet there are no estimates available of what it costs the German economy as a whole not to meet mothers' wishes as regards employment. Prognos AG was commissioned by the German Ministry of Family Affairs, Senior Citizens, Women and Youth to research, on the basis of company management accounting data, the effects on business management of family-friendly measures. The research has shown that costs averaging €34,804 ensue for companies as a result of the departure or career breaks of parents of young children (Figure 3). The costs vary widely depending on the skills level of those concerned. These costs include the costs of the unfilled post, recruitment, selection, appointment, training, further training and "breaking in" costs, and reduced performance during the breaking-in period. It is true that expenditure ensues from family-friendly measures, which range from advice programmes for parents and flexible working hours, teleworking and reintegration programmes to company-based or company-sponsored childcare, but they can help to bring about a substantial reduction in the costs of the career break. The ten companies investigated were able to reduce their costs by €18,975 per case. If all the measures had been implemented, it would actually have been possible to save as much as €26,982. The programme costs are more than covered by the increased profit for the company. The study also shows that the longer the career break, the more closely the costs of reintegration approximate to those of a new appointment. Family-friendly measures are economically beneficial to the company only if they reduce the duration of the career break following the birth of a child, as was apparent in all the companies investigated.

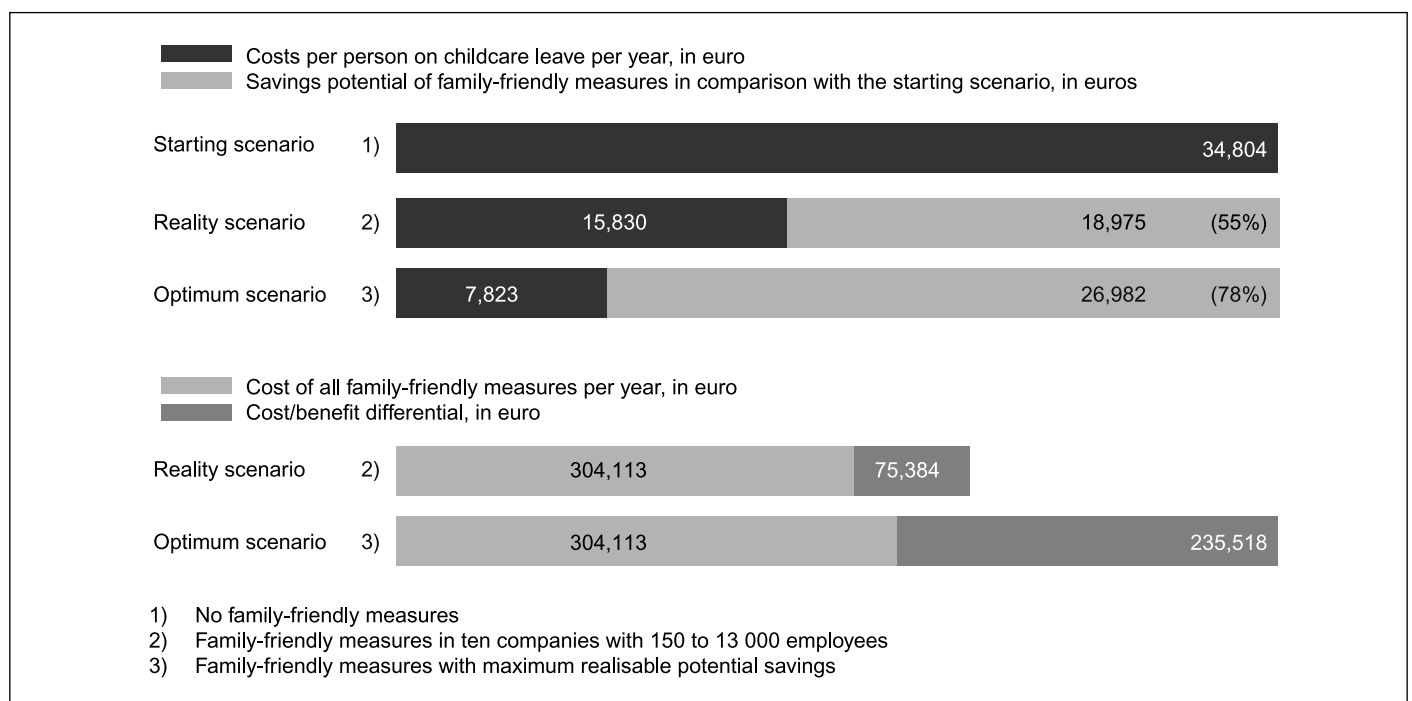
**Table 2:** Childcare rates on the basis of places available for children of crèche, nursery school and after-school club age by Land (31.12.1998)

	Childcare rate for children			All-day places as a percentage of places available for children aged 3-6½
	under 3	aged 3-6½	aged between 6 and 10	
Schleswig-Holstein	2.3	76.5	4.8	21.1
Hamburg	11.7	65.3	23.0	55.5
Lower Saxony	1.8	76.5	3.5	13.8
Bremen	6.8	82.2	16.4	36.4
North Rhine-Westphalia	2.5	81.6	4.5	22.3
Hessen	2.6	92.3	8.3	26.3
Rheinland-Pfalz	1.4	101.8	3.3	14.0
Baden-Württemberg	1.3	106.6	3.2	4.3
Bavaria	1.4	82.8	5.7	18.5
Saarland	2.5	97.2	3.5	8.7
Berlin (West)	23.4	70.2	34.8	93.6
<b>Old Länder</b>	<b>2.8</b>	<b>86.8</b>	<b>5.9</b>	<b>18.8</b>
Brandenburg	51.9	107.1	82.3	96.9
Mecklenburg-W. Pomerania	30.8	105.9	63.2	95.7
Saxony	24.1	114.3	69.2	97.6
Saxony-Anhalt <sup>1)</sup>	47.2	108.6	16.6	97.1
Thuringia <sup>1)</sup>	25.9	129.3	5.0	100.0
Berlin (East) <sup>1)</sup>	52.4	95.6	26.4	98.1
<b>New Länder</b>	<b>36.3</b>	<b>111.8</b>	<b>47.7</b>	<b>97.7</b>
<b>Germany</b>	<b>7.0</b>	<b>89.5</b>	<b>12.6</b>	<b>29.4</b>

1) Excluding places provided by school authorities

Source: City of Nuremberg, Bündnis für Familie [Alliance for family] (ed.) 2003: *Wohin mit den Kindern? [Where can we take the children?]*.

[http://www.bff-nbg.de/downloads/Wohin%20mit%20den%20Kindern\\_2508.pdf](http://www.bff-nbg.de/downloads/Wohin%20mit%20den%20Kindern_2508.pdf)

**Figure 3** Specimen company Families GmbH (1500 female employees, average of 20 departures on parental leave per year) with and without family-friendly measures

Source: Federal Ministry of Family Affairs, Senior Citizens, Women and Youth, 2003

## Health and safety at work and intrinsic job quality

The world of work has become safer in recent years. According to information from the umbrella association of the industrial trade associations, the number of notifiable accidents in Germany has been steadily decreasing for many years. In 2003, 985,000 accidents (accidents resulting in inability to work lasting more than three days) were reported, the first time the figure had fallen below one million (Table 3), and this figure is seen as confirming the fact that accidents at work have been in decline for many years. In the same year, the number of serious accidents at work resulting in permanently impaired health also fell to 20,600, a reduction of 3.6% in comparison with the previous year. The number of fatal accidents at work also fell, by almost 5%, to 774. The number of fatal accidents en route to and from work decreased even more markedly, by 14%, to 576.

The number of accidents at work and the trend in their number vary greatly from sector to sector (Hemmer 2002). The accident rate is highest in the construction industry and lowest in white-collar sectors such as the health service or commerce and administration. The number of notifiable accidents has fallen in all sectors since 1980, although at varying rates. The construction industry has retained its "leading" position in terms of accident numbers.

The health insurance funds ascertain data on the number of employees absent from work owing to sickness. Anybody who submits a certificate of incapacity for work from a doctor is treated as absent owing to sickness. The data relate to qualifying dates (persons unfit for work at the beginning of the month). Between 1974 and 2004, the percentage of employees absent from work in Germany owing to sickness fell from 5.55% to 3.60%. As Figure 4 shows, the percentage rises in periods when the economic trend is positive (e.g. 1989-1992) and falls in years when it is negative (e.g. 2002/2003). The number of such absences varies enormously depending on the occupation, with the highest level being found in industrial occupations and the lowest in white-collar occupations.

The highest figure is achieved by those cleaning and maintaining vehicles, with 40.2 days of absence from work owing to sickness per member per year, and the lowest by engineers working in mechanical engineering and vehicle construction, with one such day of absence per year (Zoike 2002: 33).

The reasons for the long-term reduction in the number of employees absent from work owing to sickness are as follows:

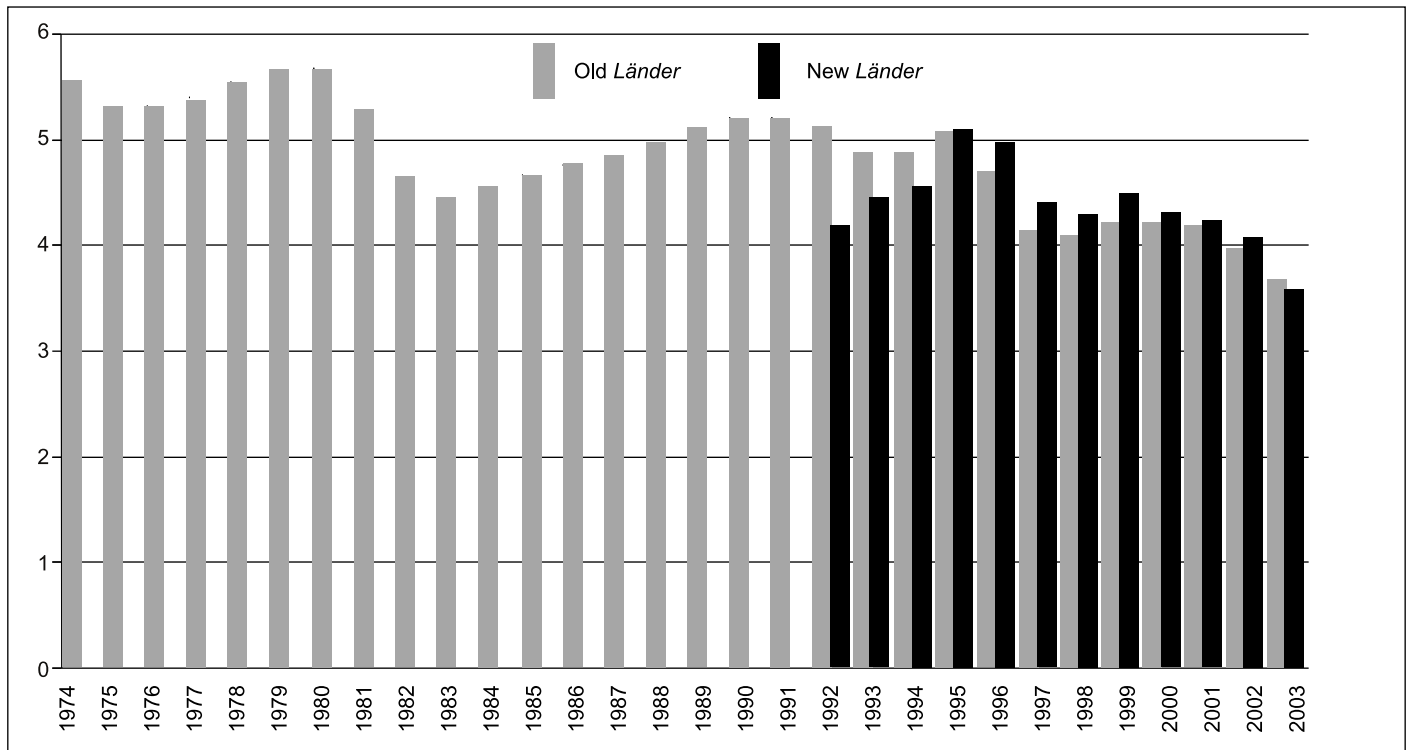
- Structural changes in industry, with declining proportions of occupations that are particularly subject to sickness, particularly in processing industries;
- Increases in hard-core unemployment, even in phases where the economic trend is positive, resulting in increased fear of unemployment;
- Preventive healthcare within companies;
- The policy on early retirement on a bridging pension, which has reduced the rate of employment of older workers in occupations with a high level of absences owing to sickness.

The decline in the number of accidents at work and of days lost owing to sickness has resulted in substantial increases in productivity and reductions in costs within companies. However, there is still a great deal of potential for further improvements in these areas. According to recent estimates, sickness-related costs ensuing from physical stresses amount to €28 billion per year and costs ensuing from mental stresses to €25 billion per year (Bödecker et al. 2002). In the case of physical stresses, the greatest costs are caused by heavy work/heavy lifting, with €23 billion, and by vibrations and hazardous substances with €7 billion each. In the case of mental stresses, minimal scope for action in one's work gives rise to the most costs, with €16 billion. When interpreting the figures, it should be borne in mind that they cannot be added together, since the stresses do not arise in isolation from one another in the world of work. One surprising fact is that with the transition to a service-based economy, physical stresses continue to be very significant, and a second is that so many employees have minimal scope for action even in service occupations.

**Table 3:** Accidents at work per 1000 full-time workers

Industrial sector	1980	1990	1995	1999	2000	2001	2002	Percentage change between 1980 and 2002
Mining	139.77	77.16	61.29	36.17	32.64	30.47	29.06	<b>-79.2</b>
Quarries, earthworks	120.19	83.69	77.21	67.66	61.54	54.81	51.81	<b>-56.9</b>
Gas, district heating and water	63.70	42.63	31.55	29.68	27.00	27.03	27.91	<b>-56.2</b>
Metal processing	115.86	77.78	67.27	58.41	54.55	52.19	49.82	<b>-57.0</b>
Precision eng. and electronics	35.02	26.99	24.86	21.13	21.43	20.51	19.77	<b>-43.5</b>
Chemicals	54.51	34.85	27.34	21.88	20.98	20.34	18.65	<b>-65.8</b>
Wood processing	150.9	107.89	87.18	83.90	82.61	80.03	76.22	<b>-49.2</b>
Paper and printing	71.30	46.67	39.70	29.26	28.13	27.74	26.41	<b>-63.0</b>
Textiles and leather	50.40	39.79	32.70	29.31	28.52	27.94	25.87	<b>-48.7</b>
Food/semi-luxury foods, etc.	103.35	75.23	58.48	55.38	55.84	54.54	52.39	<b>-49.3</b>
Construction	156.06	119.64	109.71	97.45	90.42	82.22	78.90	<b>-49.4</b>
Commerce and administration	40.83	29.97	26.48	22.17	22.31	20.98	19.75	<b>-51.6</b>
Transport	81.55	56.35	56.52	50.45	49.99	46.40	46.73	<b>-42.7</b>
Health service	22.29	27.86	22.48	16.81	15.94	15.54	14.42	<b>-35.3</b>
<b>Total</b>	<b>76.35</b>	<b>52.09</b>	<b>46.68</b>	<b>38.72</b>	<b>37.10</b>	<b>34.51</b>	<b>32.45</b>	<b>-57.5</b>

Source: Hauptverband der gewerblichen Berufsgenossenschaften [umbrella association of the industrial trade associations] and central information system of the statutory accident insurance fund, 2004.

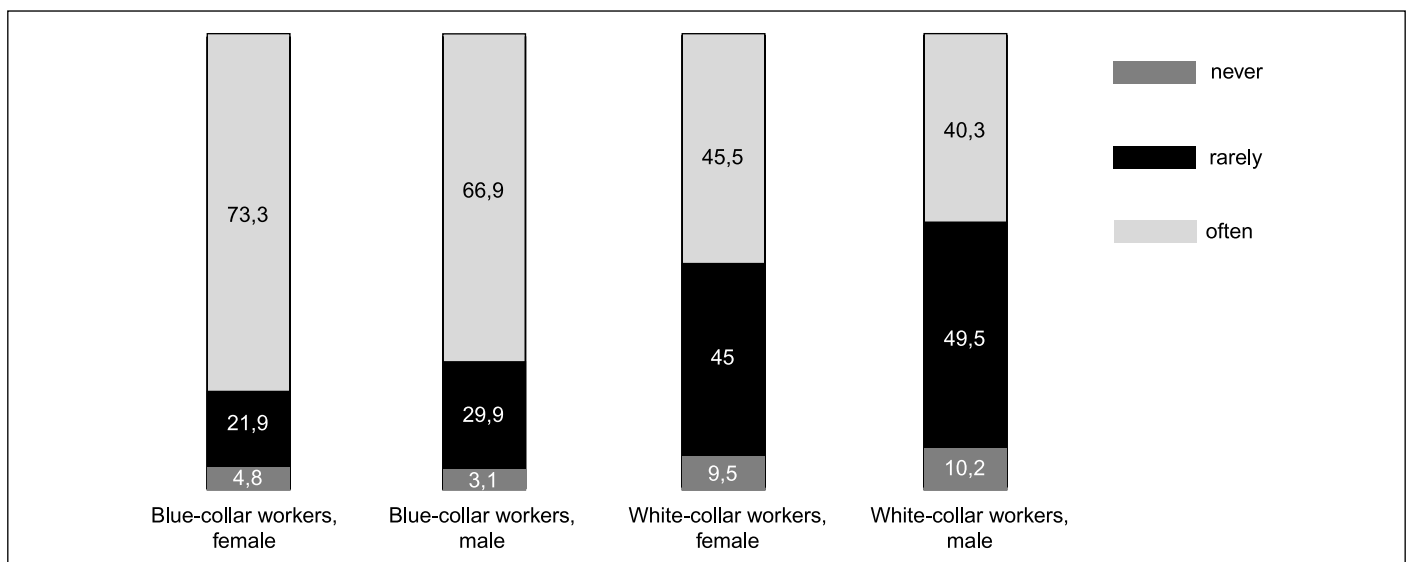
**Figure 4:** Trend in number of employees absent from work owing to sickness

Source: Federal Ministry of Health and Social Security 2004, p. 2.

A more detailed breakdown by occupations shows that even in service occupations, physical stresses (e.g. for nurses) play a large part. As a result of the Taylorisation of new occupations in, for example, sales, cleaning or call centres, high proportions of employees in white-collar occupations also have minimal scope for action (see Figure 5). A key starting point for prevention is to increase employees' individual scope for action via changes in work organisation (introducing group work, job enlargement, job enrichment, rotation). Changes in work organisation and health promotion are also economically beneficial to companies. Enterprise studies in Germany have shown cost savings as a result of reduced absenteeism in a ratio from 1:2.3 to 1:10.1.

These ratios do not yet include increases in productivity (Bödecker/Kreis 2002; Röttger et al. 2003).

Measurement of job satisfaction is a way of making job stresses visible. Since the overwhelming majority of employees, when asked in general terms, are satisfied with their jobs, a certain not unjustified scepticism has evolved in respect of this indicator. However, longitudinal data obtained by the same method are meaningful. Longitudinal data of this kind are available from the socio-economic panel for the years 1984-1998. Analysis of these data (Matiaske/ Mellevig 2001) led to the following results:

**Figure 5:** Stresses in the working population caused by "minimal scope for action", in %

Source: Röttger et al. 2002, p. 594.

- Declining job satisfaction can be seen in West German employees from the mid-1980s onwards.
- Key factors influencing job satisfaction are satisfaction with earnings, scope for action in the occupation, and conflicts with superiors.
- Longitudinal analysis of the panel data shows that the development of job satisfaction depends on coping strategies. People who hold on to their jobs are more dissatisfied in the medium term than people who change jobs or move to another company.

The authors of this study suspect that the declining job satisfaction in Germany is linked to a standstill in fluctuation as a result of the minimal economic growth. They cite as their reason the fact that dissatisfaction has increased, in particular, in people who have retained their jobs and see no prospect of changing jobs (Matiaske/Mellevigt 2001: 21).

In May 2001, Walter Riester, then Minister of Labour, initiated a national “new quality of work” initiative (INQA). This initiative was intended as a German contribution supporting the activities of the Nice European Council, and combining employees’ interest in healthy and humane work with companies’ interest in modern, competitive enterprises. The initiative comprises three strategic fields of action (Henter/Schlowack 2003: 31):

- Initiation and implementation of a broad societal debate on the future of work;
- Sectoral activities (development of joint plans and measures, to be implemented by every partner in the co-operation on its own responsibility);
- Trans-sectoral activities (development or dissemination of processes and tools for structuring work for appropriate fields of action, e.g. inappropriate mental stresses, effective public presentation of examples of good practice).

Specific measures are in progress in each field of action. One fact cannot, however, be overlooked, namely that in practice this initiative remains limited to the field of occupational health and safety, which confirms our opening comment that in today’s Germany, the subject of “quality of work” remains restricted to various specialist discussions.

## Conclusions

The main results of this analysis can be summarised as follows:

- Improvement in the quality of work can be shown to have positive effects on work productivity and to make enterprises more competitive. This has been demonstrated taking continuing training, family-friendly measures and occupational health and safety as examples.
- In addition to the positive effects of occupational health and safety on the employment capabilities of individuals (this has not been discussed separately here, as it is self-evident), it has been shown that lifelong learning has positive effects on their earnings, careers and job security.
- The minimal participation of part-time workers, in particular “marginal” part-time workers, in lifelong learning suggests that atypical workers are at risk of a long-term reduction in their employment capabilities, although it would be a mistake to concentrate exclusively on this group. Even those in stable employment but with few skills and, in particular, workers in jobs with minimal scope for action and a low level of technological change are excluded from learning and, in the long term, join the groups at risk on the labour market.

- Restrictive work organisation which narrows down employees’ scope for action and curtails their potential for development not only gives rise to high health costs, but also excludes employees from the job-related learning from which employees in innovative companies benefit. Thus expansion of the scope for action in the work organisation plays a key part in improving the quality of work.

Gerhard Bosch

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# Greece

## Introduction

Recent developments in the economic and labour market context have been encouraging in Greece, at least in relation to earlier periods.

Real GDP growth accelerated in 2002 to 4%, outstripping considerably the EU-15 average of 1.1%. Labour productivity grew in 2002 by 4.2%, more modestly than in 2001(4.5%), but far above the EU-15 average of 0.7%. Real unit labour costs continued to fall in 2002, but at a lower pace in relation to previous years (1.2% in 2002, compared to 1.9% in 2001). In general, growth performance has remained higher than the EU average during recent years, largely thanks to buoyant domestic consumption, the capital inflows of the 3<sup>rd</sup> CSF and the increased activity due to preparations for the 2004 Olympic Games.

Despite the strong output growth, many of the structural problems of the Greek labour market persist: the total employment rate is far below the European average (56.7% compared to 64.3%), especially for women (42.5%). For the last three years (2000-2002), Greece has experienced negative employment growth, while the unemployment rate, although clearly declining, remains above the European average (10% in relation to 7.7% in 2002). Women in particular face unemployment rates more than double the rate of men (15% compared to 6.6%). The long-term unemployment rate has declined to 5.1%, but remains higher than the EU average (3.0%), especially for women (8.3%).

More recent results, based on national data and on the results of the Labour Force Survey for the second quarter of 2003, indicate that the overall situation has improved somewhat in relation to previous years. More specifically, unemployment has continued its downward trend, although it is still high in relation to the EU average. At quarter two of 2003, the employment rate stood at 8.9%, which is the lowest level recorded since 1998.

The most recent results of the LFS (2003q2), also reveal some encouraging signs with respect to employment. Measured on a year-on-year basis, total employment recorded a clear increase in relation to 2002q2 (1.7%).

The latest figures on the performance of the Greek labour market reveal a mixed picture. On the positive side, some progress has been recorded in relation to the unemployment rate, while a modest revival of employment is also evident. On the other hand, it is clear that unemployment is still a pressing problem (particularly for the young and for women), and employment rates continue to be among the lowest in the European Community.

Turning to policy responses, measures to raise employment rates, combat unemployment and strengthen social cohesion are among the main objectives of the Greek Government. In contrast, the issue of quality in work appears to have attracted less attention, and it would be hard to maintain that there is currently an ongoing debate over the issue in political or academic discussions. To a certain extent such a situation is understandable. The weak performance of the Greek labour market, with the stubbornly low employment rates and the persistently high unemployment rates has caused the issues of quality in work to retract to the background. In effect, both the National Action Plan (NAP) Employment and NAP Inclusion put the emphasis on full employment. The objective of raising employment rates has obvious implications for the social cohesion objective, since the most important factor for the high poverty rates in Greece appears to be the low proportion of persons working. Hence with the exception of measures for health and safety, Greek NAPs hardly touch upon issues related to quality in work, and this is particularly noticeable in the case of intrinsic job quality, flexibility and security and work organisation. Other dimensions of quality in work however, such as gender equality, lifelong learning and diversity and non-discrimination, figure prominently in the Greek NAPs, presumably thanks to their association with the objective of full employment.

With respect to productivity and productivity change, Greece's experience deviates from the experience of most other Member States. To start with, productivity has been the main force behind the impressive GDP growth rates which have occurred during the last few years.

On the basis of a simple exercise, it is possible to break down the per capita GDP growth into its main components, labour productivity



growth and employment rate growth<sup>1</sup>. Table 1 presents the relevant data for both Greece and the EU-15 calculated for each year between 1991 and 2002, including projections for the period 2003-2004. This set of data helps to illustrate a number of observations.

First, as far as GDP growth is concerned, it is evident that Greece's income gap with the rest of the EU has been closing since 1996. Second, GDP growth in Greece appears to have been driven by productivity gains (rather than by employment gains), to a far greater extent than in the EU-15. This holds for every year, with the exception of 1992, 1993, 1994 and 1998. Third, productivity gains were very substantial during 1999-2002, but these were realised at the expense of employment (zero employment growth in 1999, -0.2% in 2000 and 2002 and -0.3% in 2001). Thus it would seem, that during the last few years GDP growth was made possible without resorting to higher employment. A similar trend is evident during 1996-97. During these years GDP increased, in spite of falling employment levels. A better balance between employment and productivity is forecast for the period 2003-2004. Productivity gains are expected to be somewhat smaller and employment change positive in relation to 2000-2002.

It is difficult to judge whether productivity is a more acute problem than employment in Greece, although it is unlikely that a single, definitive statement that holds for all regions, sectors or occupations can be made. Greece certainly needs to catch up in terms of productivity. Employment rates on the other hand are among the lowest in the Community. As a rule of thumb, therefore, Greece should opt for high productivity activities, which do not negatively affect employment.

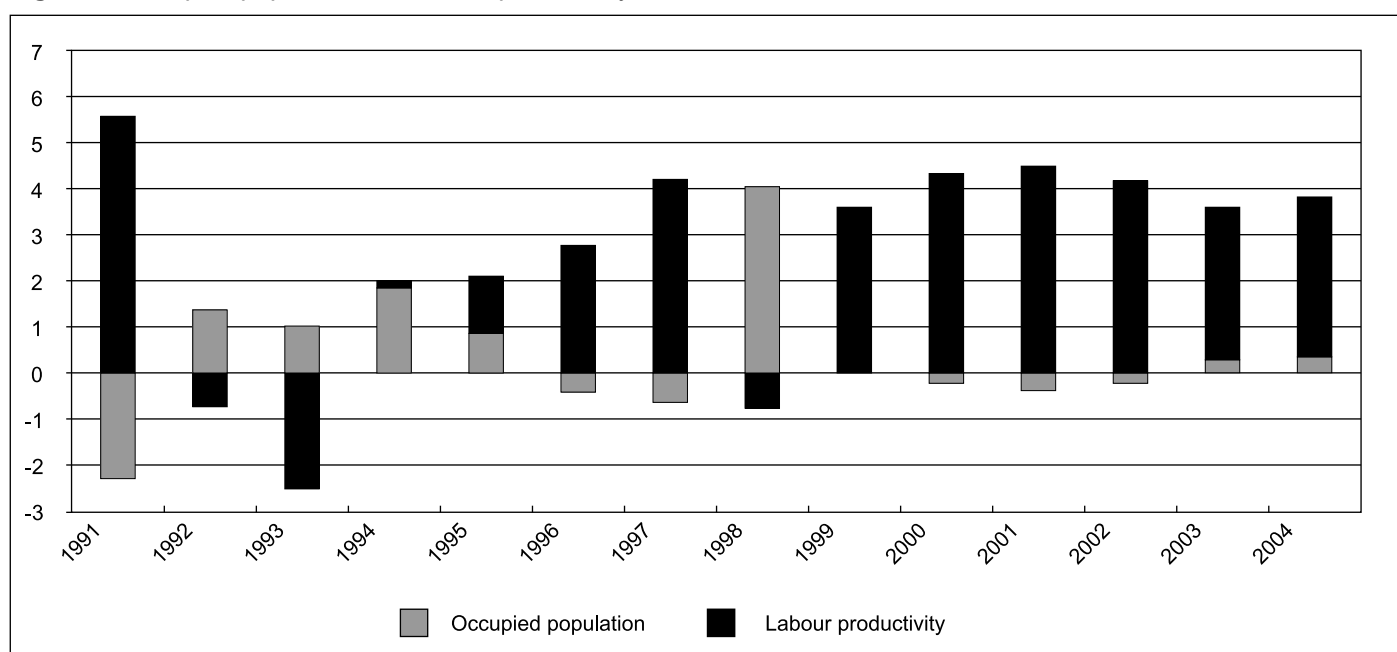
In conclusion, although there is little doubt that advances in productivity are positively correlated with quality in work and with longer-term sustainable employment growth, in the short term there appears to be a trade-off between employment and productivity. Greece is currently involved in a productivity catch-up and as a result employment levels have been left unaffected by the strong output growth rates prevailing. Given that labour productivity in Greece continues to lag behind the EU average, the margins for new gains are real and, it would seem, within reach. In effect, employment levels are not expected to increase drastically during the coming years, something which will limit the possibilities for attaining the Lisbon and Stockholm targets.

**Table 1:** Macroeconomic indicators, annual percentage change

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>Greece</b>														
Real GDP	3.1	0.7	-1.6	2.0	2.1	2.4	3.6	3.4	3.6	4.2	4.1	4.0	3.6	3.8
Occupied population	-2.3	1.4	1.0	1.9	0.9	-0.4	-0.6	4.1	0.0	-0.2	-0.3	-0.2	0.3	0.4
Labour productivity	5.6	-0.7	-2.5	0.1	1.2	2.8	4.2	-0.7	3.6	4.3	4.5	4.2	3.3	3.4
<b>EU-15</b>														
Real GDP	1.8	1.1	-0.3	2.8	2.4	1.6	2.5	2.9	2.8	3.5	1.6	1.1	1.3	2.3
Occupied population	0.4	-1.3	-1.5	-0.1	0.8	0.5	1.0	1.8	1.7	1.9	1.2	0.5	0.0	0.6
Labour productivity	1.7	2.6	1.5	2.9	1.6	1.2	1.6	1.1	1.2	1.5	0.4	0.7	1.2	1.7

Source: *Employment in Europe, 2003*

**Figure 1:** Occupied population and labour productivity, Greece, 1991–2004



<sup>1</sup>  $GDP \text{ per capita} = GDP/Pop = GDP/E \times E/Pop = Lp \cdot Er$ , where Pop: population, E: employment, Lp: labour productivity, Er: Employment rate

## Aspects of quality in work

According to the relevant Communication<sup>2</sup>, quality in work is a multidimensional concept, and depends on a number of components which interact with one another. This section assesses the progress made in Greece with respect to the different aspects of quality, using for this purpose the set of indicators proposed by the Commission.

In the area of **intrinsic job quality**, self-reported job satisfaction is low in Greece. One third of the employed population (33%) stated that they were dissatisfied with their job in 2000 (very low, low and rather low satisfaction). The equivalent average for those Member States for which information is available, is just 20%. It is encouraging however that the proportion of those dissatisfied with their job is clearly declining in Greece. The relevant percentage dropped from almost 40% in 1996 to its current levels, exhibiting a steady decline throughout the 1996-2000 period.

As regards transitions between non-employment and employment and within employment by pay level, the situation in Greece is not different from the situation prevailing in most other Member States.

The Greek NAP 2003-2006 devotes little attention on intrinsic job quality, as such. Various measures are envisaged, however, on related policy fields, such as increasing labour supply and active ageing and particularly making work pay through incentives to enhance work attractiveness. The recent reform of the social security system encourages older persons to remain active in the labour market, while newly-introduced measures have lowered the level of contributions for low-wage and newly-recruited workers. Greece is also currently reforming its tax system to make it more equitable and employment-friendly. In this frame, the NAP envisages the reduction of the tax rate for low-wage workers to 20% by 2006 (in relation to 34.3% which was the equivalent rate in 2001).

With respect to **skills, lifelong learning and career development**, educational attainment is lower in Greece in relation to the EU-15 average, but this is exclusively due to older persons having particularly low educational levels. The percentage of the working age population with at least upper secondary education was 52.7% in 2002, slightly higher for men (EU-15, 64.6% for both sexes). Progress is visible here, since in 1998 the relevant indicator was estimated at 47.5%. The indicators for the 25-34 age group are close to the European average, with women exhibiting high values (77.7% in relation to 75.7% in the EU-15). Participation in education and training for the 25-64 age group is very low in Greece (1.2% in 2002 in relation to 8.5% for the EU-15). This average rate ranges very little between the sexes, is higher for the younger age cohorts (practically negligible for older persons) and the inactive, as well as for persons with higher and intermediate educational qualifications. Furthermore, the proportion of employees participating in CVT courses in 1999 was among the lowest in the Community.

The Greek NAP emphasises the steps taken to close the “skills gap” separating Greece from the European norm by accelerating the introduction of information technologies across all levels and types of education and training. Reference is also made on a variety of measures, including the Second Chance schools, the spread of foreign language teaching, the all-day elementary schools, the strengthening of the technical-vocational education at the secondary level, the wide use of supportive teaching and the multiplication of educational opportunities at the tertiary level. Yet it is evident that educational and training opportunities for the adult segment of the labour force remain relatively limited, while the links between formal education (general and vocational), training (initial and continuous) and job-search assistance are still weak.

Finally, in the field of CVT, efforts to establish a training culture are ongoing, based primarily on the utilisation of EU funds. Training for the unemployed however, continues to be short-term and job specific (although training needs are still not recorded systematically), while the impact of training on employed workers remains unclear due to a lack of relevant evaluation studies.

Some progress is visible in relation to **gender equality** issues. With respect to pay gaps, the situation in Greece (2000) is not worse than in many other Member States. The same holds for gender segregation in sectors and occupations, where estimates for Greece are either close to or compare favourably with the European average. Differences of great magnitude do exist however in employment and unemployment rates. The absolute unemployment gap, i.e., the difference in unemployment rates between women and men was 8.4 percentage points in 2002, clearly one of the largest in the EU. Similarly, the absolute employment gap (-28.9 in 2002), remains higher than the equivalent for the EU-15 (-17.2 in 2002). Both employment and unemployment gaps have been declining steadily since 1999, but they still persist at levels considerably higher than in most other EU Member States.

During recent years, Greece has also strengthened care and support services considerably while guidelines for the application of equal opportunities are now uniformly adopted across most employment and training programmes. In setting targets for the future, the Greek NAP 2003-2006 envisages higher employment growth for women (2% per annum, in relation to 1.5% for both sexes) and further narrowing of pay gaps. Care facilities for children are also to expand considerably in accordance with European targets so as to cover a sizeable proportion of the population with children. In general, past attempts to foster greater equality among the sexes have started to bear fruit, and this is certainly manifested in the relevant indicators above. Given however that most of the distance separating Greece from the European average in terms of employment is due to women, there is still ample room for continuing efforts in this field.

As regards **health and safety at work**, the index of the incidence rate of accidents at work is declining in Greece. In relation to 1998=100 there were 88 serious and 85 fatal accidents in 2000. The number of accidents at work per 100,000 persons in employment has fallen from 2,936 accidents in 1998 to 2,595 accidents in 2000. These figures compare favourably with the EU average (4021 accidents in 2000).

According to national sources however, based on more recent figures, the situation is less clear cut. The Greek NAP stresses the progress made in the field of health and safety at work. Much of the recorded progress relates to the re-organisation of the Labour Inspectorate (SEPE) and is reflected in a (moderate) fall in the numbers of fatal accidents. More specifically, out of the total of 6,021 reported accidents at work in 2002, 153 were fatal, recording a small decline in relation to previous years. Yet the total number of accidents appears to have increased, from 4,032 in 2000, to 5,155 in 2001 and to 6,021 in 2002. It is not clear whether these trends indicate a real increase in the number of accidents, or are the by-product of better coverage. In any case, the largest single percentage of accidents at work, including fatal accidents, occurred in construction (17.6% of all accidents and 52% of fatal accidents). Further, it would seem that there has been an increase in fatal accidents at work suffered by foreign workers. Compared to 20 such accidents recorded in 2000, there were 38 in 2001 and 40 in 2002. In view of the intensification of the works for the 2004 Olympic Games, it is evident that measures must be tightened especially in the construction building and public works sectors, where a great number of foreign workers is occupied.

On **flexibility and security**, the Greek model of employment continues to be that of regular, full-time employment under

<sup>2</sup> Commission of the European Communities, 2003, *Improving quality in work: a review of recent progress*, COM(2003) 728 final.

permanent contract. The total number of employees having non-standard employment (part-time or fixed term contracts) is fairly limited. Furthermore, the incidence of non-standard employment is decreasing. The share of part-timers in Greece (3.9% in 2002) is among the lowest in the EU-15. Women in particular exhibit very low rates of part-time work in relation to the European average (6.8% in relation to 34.2%). Greece appears also to lag behind the European average concerning fixed-term employment, but the difference here is less pronounced than in the case of part-time employment. Most of the part-time work in Greece is involuntary and the same appears to be the case for fixed term, as well.

The Greek Government has taken steps to foster part-time employment, albeit with little success so far. Recent efforts (2001) included legislative measures designed to increase incentives and fight rigidities, while the policy focus has shifted into creating permanent part-time work posts in the public and quasi-public sectors of the economy. In general, part-time work exhibits limited prospects in Greece, a fact often explained by the grossly inadequate level of earnings commonly associated with this form of employment.

In relation to **inclusion and access to the labour market**, the total employment rate picked up more than one percentage point in 2002 and is now at 56.7%, much higher for men (71.4%) than for women (42.5%). The total employment rate is far below the European average (64.3%). Information on the transitions between employment, unemployment and inactivity (1999-2000) indicates that fewer people move from unemployment into employment in Greece in relation to the European average (37 in relation to 40) and that more remain unemployed (47 in relation to 36).

The long-term unemployment rate is high in Greece in relation to the European average (5.1% in relation to 3.1% in 2002), but it has been dropping since 1999. The decline has been substantial for women (down from 10.5% in 1999 to 8.3% in 2002). The youth unemployment ratio in Greece exceeds the European average by more than two percentage points (9.6% in relation to 7.2% in 2002), but the parity is exclusively due to women. The latter face ratios far above the average for the EU-15 (11.4 in relation to 6.8). In contrast, the male youth unemployment ratio in Greece is close to the European average (7.6% in 2002). As with the long-term unemployment rate, the youth unemployment rate also exhibits a declining trend during the last four years.

Recent policy responses to inclusion have focused on the introduction of the preventative and individualised approach to unemployment. In this frame, new Employment Promotion Centres are being established and job counsellors are being recruited and trained. In addition, the Greek NAP 2003-2006 envisages a variety of relevant measures, including the recruitment of 25,000 part-timers in social service work, programmes allowing for the transformation of unemployment benefits into employment subsidies and the opening-up of the eligibility criteria of employment subsidy programmes in favour of local authority enterprises.

The Greek NAP 2003 has also set a number of targets for the near future, including targets for employment and unemployment. With respect to unemployment, targets include reductions in the overall unemployment rate (down to 7% by 2006 and to 6% by 2008), as well as reductions in the female unemployment rate (down to 10% by 2006 and to 8% by 2008). All unemployed workers are to receive individualised assistance prior to reaching four months in unemployment (by 2008), while 30% of the long-term unemployed are to participate in active labour market programmes. With respect to employment, the Greek NAP foresees an annual employment growth rate of 1.5% (2% for women), convergence in average real

wages and labour productivity, permanent structures of part-time employment in the public sector, reductions in the tax rate for low earners (down from 34.3% to 20% by 2006) and sufficient provision of care services for children. Furthermore, the Greek NAP targets pay gaps between men and women and occupational accidents. Finally, targets include the doubling of expenditure on ALMPs (as a percentage of GDP) by 2008 and the reduction of those at poverty risk (to average EU-15 levels), also by 2008.

As in most Member States, when it comes to **work organisation and work-life balance**, parenthood has a negative effect on female employment rates and a positive effect on male employment rates. The employment rate for women with a child aged 0-6 was 5.2 percentage points lower than that of women without children in 2002. In relation to the EU average (12.7 percentage points), the gap in employment rates is relatively limited, presumably due to extended family arrangements and informal solidarity networks still prevailing in Greece. In contrast to women, the employment rate of men with children was, in 2002, 14.3 percentage points higher than that of men without children.

According to national sources, 13.8% of all employees worked with flexible hours in 2001<sup>3</sup>. The incidence of flexible hours was found to be high among farmers (28.4%) as well as among unskilled workers (19%). Flexible working arrangements affected a sizeable portion of all employees (30.6%), and so did work in shifts (18.7%). Thus, it would seem that flexibility in working time arrangements is not negligible.

Policy developments in this field include substantial investments in care and support services, as well as an ongoing debate on the possibility of a gradual reduction in contractual working time, with trade unions demanding a 35, instead of 40 hours week, without loss of pay.

On **social dialogue and worker involvement**, a drive towards decentralisation of the bargaining system is easily noticeable during that last few years and the same holds for collective agreements signed at the sectoral or enterprise level (instead of at the occupational level). Other than these developments however, collective agreements in Greece continue to focus on pay, failing to extend to new policy areas related to quality. Data on industrial action are grossly inadequate in Greece, precluding the reaching of safe conclusions.

With respect to **diversity and non-discrimination** and in relation to **older workers** (55-64 years of age), their activity rate stood in 2002 at 41.4%, having declined slightly since the mid-nineties, but above its 1991 level (40.4%). The overall rate hides variation between the sexes. Female activity rates are much lower than male ones (25.5% in relation to 58.1%). Female activity rates have been increasing however throughout the past decade. In contrast, activity rates for older men have been roughly constant, showing occasionally declining tendencies. Employment rates among older workers follow developments in activity rates closely. In 2002, the overall employment rate of older workers was estimated at 39.7%, slightly below the average for the EU-15 (40.1%). As with activity rates, male employment rates are more than double the equivalent rates for female older workers (56% in relation to 24.4%). In relation to the EU-15 average, Greece is lagging behind in the case of employed female older workers, but is above average EU levels in the case of male older workers.

It is noteworthy that the Greek NAP does not devote much attention to the issue of older workers, and sets no targets concerning employment and unemployment rates (in contrast to the general population and women). The fact that the subject of older persons in the labour market is a relatively neglected issue, can mostly be

<sup>3</sup> National Statistical Service of Greece, 2001, *Types and duration of working time in 2001*, Athens.

attributed to the high unemployment rates currently prevailing for young persons. Current conditions in the labour market do not favour the expansion of the labour force so as to accommodate increasing numbers of older workers. Yet Greece has a relative advantage here, given that activity and employment rates of older workers (and especially of the very old) are higher than in most other Member States. This is an area therefore where Greece could potentially contribute to the European Employment Strategy and the Lisbon targets.

With respect to **people with disabilities**, statistical information comes from a variety of sources and is far from homogenous with respect to definitions and data collection methods. On the occasion of the European Year of People with Disabilities (2003) however, an ad hoc module on the employment of disabled people has been incorporated in the 2002 LFS<sup>4</sup>, which yielded some estimates. These estimates are presented below.

Of all persons, 18.2% stated that they had a long-standing health problem or disability. Of these, more than half (10.3% of the total population) are aged between 16 and 64 years. The incidence of long-standing health problems and disability (LSHPD) appears to be lower in Greece in relation to the EU-15 average (16.4%). As elsewhere in the EU, the incidence of LSHPD rises steeply with age and is slightly higher for men than for women. Labour force participation is much lower for people with disabilities, as 84% of people with disabilities are outside the labour force compared to 58% for the general population. The unemployment rate among people with disabilities (8.9%) is lower than that for the general population (9.6%), but this may be due to the “discouraged worker” effect. The largest single occupational category of people with disabilities is that of farmers, followed by skilled workers and service and trade workers.

It is evident that Greece’s efforts to raise employment rates will be aided greatly by a substantial drop in non-employment and inactivity rates among people with disabilities (which are substantial). In this frame and although employment and training measures are now provided to more people with disabilities, further steps should be taken to foster their integration in the labour market.

Regarding **immigrants**, the principal source for assessing migratory trends is currently the latest Population Census (2001), conducted by the National Statistical Service of Greece. According to this set of data, in 2002, non-EU nationals exhibited employment rates significantly higher than those for EU nationals (68.4% in relation to 56.3%). During the same year, non-EU nationals residing in Greece suffered less from unemployment than EU nationals (9.6% in relation to 9.9%). During the last ten years or so, employment rates for non-EU nationals appear to have grown faster than those for EU nationals.

In the last few years, Greece has taken steps to modernise its migration policy. Procedures have been adopted for the regularisation of undocumented immigrants and in this respect, two regularisation exercises have been conducted so far. In addition, a new Action Plan for the social integration of all legally residing immigrants is being executed, as part of national immigration policy. The Action Plan for Immigrants 2003-2006, has a budget of 260 million euro and covers a variety of measures under six policy fields: information, labour market, culture, education and language, health services and temporary housing. As regards monitoring of trends, an Institute of Migratory Policy has been set up, which besides the task of research also has the task of supervising relevant activities. The impact of these policies is reflected upon the recorded improvement of the labour market situation of the immigrant population.

Finally, **overall work performance** appears to be improving fast in Greece. Per capita labour productivity has been increasing impressively during the last few years. In 2001, productivity growth was estimated at 4.5%, clearly the biggest growth rate recorded in the EU. In 2002 Greece exhibited the second highest rate in productivity growth (following Ireland), again considerably outstripping the EU average (4.2% in relation to 0.7%). GDP per hour worked, however, continues to fall seriously short of the European average (68 in relation to 100).

As noted earlier, the substantial productivity growth rates experienced in Greece have certain implications. On the bright side, catching up in terms of productivity is a positive sign. As most of the productivity gain originates in the private sector of the economy, this is an indication that future employment gains are in the pipeline. On the other hand, as Greek output growth currently runs at a pace close to or above potential, employment levels will have to remain at the same levels with the recent past, in order to avoid “over heating” of the economy. As a result, the Lisbon and Stockholm targets might prove unattainable for Greece.

## Conclusions

The review of the statistical information in the previous section, revealed a rather mixed picture. Under the majority of the quality indicators proposed by the Commission, Greece’s performance leaves much to be desired. In a number of quality components however, the distance separating Greece from the European norm is small and closing fast. As regards policy initiatives, Greece’s recent efforts have focused around prevention and activation, gender equality, lifelong learning, inclusion and health and safety at the workplace.

As with all multidimensional objectives, quality in work is hard to define, and further methodological work is clearly needed to clarify concepts and definitions. It is certain however, that national specificities and traditions play a role in shaping the interaction of quality in work with full employment and social inclusion. The overall employment rate in Greece (56.7%), is among the lowest in the Community and 7.6 percentage points below the EU-15 average in 2002<sup>5</sup>. Yet the labour reserve, i.e the proportion of inactive persons wanting to work, is the lowest recorded in Europe (1.4% of the working population in Greece, compared to 4.5% in the EU-15). At the same time, and in spite of a sharp increase in their numbers, immigrants in Greece exhibit the second highest employment rate in Europe (68.4% in relation to 52.6% for the EU-15 in 2002) as well as the second lowest unemployment rate (9.6% in relation to 15.8%)<sup>6</sup>. Perhaps the single most encouraging development related to quality in Greece is the recorded sharp rise in labour productivity, an indication that the share of low quality jobs is falling.

As noted in the introduction, the Greek NAP 2003-2006 devotes little attention to quality in work, and there is hardly any debate pertaining to quality currently going on, in either political or academic discussions. This can be attributed to the rather weak performance of the labour market in the second half of the Nineties and the need to concentrate efforts in raising the employment levels and fighting unemployment. Now that unemployment has declined and is projected to continue to drop and employment is increasing, there is certainly a need to re-direct attention to the issues of quality in work, and in particular to aspects such as intrinsic job quality, work organisation and the balance between flexibility and security.

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<sup>4</sup> National Statistical Service of Greece, 2003, *Survey of people with disabilities*, Athens

<sup>5</sup> The difference shrinks to 26pp, once account is taken of full-time equivalent employment, reflecting the low incidence of part-time in Greece.

<sup>6</sup> See Employment in Europe, 2003.

# Spain

## Introduction

The Spanish labour market is characterised by lower employment rates and higher rates of unemployment compared with the EU average. Faced with very high unemployment rates during the Eighties and early Nineties, employment policy was focused on reducing mass unemployment, rather than on increasing the quality of employment. Indeed, the strategy adopted attempted to increase labour market flexibility by reducing the cost of dismissals and promoting the use of fixed-term contracts. The focus was thus very much placed on quantity of job creation rather than quality.

## Aspects of quality in work

The *Agreement for employment stability* signed by the social partners and the government in 1997 brought a change in the strategy adopted to deal with high levels of unemployment. The objective of the agreement was to reduce the high levels of temporary employment with the aim of increasing employment stability. At the same time, there was a wider debate on the need to increase employment levels, particularly among women. Efforts geared towards increasing the educational attainment levels of the population continued.

More recently, and largely as a consequence of the influence of the European Employment Strategy, other aspects of quality in work are gaining increasing relevance in public opinion and government policy, such as gender equality and health and safety at work. Recently, the situation of non-EU national workers is also being debated, particularly in relation to the number of illegal workers. The NAP 2003 links job quality, productivity and employment growth.

The next sections deal with all ten dimensions of the concept of quality at work as set out by the Commission Communication. An analysis of these aspects points to the existence of a two-tier labour market where insiders benefit from stability and higher quality jobs, and outsiders suffer from uncertainty and precarious conditions.

## Intrinsic job quality

Job satisfaction has a great influence on quality of life due to the time spent working and seems to be positively correlated with productivity. Job satisfaction surveys show that the desire to have interesting work is top of the agenda, followed by a pleasant work environment, salary, and working time considerations. Stability is an aspect particularly valued by workers in the public sector. Almost 25% of employees declared themselves dissatisfied with their jobs in 2000, slightly above the EU average of 19%. Women and young people were generally less satisfied with their jobs. The same applies to workers in the primary sector and domestic services employees.<sup>1</sup>

Job insecurity is a common phenomenon on the Spanish labour market, particularly among low skilled and low paid workers. Data show that the likelihood of unemployment correlates strongly with low earnings<sup>2</sup>. However, at the same time, the potential to progress to higher earnings is slightly higher in Spain than in the rest of the

EU (27% as against 24%). The lack of job stability is also reflected in the nature of contracts signed. In the early Nineties fixed term contracts were introduced to ease entry to the labour market (reaching 31% of total employment). However, this strategy has failed to provide a pathway towards permanent employment (just 27% of the temporary workers in 1999 were permanent in 2000, while the ratio in the EU rose to 39%).

## Skills, lifelong learning and career development

The Spanish labour force can generally be characterised as low skilled. Although the share of highly educated people is similar to that in the EU, and the share of people with less than upper secondary education has declined in recent years, the proportion of the latter is still extremely high (58.4% as against the 35.4% EU average in 2002). A third feature of the Spanish labour force is the very low share of people with upper secondary education: only around 15% as compared to 43% in rest of the EU<sup>3</sup>.

Educational attainment rates vary considerably with age, gender and employment status. Young people are much more highly educated than older people; the share of those aged 25-29 who have not reached upper secondary studies is 38.6% compared to 82.0% among those aged 50-64, closing the gap with the EU. Moreover, 39.5% of young people have completed tertiary education, which is the highest level recorded in the EU. The challenge for the Spanish economy will be to take advantage of the greater stock of highly qualified people to boost knowledge-intensive sectors of the economy as well as entrepreneurship. Much has been done to encourage lifelong learning, to increase diversity and quality, and to reduce levels of early exit from school. The latter is still much higher in Spain than the EU average (29% compared to EU average of 18.8%; this rate has not improved since 1998). Educational attainment among women is generally lower than among men, although young women are already reaching higher levels of education than men, which should contribute to reducing gender differentials in labour market participation and working conditions in future. In Spain, educational attainment is strongly linked to labour market performance, making education and vocational training a policy priority.

The share of unemployed taking part in education and training was higher in Spain than the EU average (10.1% as against 8.3%) in 2002. However, ongoing training is not yet a priority in Spain, where just 47% of employees in enterprises with collective agreements on the provision of continuing vocational training (CVT) took part in such measures in 2002. Participation in CVT was even lower among workers in enterprises without such agreements.

Basic knowledge of ICT is increasingly a requirement for employability. The share of the Spanish population over 15 years skilled in ICT is one of the lowest in the EU (17% as against an EU average of 27% in 2002). Nevertheless, important efforts have been made in schools to familiarise students with ICT application and facilities here are on a par with the EU average. The greatest challenges will be to make ICT more available to low skilled and older individuals.

<sup>1</sup> The results given correspond to "Encuesta de Calidad de Vida en el Trabajo" – Ministerio de Trabajo y Asuntos Sociales

<sup>2</sup> In Spain, 5% of those employed in 1999 were unemployed one year later, compared to only 2% in the EU. The ratios among the lowest earning levels are 39% and 23% in Spain and the EU respectively.

<sup>3</sup> Source: The Social Situation in the EU 2003.

### Gender equality

Access of women to the labour market in Spain is much more difficult than in the rest of Europe, which is reflected in lower female employment rates and a much higher share of unemployment. Indeed, the differences between EU and Spanish labour markets are largely explained by the disparities between female labour market participation rates. This can partly be attributed to lower female educational attainment, particularly among middle-aged and older women.

Where women are employed, they are more likely to work on fixed-term or part-time contracts. Part-time contracts do not seem to play an important role in improving work-life balance of women, as only 1.6% of female employees have chosen this kind of contract voluntarily in 2002; this share rises to 10.9% in Europe. Spanish women suffer from higher segregation in sectors (19.4% as against 17.7% in the EU) and occupations (over 25%).

These levels of vertical and horizontal segregation account for much of the gender pay gap. In Spain, average female gross hourly earnings are 15% lower than men's, as compared to the 16% EU average. In Spain there is a greater pay gap in the private sector (23% lower in Spain and 21% lower in the EU), but a much lower pay gap in the public sector (3% lower in Spain and 12% lower in the EU). The gender pay gap has slightly worsened since 1994. Although the principle of equal pay for work of equal value has been recently introduced in collective bargaining, it is also necessary to address other sources of gender disparities, such as the difficulties women face in entering the labour market.

### Health and safety at work

Spain has the highest number of accidents at work per 100,000 workers in the EU. In 2000 this ratio was 7,052, compared to the 4,021 EU average. Moreover, in contrast to the improvement shown by the EU, the ratio in Spain increased by 506 accidents per 100,000 workers from 1998 to 2000. In 2002, there were 1,554 fatal accidents at work, an increase of over 40% compared with 1999. This figure cannot be explained by high employment growth, particularly in the construction sector, which registers far higher rates of labour accidents.

Despite its poor record, the debate on health and safety at work has only recently entered the public debate. Social partners share this increasing concern. An Agreement on the prevention of accidents at work and occupational diseases was signed in December 2002, and a new Law was passed in 2003. It is probably too soon to evaluate the effectiveness and scope of these measures, although trends appear to have improved of late. It is unlikely that one piece of legislation can make a significant difference. Cultural issues and the nature of employment contracts must also be considered, particularly as temporary employees tend to suffer from lower standards of health and safety and receive less training. Improvements also need to be made to inspections and legal sanctions for infringements of health and safety regulation. At the same time as considering the overall health and safety record, attention must also be paid to the challenges posed by new technologies, not least in the context of policies which seek to promote active ageing.

### Flexibility and security

Faced with high levels of unemployment and high costs of "hiring and firing" in the 1980 and early 1990s, temporary employment was strongly supported as an employment creation measure. Rates of temporary employment increased steadily up to 34.8% in 1995. Despite a slight reduction during the late nineties, it is still the highest rate in Europe (31.2% in 2002 compared to 13% in EU). While fixed term contracts may be seen as an instrument to enhance labour market flexibility and allow entry into employment, the reality has shown that transition from temporary to permanent employment has been limited in Spain.

High levels of temporary working also have significant implications for other aspects of quality, such as the gender pay gap, health and safety at work, intrinsic job quality and average productivity. Indeed, the short-term gains resulting from using temporary contracts could be outweighed by the productivity gains relating from greater experience, training and job satisfaction of workers. Employment stability can also act to make the employee more flexible and mobile; certainly, lower employment stability partly explains low geographical mobility.

Part-time employment, which could be seen as an instrument for gaining flexibility and improving work-life balance, is underdeveloped in Spain. In spite of efforts to promote its use<sup>4</sup>, part-time employment is only slightly above 8% in 2002, far from the EU average of 18.9%.

The principle of "*Gaining flexibility while maintaining stability*" is more and more considered by decision makers in Spain. Government and social partners signed an "Agreement for employment stability" in 1997. This agreement sought to promote the transformation of temporary to permanent employment by reducing dismissal costs for permanent contracts and introducing such costs for temporary employment. A recent "Agreement on collective bargaining" has introduced new concepts related to wage formation, flexible contracts, professional classification linked to occupational mobility, and flexible working time through the annualisation of hours.

### Inclusion and access to the labour market

Access to employment is relatively limited among the Spanish labour force: its **employment rate** is among the lowest in the EU – 58.4% compared to 64.3% in 2002. This is particularly true for women, with an employment rate of only 44.1%, compared to 55.6% of the EU average. Of particular concern in this context is the situation of older women aged 55-64, of whom only 2 out of ten are in employment (compared to 30.5% of EU average)<sup>5</sup>; and also the situation of younger women aged 15-24, whose employment rate is 10% below the EU average (27.4% and 37.4% in Spain and EU respectively in 2002). The **unemployment rate** in Spain is the highest experienced by the countries in the EU. Despite the improving performance over recent years in creating jobs, reducing unemployment, and converging towards EU levels, the long-term unemployment rate is still too high and is above the EU average (3.9% and 3.0% respectively in 2002), which is explained exclusively by the high rate of **female long-term unemployment** (6.3% and 3.6% respectively). Youth unemployment is three times higher than adult unemployment and is also well above the EU average (9.5% and 7.2% respectively).

Whereas the performance in relation to the transition from unemployment to employment is similar in Spain to the EU<sup>6</sup>, the

<sup>4</sup> Through benefits in social security contributions and the introduction of a correction factor of the working time equal to 1.5 in cases of access to retirement pensions.

<sup>5</sup> Lower employment rate in Spain among older workers exclusively affects women, for the ratio for older male workers is much higher in Spain than in the EU (58.6% vs 50.1%).

<sup>6</sup> Only 40% of those who were unemployed in 1999 were employed in 2000; 36% of them continued to be unemployed and the remaining 24% were inactive. These rates are similar both in Spain and across the EU.

level of exit from the labour market from employment into inactivity or unemployment is much higher (5% as against 2% of workers and 6% as against 4% of jobless). This is more acute among low qualified, low wage earners. Spells of unemployment are more frequent in Spain which is associated with the high rate of temporary work.

### *Work organisation and work-life balance*

The impact of parenthood on employment in Spain is larger for women than it is for men, as is the case in the rest of the EU. However, the difference in female employment rates with or without the presence of children aged 0-6 is smaller than in the EU. The peculiarity of the Spanish case is that the impact of parenthood on employment is to be seen almost exclusively among women with low education level<sup>7</sup>. This is significantly linked to the interaction between low pay and the cost of childcare.<sup>8</sup>

Therefore, while policies should aim at reducing difficulties in returning to employment after parenthood, they also need to consider the employment conditions of mothers, to ensure that going to work is worthwhile. Measures aimed at achieving a better work-life balance also have to be reinforced. Whereas care of children aged 3-5 in Spain is provided in school to 92.4% of families, problems persist for families with younger children of whom only 11% have access to care services. Moreover, there is evidence that the care of elderly relatives and other dependants also relies heavily on women.

An in-work benefit has been recently approved for working women with children under three of 100 euro a month (or equivalent 1,200 euro a year in fiscal benefits) to encourage women to remain attached to the labour market. Mothers and fathers of children under six, or with other family dependants, are entitled to reduce their working time by a third up to a half. Parental leave entitlements have recently been enhanced in the cases of adoption<sup>9</sup>.

### *Social dialogue and worker involvement*

The share of workers covered by collective agreement in Spain is relatively high and similar to the average depicted by the EU (around 80%). However, concerning the days lost by industrial disputes, Spain has registered the second highest record over the period 1997-2000 and the highest in 2001 (with 142 days lost per 1000 workers).

The involvement of the social partners in the European Employment Strategy (EES) in Spain has been characterised by the social partners themselves as insufficient. A redefinition of the role of the social partners in the employment strategy and in the NAPs would need to take place to remedy this situation. As already stated in this report, although social dialogue has resulted in important bipartite or tripartite agreements, in 2001 tripartite consensus was broken<sup>10</sup>, with the Government taking unilateral action on labour reform. In this context, the decentralisation of social dialogue arrangements to the regional and local level has played a significant role. The differences between autonomous communities with regard to employment and unemployment rates, as well as the devolution

to autonomous communities of responsibilities in the fields of employment and social policies, is mirrored in the existence of regional pacts in 11 of the 17 Spanish autonomous communities. The subjects that have been dealt with in the regional pacts are varied: in addition to the fight against unemployment, they deal with health and safety, conflict resolution and trade union rights<sup>11</sup>.

Although regional and local social dialogue may increase workers' involvement, due to its proximity to the territory, it is important that tripartite national social dialogue be reinforced. It would be important for innovative issues discussed in other countries, such as the reconciliation of work and family life, lifelong learning, equal pay, health and safety at work, etc., to be discussed and decided at national level in order to enhance its coverage.

### *Diversity and non-discrimination*

As already pointed out, several age groups have special difficulties in entering the labour market in Spain, such as older female workers and younger women aged 15-24. Measures to increase the participation of **older workers** in the labour market have recently been adopted, making retirement more flexible, limiting companies to resort to early retirement and offering incentives both to employers and workers to stay at work, even beyond the official retirement age. The effects of these measures are not yet known. However, measures aimed at improving the labour market situation of older workers, taking into account health at work issues, training or flexible work arrangements and age management by enterprises, have not yet been addressed. The same applies to the specific challenges facing older women in the labour market.

Activity rates among **non-EU nationals** is higher in Spain than among nationals but their unemployment rates are also higher, particularly among those with low levels of education. Though there are no disaggregated data to assess the quality of jobs taken up by immigrant workers, it can be said that they are more concentrated in the agricultural sector (especially Africans and East-Europeans), and in domestic services (East Europeans and Latin-Americans), which are not attractive for Spanish workers. It is also necessary to take into account the illegal immigrant population, which has been estimated to be around 500,000 people in Spain. The recently approved new law regulating immigration will deal with this issue, though concerns have arisen in the municipalities where irregular immigrants may register in order to access education and basic healthcare. Local authorities fear that these immigrants will stop registering, fearing themselves to be located and expatriated. It is important that Spain succeeds in limiting the growth of this group of potential workers without employment rights.

Spain is one of the countries in the EU where the level of insertion of individuals with disabilities is lowest. Only 4.2% of employed individuals have a disability compared to 12.7% in the EU<sup>12</sup>. The European Year of Disability ended in Spain with legislative measures aimed at adopting the European Directive against discrimination of people with disabilities at work. A quantitative target has been adopted by the Labour Ministry in the NAP

<sup>7</sup> The absolute difference between female employment rates among women with and without children is 8.8 percentage points in Spain and 12.7 pp in the EU as a whole. In Spain, the impact of parenthood rises up to 15 pp among poorly educated women, is zero among the moderately educated and 2 pp among the highly educated.

<sup>8</sup> Source: Economic and Social Council, CES, 2003, "*Panorama sociolaboral de la mujer en España*"

<sup>9</sup> Since 2000 the number of persons on parental leave has steadily increased, reflecting the recovering of fertility rates – due exclusively to immigrant women – but participation of men is still rather disappointing, though slightly increasing: in 2000, 0.97% of parental leaves were undertaken by men, a figure that grew up to 1.5% in 2002. Source INSS.

<sup>10</sup> This explains the high number of days lost in industrial disputes in 2001, caused by the general strike convoked by the trade unions.

<sup>11</sup> Aragón, J., Rocha, F. Torrents, J. (2001), "Pactos y medidas de fomento del empleo en las Comunidades Autónomas", Madrid, MTAS

<sup>12</sup> Source: Eurostat, *Employment of disabled in Europe 2002*, Statistics in Focus, Theme 3 – 26-2003

employment about increasing by at least 10% the number of employed **disabled** up to 2006. On the other hand, the NAP inclusion has enhanced the quota reserved for workers in public administration with disabilities from 2% to 4%. Criticism has been expressed in relation to the limited resources dedicated to vocational training and the lack of statistics to assess progress in this area.

### ***Overall work performance***

The level of labour productivity growth in Spain has been rather disappointing over recent years. Between 1998 and 2001 growth rates were much lower than the average, but finally recovered to EU level in 2002. In absolute terms, GDP per hour worked in Spain reaches only 82% of the EU average.

The performance of labour productivity is the result of all dimensions of quality analysed in this report. Low productivity growth in the past would, for example, be explained by rapidly growing employment but slow improvements in other areas such as that of ICT. Certainly, ICT expenditure in Spain as a percentage of GDP is slightly diminishing and is among the lowest in the EU, with 5.8% compared to 6.7%. On the other hand, as previously stated, despite recent improvements the Spanish labour force is still low skilled.

### ***Main results and conclusions***

Quality of work in Spain is low. Most of the indicators analysed in order to assess the relative situation of the Spanish labour market draw a rather disappointing picture. Job insecurity reflected in the widespread use of fixed-term contracts, low access of women to the labour market, high rates of accidents at work, and low educational attainment levels are factors which can serve to explain the disappointing performance.

The concern for improving quality has been centred on reducing levels of temporary work, promoting access to the labour market (particularly for women) so as to increase employment rates and reduce unemployment, increasing educational attainment of the population and, to a lesser extent, the improvement of the labour market situation of older and disabled workers. The results of

these efforts are positive, though the progress has been very limited, and hardly improve the relative situation of Spain compared to the EU.

Recently, the issue of health and safety in work has been addressed through a tripartite agreement. Nevertheless, the evolution of accidents at work over the last four years has been so disappointing that, even though there has been a trend improvement more recently, this issue must remain one of the most critical aspects of labour quality. With regard to ICT investment, its poor performance should be a greater cause for concern, not only because of its impact on present labour productivity, but also for future developments.

The disappointing evolution showed by labour productivity over the last few years, widening the gap with the EU, would reflect the trends commented on above. Low labour productivity growth points to a weak evolution of job quality over recent years in Spain.

The results presented in this report demonstrated the existence of a segmented labour market in Spain. This can partly be attributed to policies favouring temporary employment formulated in the 1980 and early 1990s. The failure of temporary workers to progress to permanent employment has produced a segmented labour market which is deterring the entry of low skilled women, young people and older female workers.

Breaking this segmentation should be at the centre of the efforts to increase job quality. Greater flexibility should be achieved by improving access to training and better work-life balance measures. The role of social partners in this context is crucial, and policies need to be developed regarding working time, geographical mobility, lifelong learning, child care, health and safety at work, etc.

The entrance of non-EU immigrants, both regular and irregular, is a challenge for the near future, to avoid losses in job quality levels attained so far. It is important to ensure that they have equal access as others to quality jobs.

*Elvira González Gago and Pelayo Roces Fernández*



# France

## Quality in work

The notion of quality jobs came to the fore at the Lisbon European Council in 2000 and has gradually come to be defined in terms of ten “dimensions”.<sup>1</sup> Though all the aspects it covers are present in national policies, when judging a job to be of good or bad quality the social actors still think in terms of skilled or unskilled jobs, though they are also concerned with the question of precariousness of employment, a notion widely used to define employment relations by French legislation and the public authorities, and in debate in the political and trade union spheres. In 2003, the National Action Plan for Employment specified, without however defining the concept of “quality in work”, the priority themes that must contribute to the quality and productivity of employment in France. The ten dimensions characterising job quality reviewed below put our country in a middle-ranking position within the European Union.

## Intrinsic job quality<sup>2</sup>

Work relating to intrinsic job quality was published for the first time in the INSEE publication, *Les Données sociales: la Société française 2002-2003*. According to the author, quality in work can be viewed in terms of a host of possible components.<sup>3</sup> A synthetic indicator that pulls all these components together might be the degree of job satisfaction, an indicator that has, in fact, been used at the European level to gauge intrinsic job quality.

If we judge quality in work on the basis of this indicator, the French situation is relatively good, in that all recent studies show work still remains an essential value. “Moreover, the French are satisfied both to have a job and with the job they have”.<sup>4</sup> According to the European Community Household Panel Study, 85-90% of French workers are satisfied with their jobs. Furthermore, this level of satisfaction rose very slightly in France between 1999 and 2000, whereas it is stable throughout the EU. Nevertheless, a survey carried out by INSEE in 2003<sup>5</sup> gives reason to temper this finding somewhat: only 48% of those questioned replied that they mainly had reason to be satisfied, as against 11% who felt there were greater grounds for dissatisfaction and 41% who found that the two balanced each other out. Though there are in fact some great disparities within these findings, these are not in any way gender-based, even though women’s position in work and employment is very different from men’s. It emerges from this survey that job satisfaction is linked mainly to level of education, since it is highest among those with a higher education and lowest among those with no educational qualifications. It also increases very distinctly with income. Moreover, the self-employed and public-sector employees display levels of satisfaction ten points higher than employees in the private sector. The breakdown by socio-professional category shows that the most satisfied by far are executives/managers and

professionals, followed by intermediate professions and tradesmen/shopkeepers, then agriculture, white-collar workers and, lastly, blue-collar workers. Lastly, those aged over 60 years are the most satisfied in their work, whereas 18-25 year-olds are the least satisfied. However, satisfaction does not increase uniformly with age as, after the over-60s, it is the 26-35 age group who declare themselves to be the most satisfied. Finally, the main reason for dissatisfaction is, generally, the level of remuneration.

The study carried out on quality in work defined 25 indicators to characterise this (see Table below) and cross-referenced these to several criteria (levels of initial training, socio-professional categories, sex and age). It was found that quality in work increases with educational qualification and the higher placed an employee is in the social hierarchy, the more likely he is to occupy a quality job. Blue-collar workers are therefore often the least well-placed, whilst white-collar workers occupy jobs that are generally close in quality to the intermediate occupations, but are more often subject to part-time working and low wages.

Taken overall, women’s jobs are slightly higher in quality than men’s in terms of the criteria selected, mainly because of the difference in occupations – more manual trades for men and white-collar employment for women. They are, therefore, less subject to a pace of work imposed by machines, while experiencing less noise at work, expending less physical effort, having fewer occupational accidents and working less at night, as a result of the legislation which until recently forbade them from doing so, except with special exemption. On the other hand, women are more often employed on fixed-term contracts and are subject to part-time working and low salaries. Lastly, quality in work increases particularly at the top end of the age scale: young people occupy low-quality jobs (precarious contracts, low wages, an imposed pace of work, exposure to accidents and part-time working, absence of guarantees against unemployment), though this improves with time and increases with occupational experience. Those aged 50 and over are often the best placed because they have acquired experience, but they are less well trained and find it difficult to extricate themselves from a situation of low pay or unemployment.

According to the European indicators, we find that, where transitions between non-employment and employment by pay level were concerned, in the period 1999 to 2000, though more than half of the employees belonging to the lowest decile have seen their situation stagnate, the same group in France are proportionally more likely to have seen their pecuniary situation improve and less likely to have moved into non-employment. On the other hand, transitions between non-employment and employment by type of contract between 1999 and 2000 show that the transformation of fixed-term into permanent contracts is proportionally lower in France, even if the situation has improved somewhat in recent years.

<sup>1</sup> Cf. Employment Committee Report, “Indicators of Quality in Work” (23 November 2001).

<sup>2</sup> This dimension refers to the characteristics of a particular job that make it satisfying for the worker and compatible with career prospects in terms of wages and status. The attractiveness of jobs is one of the necessary conditions for increasing labour market participation, as aimed at in the European Employment Strategy.

<sup>3</sup> Permanence of the job, risk of accident, physical working conditions, vocational training, skills match, career progression, risk of unemployment, access to the labour market, gender equality, pay, social benefits, hours of work, length of working hours, social dialogue, ambience etc...

<sup>4</sup> Danielle Kaisergruber, Bernard Brunhes Consultants, reporting for the “Observatoire du travail” created by BBC and BVA, first edition, October 2003. The findings of this “labour observatory” are to be published on a quarterly basis in *L’Express*.

<sup>5</sup> The “Histoire de Vie” (Life [Hi]story) survey, using a sample of 8,400, the results of which were published in DARES, *Premières Synthèses, Premières Informations*.

**Table 1:** The 25 indicators for characterising quality in employment

Indicator	Definition	Proportion of jobs affected (%)
Accident	Has had one work-related accident during year	8
Noise	Subject to loud noise at work	17
Fixed-term contract	Job of limited duration (fixed-term contract, temporary agency employment, assisted contract)	11
Sunday	Works on Sunday	29
Physical effort	Has to make at least three forms of physical effort out of six (standing, being jolted etc.)	39
Untrained	Has had no vocational training in the year	74
Night	Works at night	15
Non-collective organisation	No collective approach to matters of work organisation	31
Weekly rest < 48 hours	Does not have a break of 48 consecutive hours each week	27
<b>Remains on enforced part-time working (1)</b>	<b>Working part-time one year ago and still doing so</b>	<b>55</b>
<b>Remains on fixed-term contract</b>	<b>Was on fixed-term contract a year ago and still has no open-ended contract</b>	<b>73</b>
<b>Risk of unemployment</b>	<b>Was working a year ago and now unemployed</b>	<b>5</b>
Risks	Is exposed to at least 3 risks out of 12 (risk of burning, falling, poisoning...)	41
Externally determined pace of work	Works on a production line or at a pace set by the movement of a machine	9
Pace of work determined by demand	Pace of work set by external demand requiring immediate response	55
Pace of work determined by norms	Pace of work set by production norms or deadlines of less than one hour	22
Wages in lowest fifth	Earns a wage among the lowest 20%	20
Wages in lowest third	Earns a wage among the lowest 30%	30
<b>Wages remain low</b>	<b>Wage was among the lowest 30% a year ago and is so still</b>	<b>80</b>
<b>Wages remain low (variant)</b>	<b>Wage was in the lowest third of the distribution a year ago and has not risen to a higher decile</b>	<b>66</b>
No meal break	Does not have a break for a meal	14
Sense of responsibility	Considers that a personal error would have multiple consequences (3 out of 4: on product quality, company finances, safety or his/her remuneration)	45
Enforced part-time working (2)	Part-time working, but would like to work longer hours	6
Tensions with colleagues	Experiences tensions with superiors or colleagues	33
Tensions with public	Experiences tensions with the public	31

1. All the indicators are static, providing a snapshot of the situation, except those shown in bold type, which are trend indicators, enabling phenomena to be better understood by showing developments over time. The results displayed here are to be read as a proportion of the number of jobs as a whole, except in the case of the trend indicators, where the percentage is calculated from a base of those in the initial situation, and in the case of the earnings-related indicators, where the percentage is that of wage-earners as a whole.

2. The proportion of part-time working that is enforced or non-voluntary is 38%.

Sources: CEREQ, *Survey of Continuing Vocational Training, 2000*; DARES, *Survey of Working Conditions, 1998*; INSEE, *Employment Survey, March 1997 and March 1998*.

### ***Skills, life long learning and career development***

In spite of the scale of the resources devoted to education and training in France, the indicators defined at the European level show the French situation to be far from satisfactory. This relates to the effectiveness and performance of our education and training systems. Though the rise in the level of education and training of the population progressed steadily for 40 years, that rise has recently stabilised and the number of young people leaving the education system each year without qualifications is little changed over the last ten years. Moreover, the access to continuing training, which has been stable since 1995, remains highly inequalitarian (it is those who are already most highly trained who benefit the most from it).

Lastly, the theme of life long learning has not yet gained full acceptance in France. However, new perspectives opened up with

the signing in late 2003 by all the employers' organisations and trade unions of an inter-professional agreement on vocational training, which was transposed into a draft law submitted to Parliament in January 2004, reforming a scheme that dates back more than 30 years. Its most innovative aspect is the creation of an individual training entitlement which enables every employee to benefit from a training hours credit: this is designed to provide a response to the inequalitarian dimension of the present system.

### ***Gender equality***

Although the gap between female and male unemployment has narrowed, and though the proportion of women in the unemployment figures has diminished and improved concern has

**Table 2:** Recommended key indicators at the European level for measuring developments in “intrinsic job quality”

	France	European Union
Transitions between non-employment and employment and within employment by pay level – Source: European Community Household Panel (ECHP)		
From 1st decile to 2nd-10th decile	27%	24%
From 1st decile to non-employment	19%	23%
From 2nd decile to 3rd-10th decile	34%	30%
From 2nd decile to non-employment	12%	11%
From 3rd decile to 4th-10th decile	39%	32%
From 3rd decile to non-employment	6%	8%
Transition between non-employment and employment and within employment by type of contract. Source: ECHP		
From fixed-term contract to open-ended contract	24%	35%
Remaining in fixed-term contract	52%	39%
From fixed-term contract to non-employment	21%	22%

Note: the category of non-employment covers both unemployment and inactivity.

Source: Annex 1 to Communication from the European Commission: *Improving quality in work: a review of recent progress*.

**Table 3:** Indicators used at European level measuring trends on “gender equality”

		France	European Union
Employment rate gap of women compared with men in %	2001	-14	-18
	2002	-13	-17
Unemployment rate gap of women compared with men in %	2001	3.3	2.1
	2002	2.1	1.8
Gender segregation in all sectors	2001	21.9	18.7
	2002	21.6	18.8
Gender segregation in all occupations	2001	29.6	26.7
	2002	29.4	26.4

Source: Labour Force Survey. Annex 1 to Communication from the Commission: *Improving quality in work: a review of recent progress*.

been shown for women in public labour-market integration policies, substantial inequalities still remain. Women are over-represented in unemployment (10.7% for women as opposed to 8.6% for men in August 2003); young women have a low level of economic activity (the employment rate of 17-26 year-olds in 2001 stood at 33.6% for women and 42.1% for men); women are poorly represented in employment measures (women represent 35.4% of those receiving assistance in the market sector, as opposed to 60.4% in the non-market sector) and have less access to continuing vocational training (the proportion of women is 23%); women’s jobs are highly concentrated in particular sectors (the proportion of women in the five sectors where they are most highly represented rose by a point between 1998 and 2002, from 72.7% to 73.7%); apprenticeship has been tertiarised without any impact on the representation of women (only 30% of females take this route); their employment has become extremely precarious (the proportion of women employed on temporary contracts is significant and 30% of them work part-time, as against 5% of men); women play only a small part in entrepreneurship (being responsible for only 30% of companies created) and, lastly, there are still substantial inequalities of pay. Moreover, though the employment rate for women is at a relatively high level by comparison with the European average, most of the other indicators attest to there being a less favourable situation in France in respect of gender inequality.

Gender equality is one of the main areas marked down for attention in the process of “social refoundation” to be carried out between the social partners. After several months of hesitant progress, they have agreed a timetable and method for these negotiations (timed to start in February 2004), which have ostensibly ambitious goals. The outcome of these negotiations could prove to represent a significant advance in this area, whereas the annual negotiations on equality of opportunity, which have been obligatory since the passing of the law of 9 May 2001, do not seem to have had much effect as yet.

### *Health and safety at work*

After an improvement in the years 2000 and 2001, it seems that the latest figures on occupational accidents are not very positive, particularly when compared with the European average. Similarly, the number of cases of occupational illness recorded has been constantly on the increase in recent years (with a doubling of the numbers concerned between 1997 and 2000). Moreover, the dramatic events that have hit France (the explosion of the ASF factory at Toulouse, the asbestos issue) have mobilised public opinion on the question of occupational risk. Given these facts, a medium-term national strategy for 2003-2006 – the first of its kind – has been developed, aimed at establishing more efficient risk

identification tools, improving regulations and their application, and strengthening the co-ordination of preventive action. This strategy has been devised in the same spirit as the agreement negotiated between the social partners, which, among other things, saw the creation of regional health and safety “observatories”.

### ***Flexibility and security of employment***

The non-standard forms of employment or precarious jobs, represented in France by fixed term contracts (FTC), temporary-employment agency work, combined training-and-work contracts and assisted contracts (Employment Support Contracts, Consolidated Employment Contracts, Youth Employment Contracts, Employment Initiative Contracts, Youth Contracts, training placements, etc.) made up 9.9% of salaried employment in March 2002 (as against 6.9% in 1990). Companies often have recourse to this type of employment at the beginning of an economic cycle of recovery:<sup>6</sup> for example, in 1997-98, these forms of employment contributed half of the increase in the employment figures.

Part-time working, that other tool of flexibility, saw a particular expansion in the 1990s, mainly on account of the incentives made available from 1993 onwards. Since 2000, in contrast to the general European trend, the level of part-time working in France has been marking time. This is related to the less favourable regulations for part-time work within the framework of the Aubry laws on reduced working hours. The impact of the establishment of the 35-hour week, about which there has been such controversy, has in fact been quite visible on temporary jobs, which declined in number between

March 2000 and March 2002. Lastly, another criterion used to gauge the flexibility of employment, situations of under-employment or enforced part-time working, which had increased greatly during the 1990s, have declined markedly as a result of the improvement in the labour market and the adjustment of working patterns to the 35 hour week.<sup>7</sup> It seems, then, that, by this criterion at least, the implementation of the Aubry reforms has made for jobs of better quality.

The government is, nonetheless, contemplating a reform of the labour code which may have, as one of its consequences, the creation of a new employment contract half-way between the fixed-term and the open-ended contract. This will be termed the **Project or Assignment Contract** (*contrat de projet, contrat de mission*) and will be defined by its duration, which will be determined by the success or achievement of a precise project and will be aimed at skilled personnel. Another theme currently being negotiated by the social partners is that of **social support for restructuring**, which is regarded as one of the political responses to the “security of employment” or “access to the labour market” dimensions.

### ***Integration and labour market access***

In France, the issue of young people is one of the most problematic where integration is concerned, with an unemployment rate that is among the highest in Europe and with almost 8% of young people leaving the education system each year without qualifications (France is in a very unfavourable position in this regard). Moreover, as soon as the economy is in trouble, young people are the first to fill the ranks of the job seekers by dint of the precariousness of their

**Table 4:** Indicators at the European level to measure trends on “inclusion and access to the labour market”

	France	European Union
Transitions between employment, unemployment and inactivity (1999-2000) – Source: LFS		
Unemployment to employment	34	40
Remaining unemployed	36	36
Unemployment to inactivity	30	24
Transition of unemployed people into employment and training (1999-2000). Source: LFS.		
Non-employment to employment	24	25
Non-employment to training	2	4
Remaining in non-employment	74	72
Employment rate. Source: LFS		
2001	62.8	64.1
2002	63	64.3
Total long-term unemployment rate by gender (2002). Source: Eurostat harmonised series u/e		
Male	2.3	2.6
Female	3.3	3.6
Percentage of 18-24 year-olds having achieved lower secondary education or less and not attending further education or training, by gender and working status. Source: LFS.		
Male	14.9	21.4
Female	11.9	16.2
Youth unemployment ratio. Source: Eurostat harmonised series u/e.		
2001	7	7
2002	7.4	7.2

Source: Annex 1 to Communication from the European Commission: *Improving quality in work: a review of recent progress*.

<sup>6</sup> See *Premières synthèses Premières Infos* no. 38.1 Sept 2003; DARES, “Depuis 10 ans le turn-over est en phase avec l’activité économique”; INSEE, *Données sociales 2002-2003*.

<sup>7</sup> Underemployment rate: 30% in 1990, 39.4% in 1997, 31.6% in 2002.

employment situation. This is all the more preoccupying in view of the fact that the authorities are constantly introducing new programmes aimed at improving the integration of young people into the labour market (assisted contracts, individualised mentoring programmes, etc.).

Whatever the age, the transition from unemployment to employment seems less efficient in France than throughout Europe as a whole. This raises the question of the effectiveness of the public employment services, a topic that is currently under discussion.<sup>8</sup> These have, however, made considerable progress in recent years with the implementation by the National Employment Agency (ANPE) of the Personalised Action for a New Start project, aimed at all job seekers from the point of registration and the Back-to-Work Action Plan reshaping the insurance system, implemented by UNEDIC. Though the analyses carried out by ANPE on the effectiveness of the new arrangement show that it is difficult, because of the changed economic situation, to make comparisons with the pre-1999 period, the figures for those leaving the unemployment register after 6 months are better in 2002 than in 1997-98, even though the economic situation has deteriorated. A recent report by the General Inspectorate of Social Affairs concludes that the conditions for getting those groups subject to precariousness back into work could be improved. In this connection, the government, which aims to combat “trap doors to inactivity”, has recently taken two measures: on the one hand, they have limited to two years the guaranteed supplementary benefit paid to post-entitlement job seekers and, on the other, they have created the Minimum Employment Income (RMA).

### ***Work organisation and work-life balance***

Parenthood has a negative impact on women’s employment rate in Europe, but in France the gap between the employment rates for women with and without children is on average smaller than at the European level, whereas our fertility rate is rather higher. It seems, then, that women in France manage to achieve a better work-life balance. Two arguments may be advanced to explain this peculiarity: on the one hand, the public organisation of nursery care (crèches, nurseries and, from the age of three, nursery schools) and, on the other, the reduction of working hours, which has enabled people to have more free time and, in many cases, to have their work organised in such a way as to achieve a better work-life balance. Nevertheless, considerable efforts still have to be put into improving childcare provision for very young children and into the issue of arrangements that are still not well enough suited to the way the world of work is evolving.

### ***Social dialogue and worker involvement***

The main provisions of the draft law on social dialogue introduce important changes, including in particular the systematic referral to negotiation between the social partners of any legislative proposal on subjects that fall within their province – a move that is particularly innovative in France. It also establishes the principles of majority agreement and the right of opposition: up to now, for an agreement to be valid, it was sufficient for an organisation to sign it, even if it represented only a minority of employees. Henceforth, it will be on condition that no opposition is formulated by three trade union organisations. Furthermore, the draft law expands the possibilities of allowing (less favourable) company-level agreements

to depart from the provisions contained in collective agreements reached at sector level, with the exception of provisions relating to wage minimums, classification and mutual insurance schemes. This is, however, a point heavily criticised by all the trade unions.

The question of the social dialogue in France raises the issue of the representativeness of trade unions. Five trade union confederations – CGT, CFDT, FO, CFTC and CGC (for professional and managerial staff) – have, since 1966, enjoyed an “incontrovertible presumption of representativeness”. This means that, whatever the numbers of their members or the share of the votes they receive in workplace elections and in whatever sector, occupation or company, these five organisations – and the trade unions affiliated to them – are always regarded as representative of the employees. Now, for many years the situation has been problematical, given a trade union movement that is losing momentum (the five trade unions are said to represent a level of trade union membership of around 8-9% and not more than one-third of the employed electorate) and a high rate of abstention among employees in workplace elections (67% at the elections to the industrial tribunals in 2002). Lastly, according to a poll by SOFRES in 2002, 78% of those questioned did not feel they were well represented by at least one trade union. The current reform could thus bring about a change in the terms of the social dialogue in France.

### ***Diversity and non-discrimination***

Several groups are discriminated against in the French labour market: women, ageing employees, the disabled, and immigrant populations of non-European origin.

Though this has not been a priority for France for very long, concern for older employees requires a change in culture. The pension reform passed by Parliament in August 2003 has enabled progress to be achieved on a macro-economic level by extending the length of time for which contributions are required and by giving workers an incentive to remain in their jobs for longer, but it provides no detailed practical solution to age discrimination. For the most part, companies are not interested in the question of older employees and do not wish to recruit workers aged 50 and above. The situation is, however, delicate, since, even among managerial staff, return to employment after 50 is regarded as “virtually impossible” by the *Association pour l’emploi des cadres* (Association for the Employment of Executive and Managerial Staff): it is the case that “8 months after registering as job seekers, 55% of managerial staff aged between 30 and 49 have found a job again, but only 10% of those aged 50 and over have done so.” Recruiting habits are deep-rooted and, after the age of 45, there is unrestrained discrimination. In France the employment rate for older people (aged 55-64) is well below the European average (being 34.8% against 40.1% in 2002), even if it has improved in recent years.

For those with immigrant backgrounds, the last few years have seen anti-discrimination measures put in place, though these are still not applied sufficiently.<sup>9</sup> The situation of immigrants on the labour market is characterised by great precariousness of employment: immigrants, and women in particular, are in temporary employment a little more often than workers as a whole.<sup>10</sup> Though the situation of young immigrants aged 20-29 does not differ greatly on average from that of employees of the same age-range taken as a whole, with a quarter of them occupying temporary jobs, the position of non-European immigrants is worrying, as proportionally more of them

<sup>8</sup> See Rapport Marimbert, January 2004

<sup>9</sup> See article in European Employment Observatory on the situation in France for workers of non-European origin, Summer 2003.

<sup>10</sup> 15%, as against 9% for all workers.

than the others are in precarious employment. This is especially true of young men. Moreover, immigrant workers are more often employed on a part-time basis, particularly women (37%, as against 31% in the whole of the active female population in 1999), and their employment is most often of shorter duration than that of other women. Furthermore, unemployed non-European immigrants are over-represented among job seekers (12%, even though they represent only 5.5% of the active population). Their level of initial training, which is very low, may in part explain the situation, but training gives them little protection against unemployment: the unemployment rate for immigrants who have been through higher education is twice as high as for the whole of the working population of the same educational level.

The situation of the disabled is barely better than this. Their unemployment rate is also twice as high as the average for the French working population and they leave unemployment later, and on a more precarious basis, than other groups.

### **Overall work performance**

Though the level of GNP per hour worked shows France to be appreciably above the European average, the growth in labour productivity per head remained below the European average in 2001 and 2002.

However, the performance of the labour market was particularly good between 1996 and 2001, when France scored record figures both for job creation and the reduction of unemployment. The enhancement of job growth can be attributed in part to employment policy: apart from the schemes for reducing working hours,<sup>11</sup> the successive policies of reducing employment costs on low wages that have been implemented since 1993 have contributed to this. These policies are still pursued today with even greater force and they represent 53% of the 2004 budget of the Ministry of Social Affairs and Labour. Nevertheless, the lack of material by which to evaluate this policy make it impossible to assess whether it can explain the high increase in the number of unskilled jobs between 1995 and

2000 without there having been any recovery in the employment figures for the least educationally qualified, a paradox which suggests that those with educational qualifications have suffered a decline in their status: for any given educational qualification, those possessing it seem to be occupying increasingly less skilled jobs. The question of better quality jobs still remains a live issue, then, within the context of these policies for reducing employment costs.

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<sup>11</sup> These did, in fact, lead to a fall in incomes for low-skilled workers.

# Ireland

## Background

The scope of this study, which covers the ten work quality aspects identified as of special importance by the European Commission<sup>1</sup> in a wider European context, is extremely broad. The aspects in question are:

- Intrinsic job quality
- Skills, lifelong learning and career development
- Gender equality
- Health and safety at work
- Flexibility and security
- Inclusion and access to the labour market
- Work organisation and work-life balance
- Social dialogue and worker involvement
- Diversity and non-discrimination
- Overall work performance

From an analytical point of view these issues cannot always be treated separately or in a self-contained fashion, as frequently they tend to be spread across several different labour market programmes and/or employment areas. The questions of gender equality and diversity and discrimination, for example, are relevant across a wide range of labour market activities.

Before any specific analyses are presented, it is appropriate to describe a number of important features of the Irish labour market which are relevant in the context of assessing the phenomenon of work quality.

Firstly, it should be noted that quite a number of the quality aspects listed are being promoted as part of the current National Partnership agreement “Sustaining Progress”, which has been negotiated by the Government, the social partners, farming organisations and community interests. This is the fifth in a series of national accords which extend back to 1987 and which, in addition to wage agreements, have also involved parallel provisions covering issues such as taxation, welfare, training, equality issues, social inclusion etc. For some such aspects, when specific undertakings are not included in a particular partnership agreement, arrangements are often made to have the matter further considered by a representative committee or working group operating under the aegis of the National Partnership. A number of such working groups, which are currently dealing with particular aspects of the quality of work, are referred to in the section on policies below.

Another important and relevant aspect of the labour market in Ireland is the Employment Equality Act 1998. This prohibits discrimination in the sphere of employment on a wide range of grounds, including gender, race and disability<sup>2</sup>, and is thus clearly of importance in countering discrimination, and in promoting gender equality and inclusion and access to the labour market. The Act is being amended to give effect to the employment aspects of Directives 2000/43/EC (Race), 2000/78/EC (Framework Employment Directive) and 2002/73/EC (Gender and Equal Treatment).

A specially constituted Equality Authority has been established and works towards the elimination of discrimination and the promotion of equal opportunities in relation to this legislation. Currently specific attention is given to people with disabilities, carers and people who are experiencing racism.

Virtually all of the initiatives referred to above have been incorporated as part of the series of National Employment Action Plans (NAPs), for which the issue of “quality and productivity at work” is now one of the three overarching objectives.

It should be noted, however, that many further aspects of work quality are being addressed spontaneously in the workplace without the support of any government initiative, or background regulation or legislation. This is evident from the recent report of the Survey of the Employee Experiences and Attitudes to Change in the Work Place<sup>3</sup>. While the results, which are reviewed later in this Paper, are generally positive in relation to some aspects such as job satisfaction and collective participation in the workplace, they also indicate that there is still considerable room for improvement across a number of areas.

## Policy measures

It is best to begin this commentary by documenting the current and planned policy measures in Ireland that involve features related to work quality. This description covers only the most important activities, and does not extend to all of the items contained in the European Commission list.

### *Skills, lifelong learning (LLL) and career development*

The report of the Task Force on Lifelong Learning (October 2002) and the White Paper on Adult Education form the strategic framework for the development of lifelong learning activities. The framework established by the Task Force has the following essential elements:

- Ensuring basic skills for all
- Providing comprehensive and coherent guidance and information
- Addressing delivery, access and funding issues
- Providing learning opportunities for workers
- Developing and implementing the national framework of qualifications.

The National Adult Learning Council (NALC) has been designated as the body to co-ordinate, review and report on the implementation of the recommendations of the Task Force. The NALC was established in March 2002 as an executive agency of the Department of Education and Science. It brings together key stakeholders in adult education, training, employers, trade unions, learner and community interests.

Some progress has been made in a number of relevant areas including the development of the national framework of

<sup>1</sup> Commission of the European Communities, 2003, Improving quality in work: a review of recent progress, COM(2003) 728 final.

<sup>2</sup> The full range of grounds covered by this legislation relate to gender, marital status, family status, sexual orientation, religion, age, disability, race and membership of the travelling community.

<sup>3</sup> Carried out by the ESRI on behalf of the National Centre for Partnership and Performance

qualifications, the accreditation of prior and experiential learning (APEL) and the setting up of an IT fund with an initial allocation of €12 million designed to support education and training in the area of ICT.

A further LLL objective is to promote in-company training and, within this context, to expedite the implementation of a coherent LLL strategy with overall targets. A Competency Development Programme was launched by FAS in May 2003 to replace existing in-company training measures. This training is targeted at a limited number of key skill needs identified by research and/or consultation with the relevant interests and other agencies. The Government (through FÁS) is committed to providing a substantial contribution towards the cost of enterprise training.

### ***Gender equality***

In October 2002 the Department of Justice, Equality and Law Reform (DJELR) published Ireland's Report to the United Nations on the National Plan for Women 2002. The report details Ireland's existing commitments to advancing the status of women in Irish society. In preparing this report DJELR engaged in an in-depth consultation process with women's organisations, NGOs, the social partners and other stakeholders.

Arising from this, the government made a commitment in the current agreement "Sustaining Progress" to develop a five-year National Women's Strategy to build on progress in advancing the position of women over the coming years. DJELR is now considering how best to advance the development of this strategy.

In the area of Childcare Services the Government is committed under the National Development Plan (NDP) to meeting the diverse needs of parents and children, through supporting the development of childcare services which are accessible and of high quality. DJELR is leading the co-ordination of childcare service delivery over the course of the NDP and has established structures to bring the key players together at national and local level to ensure effective development. For the most part, State financial support in this area is provided for the construction and renovation of facilities. Considerable sums have been expended in this area in recent years.

### ***Health and safety in the workplace***

The Department of Enterprise, Trade and Employment (DETE) is currently updating the Safety, Health and Welfare at Work Act, 1989. The aim is to significantly strengthen provisions dealing with aspects such as safety management, safety training and safety consultation. The number of workplace fatalities has in fact been falling in recent years and currently stands at 3.49 per 100,000 workers. There has also been a modest reduction in the number of non-fatal injuries and in the number of occupational injury benefit claims.

### ***Inclusion and access to the labour market***

Under the Government sponsored National Anti-Poverty Strategy (NAPS), significant progress has been made in reducing consistent poverty. One of the objectives is to put in place a proactive policy of engagement with people of working age on social welfare to ensure that, where possible, they have the opportunity to avail of employment, education and training options. This would involve creating new opportunities for marginalised persons to access the labour market and to eliminate any remaining barriers or disincentives to employment/training in the application of secondary benefit systems.

With regard to disability there is an Employee Retention Grant Scheme that aims to maintain people in employment if they acquire

an illness, condition or impairment that puts their continued employment at risk. There is, in parallel, a Disability Awareness Training Support Scheme that provides funding towards the cost of delivering in-company training to education and inform staff about people with disabilities. Both of these schemes were launched in April 2003. There is also a Supported Employment Programme to facilitate the integration of disabled people into paid employment in the open labour market.

### ***Work-life balance***

National Framework Committees for Family Friendly Policies have been established under the aegis of National Partnership Agreements, comprising representatives of the Government and the social partners. Their mandate is to support and facilitate the development of work-life balance policies at the level of the enterprise. A key task is to examine how best to improve access to family friendly working arrangements so that the potential benefits that these arrangements offer in regard to equality and competitiveness can be fully realised.

Up until recently, most of the attention in this area has been directed to the problems of women with young children. However, a recent report by the National Economic and Social Forum highlighted the problems for older workers in this regard. The report suggested that flexibility is needed to allow workers in mid life to move from full time employment to more flexible arrangements, including reduced hours or reduced responsibilities (referred to in the literature as "downshifting"). From a health promotion point of view, older workers may stay in the workforce longer if they have opportunities to work fewer hours or do less strenuous work.

### ***Employee experiences of attitudes to change in the workplace***

As previously mentioned the report of the Survey of Employee Experiences of Attitudes to Change in the Workplace presents the first results of a major national inquiry into these aspects in relation to Irish employees. As already indicated, it is not only of intrinsic value in its own right, it also allows the opportunity to extend the analysis of work quality into areas not normally covered by Government intervention and thus makes it possible to present a more comprehensive picture.

The survey gives a unique insight into the way in which Irish workers experience the workplace and the changes occurring within it, and provides an important guide for developing policies and employment practices to respond to future workplace developments. The survey involved a representative sample of some 5,200 persons from the population of employees in mid-2003. It covered work attitudes and experiences, workplace practices, involvement with trade unions, training, gender issues, communications in the work place and partnership and participation. A number of the factors indicated do not relate precisely to the list of work quality issues identified by the European Commission. However, many of them are clearly associated with more than one job quality aspect.

With regard to *attitudes and experiences*, over 90 per cent of respondents either agreed or strongly agreed that "in general", they were satisfied with their jobs. Such high levels of express satisfaction are a common feature of international employment research. Satisfaction was recorded as being lowest in relation to earnings, although in this instance some 70 per cent of employees still indicated that they were satisfied.



An important aspect of employees' experience in the workplace relates to the extent of *autonomy or control over work*. In this regard the findings are somewhat mixed; 27 per cent of employees indicated that they had low levels of control, about a half (46 per cent) had some level of discretion, but only a quarter were recorded as having a high level of control over their time and work tasks.

With regard to aspects such as *pressure and stress*, the survey found evidence of significant levels of work pressure in the Irish workplace; over half of all employees indicated that they experienced some measure of work pressure. Furthermore, a significant minority of workers (about 25 per cent) reported that they found their work to be stressful.

The above results suggest that there is substantial room for developing policies and employment practices to reduce stress levels among employees and to facilitate greater work-life balance. There also appears to be significant potential to improve the level of control that employees have over their daily working lives. There is a negative relationship between stress and autonomy, those with less control experience more stress.

The analyses of the report data included a multivariate procedure which focused on the determinants of work stress and job satisfaction, paying particular attention to the role of work involvement, organisational change and new work practices in influencing or moderating outcomes. While some factors outside the workplace are relevant in this regard (for example family commitments and gender) it is clear that organisational aspects can make a difference. The first area of organisational influence is in the arrangement of working hours. Higher hours of work are shown to be clearly linked to greater stress, even when a range of other job characteristics is controlled for. Offering employees the opportunity of flexitime is associated with lower stress levels, but working from home and job sharing have the opposite impact. The presence of family friendly policies is also associated with lower stress. This may reflect a greater understanding of employees' external commitments among those employers who put such policies in place.

The involvement of workers in decision making is shown to have a positive impact on reducing work stress, if this is done through direct and regular consultation. Greater consultation or direct involvement through participatory work practices, regular information exchange and the provision of training all increase employee satisfaction. These positive findings in relation to communication and consultation strategies are important to organisations wishing to implement change, since change is found to increase employee stress and dissatisfaction (even if this may have long term benefits for employees)<sup>4</sup>.

Turning to the question of *performance monitoring and rewards*, just under one half of all employees were employed in workplaces that conducted regular performance reviews or appraisals, and over 40 per cent of all employees were personally involved in this practice. Just under 20 per cent of all employees were paid on the basis of performance. Some 12 per cent of employees worked in enterprises that offered profit or gain sharing or share options. However for those who did work in such companies that had these award systems, well over 70 per cent were personally involved in the practice. This suggests that while the practice of offering profit or gain sharing is rare in Irish workplaces, it tends to have wide coverage within companies where it is implemented.

About two thirds of all employees reported that there was a *formal policy on respect and dignity in their workplace*. Three quarters of all workers reported an explicit policy on equal opportunities. Policies

in relation to these aspects are more commonly found in the public rather than the private sector.

Turning to *training*, some 48 per cent of employees reported that they had participated in education or training programmes provided by their employer over the preceding two years. However, training participation is closely linked to previous educational attainment: those with third level qualifications were nearly twice as likely to have participated in training as those with no qualifications.

Training is much more common in the public than in the private sector. Within the private sector training is strongly influenced by establishment size: those working in establishments with 100 or more employees were twice as likely to have participated in training than those in establishments with 1 to 4 employees (61 as against 30 per cent respectively). The vast majority (nearly 95 per cent) of those who participated in training considered that it had been of use to them in carrying out their current job.

Regarding *social dialogue*, the results of the survey indicated surprisingly high percentages of employees (about 40 per cent) who indicated that they were "hardly ever" provided with information in key areas such as product/service innovation, the introduction of new technology, levels of competition or changes to work practices. The provision of information by management to public sector employees was perceived to be somewhat better than among private sector workers.

Significant numbers of employees also indicated lack of prior consultation on major decisions regarding their own work. Only 25 per cent reported that they were "almost always" consulted, 21 per cent that they were consulted "sometimes" and as many as 27 per cent of workers considered that they were rarely or "almost never" consulted.

Two factors were identified as being of considerable relevance in relation to the provision of information and consultation – social class and educational attainment. Professional and managerial workers reported more regular receipt of information from management and other non-manual workers, and much more regular information than manual workers, even when organisational and other individual factors were taken account of.

Regarding *partnership and participation*: *partnership* refers to collective organisation in which employee representatives work with management to improve the performance of the enterprise. *Participation* refers to modes of direct involvement and consultation over the way in which an individual's work is organised or carried out in work teams, problem-solving groups, project groups, etc.

Overall, nearly 25 per cent of all employees indicated that partnership committees involving management and unions existed at their workplace. Nearly 40 per cent of employees reported that there were arrangements for direct participation in relation to their work. Within workplaces that implement arrangements for direct participation the extent of employee involvement was recorded as quite high – over 70 per cent indicated that they were personally involved in participation groups.

In general, respondents perceive the effects of partnership institutions in a very positive light. Two-thirds or more of respondents see partnership arrangements as having positive effects on issues of direct interest to employees (i.e. job satisfaction, pay and conditions and employment security) as well as of importance to the organisation (i.e. performance, willingness to embrace change, and the confidence with which employees co-operate with management).

<sup>4</sup> The changes considered included changes in the management or ownership, appointment of a new chief executive, and the introduction of new technology.

The perceived impact of participation arrangements is even more positive than that of partnership, particularly for organisational performance and functioning. Over 85 per cent of respondents consider that participation has a positive effect on productivity or performance, on the confidence with which employees co-operate with management, and on willingness to embrace change. However, when the effects of partnership and participation arrangements on both job satisfaction and willingness to change are assessed in multivariate models, it is found that while participation increases job satisfaction, both partnership and participation are neutral with respect to willingness to change.

### ***Participation in lifelong learning programmes***

Finally it is of interest to briefly review the results of a recent Central Statistics Office survey that addressed the question of participation in certain aspects of lifelong learning (LLL). The survey was carried out as a special module on LLL as part of the ongoing Quarterly National Household Survey (QNHS) in the second quarter of 2003. The results were published in January 2004 (see references). These dealt with participation in the twelve-month period prior to the Survey in formal education, “organised non formal education” and “informal learning”. The first category refers to the regular national education system, embracing primary, secondary or third level education. The second involves participation in organised learning activities (including correspondence courses and tele-teaching) outside of regular education but which normally involves registration. These courses may not necessarily lead to a formal qualification. The final category essentially covers “self-taught learning” at a personal level not involving any outside organisation.

Some results relating to the first two groups only (which involve more substantive learning) are analysed below. Table 1 shows percentages for different occupations for those who indicated that they had participated in formal education and non-formal education over the period in question.

In the case of formal education, just under 7 per cent of the total persons at work in Spring 2003 indicated that they had participated in the regular education system over the time span in question. The ratios for different occupations vary somewhat, with high percentages (of the order of 10 per cent or more) being indicated for professional workers at all levels and for skilled craft occupations. The lowest percentages are evident for unskilled workers, semi-skilled operatives and managers. It should be noted, however, that the age profiles for different occupations would explain some of this variation. Occupations with higher numbers of younger persons would tend to involve greater numbers of participants in formal education, as many of those involved would have recently left the regular education system. It is not, therefore, entirely surprising that “managers” exhibit a low involvement (3.8 per cent) in formal education, as this occupational category would include relatively greater numbers of older persons.

The second category listed (non-formal education) can be regarded as providing a better insight into participation in lifelong learning, as it purports to represent a measure of continued involvement in organised post-education learning. Table 1 shows that of those that were at work in Spring 2003, some 18 per cent had participated in this form of learning or skill enhancement over the preceding twelve months. The shares for professionals (at both levels) were highest (some 30 per cent) while figures of the order of 18 per cent were evident for clerical workers, those engaged in service activities and managers. The lowest percentages (somewhat more than 10 per cent) were recorded for sales persons and semi-skilled and unskilled workers.

**Table 1:** Proportions of persons in employment in different occupations in spring 2003 who participated in formal and non-formal education in the preceding twelve months.

Occupation	Formal Education (excl students)	Non-Formal Education
	%	
Managers	3.8	17.3
Professionals	10.8	31.7
Assoc. Professionals	10.1	27.4
Clerical	6.3	18.4
Craft	11.4	14.1
Service	7.5	17.8
Sales	5.2	12.2
Operatives	1.9	10.8
Other (Unskilled)	3.4	10.7
<b>Total</b>	<b>6.8</b>	<b>18.0</b>
<b>Absolute Total (000)</b>	<b>1718</b>	<b>1778</b>

Notes:

- Formal Education covers the regular national education system embracing primary, secondary and third level standard.
- Non-Formal Education refers to all organised learning activities outside regular education, normally requiring registration. This includes correspondence courses and tele-teaching.

Source: CSO (2004). *Quarterly National Household Survey, Lifelong Learning, Second Quarter 2003.*

It is of particular interest to note that the percentage for managers is not only significantly lower than that for professionals, but also somewhat below that for clerical staff and for some service activities. With this form of learning, age should not be as important a factor in explaining occupational differences as with formal education. This particular result raises interesting questions as to whether managers participate sufficiently in retraining and upskilling. This in turn has implications for the extent to which training is valued or appreciated among persons holding key and influential positions in the Irish economy. Previous studies have suggested that Ireland is close to the EU average with regard to participation in work-related training, but that it lags behind the leading countries in this regard.

### ***Concluding remarks***

Any analysis or discussion of the quality of work in Ireland (as in other countries) is difficult as the issue is relevant to a great many aspects of the labour market. While it has been demonstrated that many initiatives, with Government support or otherwise, have been pursued, work quality has not been promoted as a single identifiable policy issue, nor has it been the subject of a focused debate. Indeed, up to relatively recently, quantitative rather than qualitative issues have dominated the policy agenda, driven by the need to increase employment and reduce unemployment. The centrality of employment creation policy-making is partly reflected in research, which has only recently begun to focus systematically on quality of employment. In this regard a noteworthy recent development has been the establishment by the National Centre for Partnership and Performance of a *Forum on the Workplace of the*

*Future.* This will consider how the world of work is evolving and how workplaces can adapt to deal with competitive pressures, improve the delivery of public services and cater for the changing needs and preferences of workers.

Many of the Government-supported programmes associated with work quality are being pursued as part of the ongoing National Partnership Process and, as such, involve committees or working groups representative of the social partners and the other interests involved. Some of these activities have only recently commenced and it is likely to be some time before tangible results emerge. While the principle of wider representation may be desirable, these groups often find it difficult to reach consensus and tend to deliberate at length, without necessarily reaching clearcut conclusions.

With regard to continuing education/training or upskilling, recent survey evidence suggests high levels of participation by professional workers, but much lower involvement by managerial staff. This has wider implications insofar as it raises questions regarding the degree to which the need to update skills is valued or appreciated among persons holding key and influential positions in the Irish economy.

One of the surprising outcomes to emerge from our analysis is evidence that quite a number of initiatives involving both employees and employers that have a bearing on work quality are being pursued in the workplace, without necessarily receiving State support. While these activities would still only apply to a minority of workplaces, the fact that they have emerged is evidence of some progress. A feature of significance in this regard is the relatively large proportion of employees who expressed general satisfaction with their employment situation. It could be said that the general

thrust of policies and developments in the labour market in recent years and the nature of much legislation over the past decade has promoted an atmosphere that facilitated these developments.

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# Italy

## Introduction

The multi-faceted issue of quality of work in recent years has received considerable attention within economic and social debate. As is made clear in the following discussion, this topic has also been integrated into the political agenda.

The debate is closely related to the processes of labour market reform which have taken place over the last five years, and which have centred on the issues of flexibility. The reform process, which began with the first home-grown law in 1999, has continued up to the last reform act in 2003 (the "Biagi Law"). This process has had considerable impact on the issue of quality in work, and also impacted on the recent global performance of the labour market. These actions are frequently considered to have significantly contributed to the increase in employment experienced in recent years, which has been the largest since the end of the war. However, the short-term implications of the labour market's new approach to job quality are proving to be more controversial and problematic. Although access to employment seems to be considerably improved, there is also reason to believe that work instability has significantly increased. In some Italian industrial districts, almost two thirds of new incomers to the labour market are employed under fixed term contracts. However, the problems associated with this aspect of job quality should not lead to negative conclusions about the efforts

towards greater flexibility. A meaningful understanding of flexibility will depend upon how this "instability" develops and whether the "precariousness" of new job contracts becomes more widespread or evolves towards more stable work relations.

Structural aspects of the national economic system also play a major role in the debate about job quality. The need to understand the impact and evolution of the informal labour market is also crucial for the evaluation of the new labour market model. As is known, the size of the informal economy in Italy is amongst the largest in the OECD area. Clearly, the magnitude of the informal economy places significant limits on general reflections about the quality of work and on the country's ranking when compared with other EU countries, since this structural characteristic influences individual behaviour in an ambiguous way. It could be argued that opportunities to retreat to the informal economy represent a type of buffer, notably for low-income households and during periods of recession. On the other hand, the informal economy also blurs the interpretation of available information, although it is reasonable to assume that such a large informal sector significantly lowers the average level of job quality of the entire system.

It appears that, in general, procedures taken towards establishing greater flexibility in the marketplace increases the precariousness of the official market. Evaluating such a trend also depends on parallel

reactions occurring within the informal sector (for which reliable information is lacking). If the official flexible market is expanding at the expense of the informal area, an evaluation of the impact of general labour market reform on quality might be very positive. Problems could arise, however, if the increased uncertainties induced by greater flexibility mirrors those produced in the more established informal sector. Some recent policy actions have been undertaken in order to tackle this specific issue, mainly through regulatory and fiscal measures. In 2001, fiscal and contribution incentives targeting the emergence of hidden employment and enterprises were deployed and in the past year a law regulating immigration and employment (which represents a significant source of informal employment) has been approved. Because there is a degree of mixing between official and unofficial areas of flexibility, it is difficult to establish the effectiveness of these policies. In particular, the impact of fiscal contribution measures appeared to be rather weak, nevertheless, it is encouraging that a significant increase in official employment occurred despite the context of relative aggregate income stagnation.

### *Quality in work and productivity*

In Italy, the relationship between quality and productivity is linked to the development of human capital. It is widely recognised that investments in human capital is a major factor both for improving the long-term performance of the economy as a whole and for an enhancement in quality in work. Although current restrictions on the public budget narrow opportunities for policy development in human capital, there are some grounds for recent policy concern regarding this issue. Recent reforms of the education and training systems can improve the accumulation of knowledge and skills via better integration of learning paths. The Biagi Law on labour reform could also play a role, as it tries to reduce discrepancies in labour market segmentation due to different protection and security regimes. This should be accomplished by encouraging incoming workers to move to more stable labour contracts, thereby reducing the risk of losses in human capital investment.

### *Aspects of quality in work*

In addition to the issue of the informal economy and structural factors already mentioned, the debate on job quality has recently followed two other major directions: the empowerment and reorganisation of the educational and training systems and the improvement of laws on health and safety in the workplace. The gap between these and the EU average in terms of skills, lifelong learning and career development is quite wide, and reform measures for the entire system have recently been implemented. The 2003 education reform, notably, is concerned with the integration of the formerly distinct sectors of professional training and formal education, in response to the need of a better and more fluid transition from school and training to work. The debate on the reform is still ongoing, as some persistent problems and drawbacks

are recognised. In particular, the higher education and research systems still appear to be under-funded.

The Italian legal system for regulating health and safety at work also needs considerable resources targeted for its improvement, and compares poorly with other countries that have similar production structures. The reform of the law on safety in the workplace, which is currently in progress, should simplify the present regulatory system, initially tailored for large industrial complexes and will extend protection standards to other productive sectors with little coverage.

### *Intrinsic job quality*

The overall picture of job quality emerging from Italy's key indicators demonstrates weaknesses when compared to the EU average. The results from an EU level survey on job satisfaction show a high number who state that they are unsatisfied at work (in 2000 the percentage was slightly below 30%). More importantly, Italy is the only country that demonstrates a rising trend in dissatisfaction, which has risen gradually yet continuously since 1996 (the job satisfaction index fell in 1999-2000 from 4.3 to 4.2).

The transition process towards better paid jobs confirms this picture: the share of those in the lowest decile remaining in the same class after a year (Table 1) is 6 percentage points higher than the EU average of 53%. In general, the transition from unemployment to employment appears to be difficult (Table 1) when compared with the EU average. The steadiness of the Italian labour market does not seem to protect workers enough against both the risk of falling into lower quality jobs and the risk of unemployment. Movement into the lower deciles is more frequent than the EU average, and transition from employment to unemployment is marginally lower than the EU average.

Movement between different types of work contracts more closely reflects the average EU experience, where the transition from permanent to fixed term contracts is concerned. Although transition from fixed term to permanent contracts was limited in 1995-2000, there was a significant increase during 1999-2000. As a consequence, the situation of workers in more flexible sectors has improved recently. This has also been confirmed in other surveys carried out that highlight a growing stability in fixed term employment during the late nineties. It is difficult to say, however, whether this trend is due to structural factors or to the upward rise in employment increase that began in 1999.

### *Skills, lifelong learning and career development*

In Italy the percentage of the working age population participating in education and training fell from 4.8% in 1998 to 4.6% in 2002, almost half of the EU average level. The analysis in Table 2 indicates the reasons for this gap, notably with respect to the older age groups involved in education and training in the rest of the EU which, in Italy, is a domain really participated in by the over 25s. The

**Table 1:** Employment by pay level (Italy 1999-2000)

	1st decile	2nd decile	3rd decile	4th-10th dec.	Unemployment
From 1st decile to:	59	11	4	4	21
From 2nd decile to:	11	44	16	19	11
From 3rd decile to:	3	13	38	37	8
From 4th - 10th decile to:	1	2	5	89	3
From unemployment to:	3	2	1	3	91

Source: ECHP

**Table 2:** Percentage of working age population participating in education/training by age, gender

	Italy				EU-15			
	2002	2001	2000	1998	2002	2001	2000	1998
Males (25-64)	4.5	4.9	5.5	-	7.8	7.9	8.0	-
Females (25-64)	4.7	5.2	5.4	-	9.0	8.9	8.9	-
Age group				-				
15-19	-	-	-	73.4	-	-	-	65.1
20-24	-	-	-	8.2	-	-	-	22.5
25- more	-	-	-	1.0	-	-	-	7.1

Source: LFS

percentage of employees participating in CVT courses in Italy in 1999 was 52% of those enterprises with an agreement, which is comparable to the EU average, while it is consistently lower (20%) for those enterprises without an agreement. These figures indicate the importance of lifelong learning and professional training, in which a stable industrial relations climate plays a crucial role. In Italy, the diffusion of small and medium enterprises, characterised by weak union presence, may contribute to the difficulties experienced by the training system.

In terms of ICT-related skills, the percentage of the Italian workforce using computers for work purposes is 57.8% (51.5% at the workplace and 21.9% at home), which is parallel with average EU figures. The working population (aged over 15) trained in job-related ICT skills was 18% in 2001 and 20% in 2002, significantly lower than the EU average, which again can be linked to the characteristics of the Italian industrial structure already mentioned.

The specific nature of the Italian situation with regard to work quality issues, aside from the indicators already mentioned above, is also demonstrated in the gap between EU 2010 targets: the percentage of persons aged 22 with at least secondary education was 71.4% in 2002 instead of the 85% 2010 target while participants (aged 25-64) in training/education activities were 4.6% in 2002 compared to the 12.5% 2010 target. The state of the education and training systems in Italy is currently considered to be one of the major issues in the social and economic debate, and in 2003 a vast reform project was implemented, with the aim of reshaping the whole system. Particular importance is given to the reform of the school system. Now, following secondary lower school, students can choose to continue their learning in secondary school or in the professional training system. The two pathways are given equal weight, each with specific learning content and objectives. The aim is to ensure that all young people can get either secondary school certificate or a professional qualification before entering the labour market.

The compulsory education period has been raised to 12 years, and the Ministry of Education has provided targeted funding for this. In higher education some encouraging results have been noted. The IFTS ("istruzione e formazione tecnica superiore") courses, which target a spectrum of categories (including young graduates and those coming from professional training), are aimed at creating highly skilled technicians in a variety of sectors and has achieved an important increase in courses and participants over the past three years. Monitoring carried out in 2001 reveals that more than 63% of participants found employment in their specialised fields, which increased their employment rate by 40% as compared with their starting point. In terms of lifelong learning and adult education, some recent initiatives should be highlighted. The principle strategy has been to integrate labour market reforms with training and

learning activities. The Biagi Law on the labour market includes options for contract agreements to reduce working hours, in addition to learning and training leave and provides incentives for such agreements. Adult education has been developed mainly through decentralised structures, which in 2001-2002 recorded a substantial increase in participants, whose numbers more than doubled.

### Gender equality

The state of the Italian gender pay gap (Table 3) seems to be relatively well positioned when considered alongside the EU average, although falls down somewhat in participation indicators. The 2002 female-male employment rate gap was 27% (against an EU average of 17%), and the unemployment rate gap for the same period was 5.2% (1.8% EU average). Furthermore, segregation indexes show fairly high and increasing values. As these indexes are connected to female activity rates, their growth indicates that women's increasing participation is taking place mainly in those sectors in which they were previously concentrated.

Despite the significant level of the gender gap in labour market participation as well as the more recent and favourable dynamics in female employment, policy action is still inadequate. The main policies implemented since 1999 involve the introduction of equal opportunities advisers, specific services given by the public employment services (PES) and measures favouring part-time work contracts.

**Table 3:** Ratio of men's earnings index compared to women's for paid employees at work 15+hours (1995).

	Average hourly earnings		Monthly earnings	
	Italy	EU	Italy	EU
<b>Total</b>	1.24	1.31	-	-
- Industry	1.23	1.31	-	-
- Services (PA excluded)	1.26	1.27	-	-
<b>Manual workers</b>	1.30	1.38	-	-
- Industry	1.24	1.38	-	-
- Services (PA excluded)	1.35	1.34	-	-
<b>Non manual workers</b>	1.27	1.30	-	-
- Industry	1.17	1.29	-	-
- Services (PA excluded)	1.37	1.22	-	-
25-29	-	-	1.14	1.18
30-44	-	-	1.22	1.32
45-54	-	-	1.29	1.40

Source: ECHP

### Health and safety at work

Health and safety is an important measure of quality in work, yet the situation in Italy is not measuring up when compared with EU averages. The key indicator, which is the incidence rate (number of accidents at work per 100,000 workers), was registered as 4105 in Italy in 1998 and 4049 in 2000, a level comparable to that of the major Member States. The issue is that some Member States with similar production structures to those of Italy have achieved an incidence rate which is one third that of the Italian one. Italian regulatory laws for health and safety at work remain inadequate.

Recent appeals made to Italy by the European Court regarding safety at work precipitated reforms to Italy's normative system. Current practices are characterised by high levels of bureaucratic complexity, which makes respecting the law on safety at work particularly difficult for small and medium enterprises. There are more than 15 different agencies tasked with controlling health and safety practices in the workplace, and more than 100 different types of penalties (of a pecuniary and penal character). An important part of the reform will require the simplification of the penalty system process. The Ministry of Welfare and Labour is preparing a forum with its social partners for detailed dialogue that addresses the main aspects of reform. These, essentially, will comprise: i) facilitating the application of the law to small and medium enterprises; ii) rationalising the controls; iii) making penalties more appropriate. The first task of the social partners forum will be to establish common standards, based on shared and unambiguous parameters, in order to evaluate patterns of accidents and illness at the workplace.

### Flexibility and security

Increases in atypical contracts in recent years have profoundly altered the way in which the Italian labour market functions. In some regions the share of permanent contracts given for new jobs decreased from 50% in 1997 to about 25% in 2000 and onwards. The percentage of fixed term (9.9% of total employment in 2002) and part-time (8.6% of total employment in 2002) contracts is, however, lower than the EU average. The allocation of fixed term contracts poses important long-term problems, since they are characterised by significantly lower social protection than those of permanent contracts. For part-time contracts, which rose in number significantly in recent years, the situation is different, as they allow for the same pension provisions of full-time contracts.

The 2003 Biagi Law might be considered as the last step of a complex process that dates back to the end of the 90s. Its main strategy was to enhance the general performance of the labour market by increasing flexibility, backed by an agreement with the social partners. Notwithstanding the success of this process, the last few years have been witness to an increasing problem of duality of protection and social security amongst different categories of workers. The Biagi Law aimed to increase the adaptability and flexibility of the labour market and, at the same time, tried to reorganise and fine-tune the standard characteristics of the new labour contracts in order to improve their protection and security clauses.

The definition of new kinds of protection and opportunities for atypical contracts is pursued through the regulation of existing forms (the widespread *co-ordinated and continuative collaboration* contracts and part-time contracts), and also through the introduction of new types of contracts (project contracts, intermittent jobs, occasional work, etc.). The law also redefines the legislation that deals with apprenticeship, splitting it into two tiers: one with professional aims and another for the achievement of a

secondary education degree. The introduction of specific contracts for disadvantaged categories, furthermore, has been combined with the abolition of pre-existing "labour-training contracts", which over time took the form of an inappropriate flexible work contract.

These important steps, notwithstanding the huge disparities in the degree of protection and the increasing segmentation of the workforce, call for a wider and more comprehensive reform of the social protection system. In particular, focus should be given to developing a coherent system that improves "job market protection".

### Inclusion and access to the labour market

A major trait of the Italian labour market is the difficulty that unemployed people have in finding a job. As Table 4 indicates, average EU values are significantly higher, particularly for those seeking work within the last 12 months (a gap of 20%). Italian long-term unemployment rates are amongst the highest at EU level (in 2002 it was 4.1 for men and 7.2 for women). Women appear to be particularly disadvantaged, since their gap in the long-term unemployment rate (3.1 percentage points) is triple that of the EU average. Also the share of the unemployed participating in training (2%) is particularly low and half of the EU average.

**Table 4: Transitions between employment, unemployment and inactivity (Italy 2001-2002)**

	Employment	Unemployment	Inactivity
From employment to:	94.2	1.5	4.3
From unemployment to:	20.3	53.9	25.8
From inactivity to:	3.5	2.7	93.8

Source: LFS

Another important characteristic is the low level of employment (54%), which might be attributed to low activity rates that result from the strength of the hidden economy. One of the reasons for this is the low participation rate of both young and older people in the labour market (Table 5). Employment rates for the most educated share of the population is also relatively low. This is coupled with a high percentage of 18-24 year olds who have achieved a lower secondary education (ISCED level 2) and not attended further education or training. In 2002 this percentage was 27.9 for men and 20.7, almost double that of France or Germany. The high level of unemployment amongst young people is a particular trait of the Italian labour market. The level had fallen from 10.2% in 2001 to 9.7% in 2002, although this more optimistic trend runs contrary to those displayed in other major Member States.

**Table 5: Italy's employment rates by main age group and educational attainment levels**

Age group		Educational attainment		
15-24	55-54	Low	Medium	High
25.8%	28.9%	81.8%	64.8%	45.3%

Source: LFS

The policy debate over issues of inclusion and access to the labour market has focused mainly on active labour market policies (ALMP) and making work pay (MWP) policies. Through ALMP, an enduring reform of the PES process began in 1999. The implementation of these policies bought some progress (Table 6),

and in recent years new measures have also been introduced. The 2003 Biagi Law includes an integration/competition agreement between private and public employment services, together with the development of a “National job stock exchange” used as an instrument to quickly matching supply and demand. Monitoring activity has highlighted persistent delays in implementation in the southern regions, areas whose employment situation is more problematic.

The MWP policies have taken longer to implement. As is generally acknowledged, Italy still requires reform in its social benefit system, and the existing system only has a partial coverage, leading to imbalances and unfairness. The 2004 budget law and the Biagi Law indicate some projects and measures for a partial redefinition of the benefit system (tax rate reduction for low incomes, contribution incentives, and a minimum income scheme).

### *Work organisation and work-life balance*

In Italy 98% of children aged 0-3 are in the pre-school (non-compulsory) system, but the supply of public pre-school facilities is not yet sufficient: only 6.5% of the population aged 0-2 is covered. Private child care provision is more expensive, leading to high numbers of employees who are inactive due to family responsibilities or for education purposes (11.7%). This problem clearly impacts on women (22%) more than men (0.5%). Unsurprisingly, the impact of parenthood differed significantly between men and women. The differing rates with and without the presence of a child was -14.2 for men and 4.9 for women.

Policy actions targeted at improving this aspect of quality have focused largely on the work-life balance. Since 2000, a parental leave law has been implemented at both regional and local levels. This law provides incentives and support (for firms) to put flexible working hours in place and aims to ease the tension between work and private life. It has been recognised more recently that a lack of public childcare services represents a major hindrance for a good work-life balance. Measures have been developed to encourage pre-schools to be established in municipalities, at work and condominiums. However, policy in this area, notably in the area of finances, is not sufficiently adequate to tackle the problem.

### *Social dialogue*

In Italy the scope and validity of collective agreement is set out in the constitution, so the coverage these contracts provide is widespread. Mechanisms regulating low pay and the minimum wage are set out in collective agreements. Trade union activity is high (35 in 1999) but the spread of workers’ involvement is difficult to evaluate, because of the strong presence of small and medium enterprises. Conflict indicators score highly (Table 7), but this is mainly due to significant extra-industry conflict; if comparison is made with industry alone, however, the difference between Italy and the EU average narrows.

In the past ten years, the structure of social partnership and industrial relations has played a crucial role. This has been the case in Italy for both wage moderation agreements required for the Stability Pact criteria, and for direct social involvement in a variety

**Table 7: Industrial disputes**

	2001	1997-2001 average
Average number of workers (x 1,000) involved in industrial disputes	889	–
Number of days lost (per 1,000 employees) in industrial disputes	66	62

of fields (new flexible work contracts, lifelong learning, parental leave agreements, prevention against discrimination of disabled people). This notwithstanding, in the last three years, a deterioration in social dialogue has been witnessed, for two main reasons. In the first instance, there is some attrition between government and trade unions with respect to the pension reform, which seems difficult to resolve. Secondly, the ongoing increase between real/perceived and (government) programmed inflation has led to increased fear of real wage reductions. This brings the 1993 agreement on nationwide wage bargaining levels into question, and a project is under way to establish a tripartite confrontation table for the revision of the entire wage bargaining structure.

### *Diversity and non-discrimination*

The Italian labour market has at least two principal problems with regard to diversity and discrimination. Firstly, the participation of older people in the labour market is significantly lower than in other Member States (Table 8). Secondly, the employment and unemployment gap for disabled people is consistently high (Table 9). When considering non-EU workers, it is quite difficult to gain an understanding due to a lack of reliable data, but unofficial estimates point to an unemployment rate amongst immigrants which is significantly lower (by two percentage points) than the national average (Table 8).

The main policies which promote anti-discrimination appear to be linked to reforms in the education system (to discourage early leaving), of the pension system (for older workers), of the labour market and the PES (to encourage disabled people’s participation and integration). Recently, growing attention has been given to the inclusion of non-EU workers. Changes in regulation means that immigrant workers who lose their jobs cannot guarantee their residency, which has in turn regulated large numbers of illegal foreigner workers (often concentrated in domestic jobs).

**Table 6: PES implementation monitoring results (Italy 2000-2001)**

	Participants in training programmes	Registered unemployed in active search at the PES	Total unemployed in active search
Males (x 1,000)	–	783	1,066
Females (x 1,000)	–	884	1,201
Total (x 1,000)	1,823	1,666	2,267

Note: For these measures it is not possible to determine the previous state (unemployment or different) of the beneficiaries.

Source: ISTAT; data in average annual stocks

**Table 8:** Older people and immigrants' labour market participation (Italy 1998-2002)

	1998	2002
Employment rate (age 55-64)	27.7	28.9
Immigrants unemployment rate*	–	7.4
– unemployment rate in southern regions (immigrants)*	–	13.6
– unemployment rate in southern regions (residents)	–	18.6

\*Source: Caritas

**Table 9:** Italy's employment and unemployment rate gap for disabled people (with respect to the rest of the population)

	1999-2000
Employment rate gap	-25.5
– high qualification level	-11.7
– low qualification level	-13.8
Unemployment rate gap	7.4

Source: ISTAT

### Overall work performance

Although data on labour productivity is affected by significant problems, it can be used as an initial estimate of the economy's productive performance. Italy scores quite highly in labour productivity (Table 10) compared to the EU average, but the recent slowdown could signal the start of difficulties in the next business cycle. The gap between the education level of the workforce and the EU average (almost 20 percentage points higher) can be explained by delays and imbalances in more general processes of economic development in Italy. Nevertheless, there is cause for considerable concern because appropriate policies have not yet been developed to ensure that Italy quickly remedies this situation and catches up with the rest of Europe.

**Table 10:** Growth rate of labour productivity (Italy 2000-2003)

	2000	2001	2002	2003
Labour productivity	1.4	0.1	-0.7	0.6
Productivity per hour worked	1.4	0.9	-1.0	–

Source: Eurostat

### Conclusions

Overall, three main points can be highlighted with respect to issues of quality of work in Italy. Recent political concerns about the inadequacies of education and training systems appear to be justified. Italy's problems in this area are caused by structural factors, such as imbalances at the regional level and in the development process as a whole. A productive structure characterised by a prevalence of small and medium enterprises also contributes to this problem. A second important feature is Italy's backwardness with respect to women's participation in the labour market when compared with EU averages; this is particularly evident in the southern regions.

Lastly, the Italian labour market has yet to address the issue of social inclusion, as evidenced in the limited participation of young and older people in the labour market and the significant barriers facing the long-term unemployed. These areas are addressed in the National Action Plan, but recent policy actions that have been implemented do not appear to be adequate. In terms of the development of skills and lifelong learning, comprehensive reform of the education system appears to be a step in the right direction, but it is unclear to what extent this will meet the Lisbon targets for empowerment of the knowledge-based economy. Gender policies have registered some positive results, but the crucial problem of inadequate public childcare facilities remains. Problems of social inclusion and participation appear to be closely related to the general reform of the welfare and social security system, which is still a long way from achieving consensus.

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# Luxembourg

## *Quality in work and productivity*

The National Action Plan for Employment 2003 devotes a whole chapter, entitled “Quality and Productivity of Work”, to the notions of productivity and quality in work, bringing out the elements that potentially come into consideration. We shall examine these here.

### *A knowledge-based economy*

Since improving the quality of work is linked closely to the movement towards a competitive, knowledge-based economy, employment policies and policies for education and training are complementary to each other.

Education and vocational training in Luxembourg suffer from a number of weaknesses. They do not sufficiently teach students how to apply their knowledge; they are unsuccessful in overcoming social injustice; and a large number of students do not manage to attain a minimum level of skills.

For the sake of countering academic failure, education and training have to be made fairer, more effective and more responsible.

The following priorities for 2003-2006 follow from this: efforts in the area of initial training to enable an increasing number of students to acquire an academic qualification beyond lower secondary/lower secondary-technical education; measures to combat all forms of inequality in schooling (the “integrative” school); the reform of apprenticeship and vocational training; the strengthening of the socio-professional integration scheme for young people outside the school system and increasing the skills levels of job seekers; and the continuation of the measures defined within the framework of the strategy for lifelong education and training, together with measures to diversify academic and vocational choice.

### *Improved well-being for people at work*

The positive actions currently being conducted in collaboration with the social partners will be continued. These make it possible, by way of analytical studies, for the well-being of workers in their work to be improved. Concrete initiatives in pursuit of the advancement of women, of equal access to training, of better work-life balance and against sexual harassment are being undertaken in this context.

Through the positive actions which the Ministry for the Advancement of Women is continuing to organise in an increasing number of companies in the private sector, women’s working conditions are improving. The various issues, such as the under-representation of women in decision-making, their over-representation in low-status jobs, the question of part-time working and wage differentials are being registered and analysed, and appropriate measures for women’s advancement implemented.

### *Corporate social responsibility*

The Luxembourg government is currently putting in place a general strategy for Corporate Social Responsibility (CSR). This is being carried out by the Ministry of Labour and Employment. Such a campaign has to take into account the very substantial amount of social legislation in force in Luxembourg and this accounts for the need to explain the added value that can be brought to the country by way of the CSR concept.

In spite of the variety of approaches to CSR, there is a consensus regarding its chief characteristics: companies engage in socially responsible behaviour, going beyond what is simply required by law, and they undertake this voluntary action because they judge it to be in their best interests to do so. CSR is intrinsically linked to the concept of sustainable development; companies have to incorporate the economic, social and environmental consequences of their actions into their management. CSR is not a concept to be “added on” to the central activities of the company, but relates to its very management.

Given this situation and given a very high level of social welfare legislation, there is a need to establish very clearly what national measures will be likely to provide the added value that the CSR concept can bring to the world of work in Luxembourg.

The first discussions in Luxembourg have identified certain elements that are necessary, but not yet sufficient for a viable Luxembourg model.

CSR must be part of the government policy of sustainable development and it was at the request of the Ministry of Labour and Employment that the government included a chapter on accidents at work in the indicators selected to measure that development in Luxembourg.

CSR will have to be discussed and defined within the framework of the social dialogue, at European, national and company level. It can be defined as a strategy based on a three-pronged performance, expressed in voluntary commitments that go beyond statutory demands, in such a way as to reconcile the expectations of participants, within the framework of a process of dialogue.

Care will have to be taken to ensure that the content and practice of CSR are the products of a proactive approach on the part of companies.

CSR cannot replace the principle of a European and national normative framework. Rather than confining itself to respecting such a normative framework, it will be incumbent upon CSR to go beyond it.

At the national level, a framework which is flexible and respects the voluntary character of CSR will have to be drawn up to enable an assessment to be made of whether the goals of CSR have been achieved.

The Ministry of Labour and Employment is studying the possibilities of the practical implementation of the CSR concept in Luxembourg. To this end, it will elaborate the subject more broadly and more concretely with the social partners and will propose a first phase of implementation. This phase will no doubt begin with the compilation of a register of best practice in this area, to be posted on an Internet site created specifically for the purpose.

In parallel with this, the social partners will also discuss CSR. The question of employees sharing in the profits and gains of companies has already been broached within the context of the inter-professional social dialogue.

## *A charter on sustainable development*

The Charter of the Union of Luxembourg Enterprises (UEL) relating to sustainable development specifies the aims of companies in terms of the following guidelines:

- **Economic development** represents a necessary, if not indeed indispensable, condition for collective and individual well-being. Economic growth, which is the outcome of that development, must be vigorous in order to satisfy the aspirations of both present and future generations where social progress and the development of the standard of living is concerned. Being aware of their role in driving the economy, companies are predisposed fully to discharge the responsibilities that go with that role.
- **The promotion of workers' health and of their safety and well-being** are priority aims that are part of the culture of the company. They have a favourable impact on worker protection and satisfaction and this necessarily translates into both an appreciable reduction in accidents and occupational illnesses, and into improved productivity and better quality goods and services.
- **The safety of goods and services and, where applicable, industrial safety** express the same concern to behave in a manner that is responsible towards, and shows concern for, customers, suppliers, service providers and the neighbouring community of businesses.
- **Respect for the natural environment** by the business community entails consideration of methods of production, of use of natural resources and of waste management. Companies are, therefore, bound by a rational use of resources and methods of working that are in line with the principles stated above.

Guided by a specific code of professional ethics in this regard, companies are fully signed up to maintaining **amicable relations**, both with their customers and with suppliers and service-providers.

Within the framework of this charter, a specific declaration, agreed between the Ministry of Labour and Employment, the Factory Inspectors, the Accident Insurance Association, the Union of Luxembourg Enterprises and the most representative trade union organisations at the national level, aims to promote the health, safety and well-being of workers in a programme running from 2003 to 2007.

It stipulates, in particular:

*“This cultivation of the worker’s well-being must be part of the elementary values of all those responsible for an integrated preventive approach within companies. All company officials and partners are, therefore, called upon to commit themselves jointly to reduce efficiently and effectively the causes of accidents at work and the spread of occupational illness. The motto has to be: ‘all accidents can be avoided and no health risk can be accepted in the workplace’. Health and safety are parameters of performance, alongside the parameters of cost, quality, productivity and customer service...*

*Over the last forty years, Luxembourg has seen a relative decline in the number of accidents at work thanks to the various efforts made by companies and the introduction of legal and statutory provisions. Commuting accidents, which are part of occupational accidents, are, nevertheless, rising markedly. They represent more than 20% of occupational accidents and account for a substantial number of the serious and lethal accidents that occur.”*

Accidents to workers have been included among the indicators of sustainable development.

In its first clause, “Aim and Field of Application”, the law of 10 June 1999 relating to (environmentally) “classified” establishments defines the promotion of sustainable development in terms of the protection of safety, health or ease of access for the public or the staff of the establishments for workers’ health and safety.

Quantifiable, quantified occupational accident figures are an excellent indicator of sustainable development where the safety, hygiene and health of workers are concerned. Cumbersome arrangements and dangerous conditions are often the underlying causes of accidents and occupational illness, which are merely the visible tip of the iceberg.

## *The productivity observatory*

At its meeting of 15 December 2003, the National Tripartite Co-ordination Committee decided to create a “Productivity Observatory” with various missions.<sup>1</sup> It will be the role of this body, which comes under the aegis of the Ministry of the Economy, to analyse the sectors of the economy that are most affected by the fall-off in competitiveness and to prepare a plan of action. However, no date has been set for the implementation of this plan. The Observatory will also discuss the risk of social dumping created by the enlargement of the European Union.

## *The current situation with respect to quality in work*

We shall now review most of the ten points in the Communication from the Commission and see how Luxembourg has responded to them and may yet respond. We shall focus our attention on point 8 (Social Dialogue and Worker Involvement) on which there have been major developments in Luxembourg. We shall deliberately leave aside points 4 (Health and Safety at Work) and 10 (Overall Work Performance).

## *Intrinsic job quality*

In 2001 and 2002, in order to render employment more financially attractive by providing incentives, the government of Luxembourg implemented a significant reform of the tax system. The public authorities have also made efforts to transform undeclared work into regular employment. For example, the Law of 20 December 2002, relating to the secondment of workers as part of providing a service, constitutes an extremely effective tool by its economic impact on both the seconding companies and on the project managers established in Luxembourg.

## *Skills, lifelong learning and career development*

Preventing the exclusion of persons from the world of work by means of education and training is a priority. For this reason, in the context of the Action Plan for Social Inclusion, the Ministry of Labour and Employment will deploy a strategy closely linked to the execution of the draft law relating to the campaign against social unemployment. In 2002 and the first half of 2003, considerable advances were made in the implementation of priority measures relating to the central themes defined within the lifelong education and training strategy, as laid out in NAP 2002. These same themes have been taken up again substantially within NAP 2003, where they are again regarded as priorities.

<sup>1</sup> See *Le Quotidien indépendant luxembourgeois*, 16 December 2003 and *La Voix du Luxembourg*, 16 December 2003.

### ***Gender equality***

A support strategy for enterprise creation was developed in 2002 and 2003 by an ad hoc group set up by the National Tripartite Co-ordination Committee in April 2002. It provides for action in various fields. Where the campaign against gender pay differentials is concerned, a project entitled “Equal Pay, the Challenge of Economic and Demographic Development” was carried out in 2002 by the Ministry for the Advancement of Women in collaboration with the Ministry of Labour and Employment. The aim of the project was to research the causes of pay differentials. This theme is also a priority in NAP 2003.

### ***Flexibility and security***

The key reference here is a Grand-Ducal regulation passed in 1994 setting the terms of the assistance for geographical mobility allotted by the employment funds to job seekers who have been placed or replaced in a job. This assistance may include the payment of a set monthly benefit for travel expenses, a set monthly benefit for dual residence, or a single set benefit for transfer of domicile and resettlement.

### ***Inclusion and access to the labour market***

An improvement in the supply of labour and the promotion of active old age are among the advances that have been made. For example, as a result of civil service reforms, civil servants who have reached the age limit now have two opportunities to continue in the state service. They can either remain in the civil service on a full or part-time basis, or they can continue to perform service activities beyond retirement age.

Where the reform of the pensions regime is concerned, the principle of the staged increase of pensions as a function of the age and career of the beneficiary was introduced by the law of 28 July 2002, modifying the general and special pensions regime that came into force on 1 July 2002. It must be noted that the observation period has been too short to enable the effectiveness of this measure to be evaluated.

The law of 25 July 2002 relating to incapacity for work and reintegration of job seekers into employment came into force on 1 October 2002, but, so far as that law is concerned, the observation period has also been too short to enable its effects to be assessed.

### ***Work organisation and work-life balance***

New forms of work organisation are being developed. We may refer here to the possible introduction of Time Savings Accounts: the Ministry of Labour and Employment has developed a questionnaire regarding the possible introduction of a system of Time Savings Accounts.

Balancing family life and work represents one of the five fields of action of the campaign strategy for social inclusion in the Social Inclusion Plan 2003-2005.

Various advances have been made in the civil service. For example, the law of 19 May 2003 modifying the general employment status of civil servants introduced a series of innovations relating to gender equality, making provisions aimed at improving the situation of both female and male civil servants who wish to balance their occupational activity with child-rearing.

The introduction of part-time working also deserves a mention. This is an entirely new form of working which fundamentally runs counter to the classic regime of the full-time civil servant; it comes on top of the entitlements to unpaid leave and to leave for half-time

working which civil servants already enjoy.

It is also planned that those civil servants who take unpaid leave, leave for part-time working, or who work part-time for whatever proportion of the normal working week, in order to devote themselves to the upbringing of children under the age of fifteen, will be fully credited for their service in respect of advances in grade or increments of salary, and also in respect of the right to be admitted to promotion examinations.

And civil servants will, at the end of the period of unpaid leave, be reinstated into their original department. If, at the end of the period of unpaid leave or of leave for half-time working, there is no vacancy within their original department, they may request a change of department.

Furthermore, those who have taken unpaid leave or leave for half-time working for purposes of child-rearing and for whom, on expiry of this leave, there is no vacancy in their original department, are entitled to be reinstated in that department after a delay of at most one year.

### ***Social dialogue and worker involvement***

In addition to their involvement in the work of the tripartite bodies, of which there are many in Luxembourg, the social partners regularly consult at bipartite meetings in order to promote continuing vocational training; on 2 May 2003, the partners signed a convention on individual access to continuing vocational training, the reform of the part-time employment contract, the introduction of legal regulations covering teleworking, and the formulation of proposals to the Minister of Labour and Employment within the framework of the reform of collective labour relations and, in particular, with respect to the National Conciliation Office and Multi-Industry Agreements.

The trade union organisations have, in particular, made considerable efforts regarding equality of opportunity between men and women, health and safety at work, and non-discrimination, by setting up the “Equality Network”, a structure whose aim is to promote equality of opportunity between men and women in working life. This association’s actions and projects seek to promote equal career prospects, equal pay for work of equal value, achieving work-life balance and combating all forms of discrimination between employees. Initiatives are also to be found which combat stress at work and, through the creation of a non-profit making organisation named “Mobbing asbl”, the psychological harassment that may be associated with it. A department has also been created to take care of the interests of disabled workers.

Turning now to employment, the associations of one of the trade unions are working closely with various active partners with regard to employment, training and home care in order to achieve their objectives. It is the opportunity for these persons to be trained, both within the work context and alongside it.

The activities of another trade union, based, among other things, on the recommendations described in the Communication of the European Union “Strengthening the Local Dimension of the European Employment Strategy” (com(2001) 629 final), relate to the following fields: the natural environment, local services and social cohesion, information and communication technologies, culture and tourism.

These activities are, essentially, a response to collective and quasi-collective needs of the Luxembourg population.

In general, and in keeping with the provisions that put particular emphasis on partnership and good governance, the network has at

its disposal a structure, where partnership is concerned, that enables it to bring together at a local level all the dynamic elements on the various boards of the non-profit-making organisations (local elected politicians, local federations of craftspeople and traders, trade unions, associations and civil society) and to act as an intermediary between the local and the national and European levels. The number of volunteers active on these boards stands at more than five hundred. Where good governance is concerned, the network has a strategy which promotes the involvement of civil society through the form of the association and which encourages new responsibilities being taken at local administration level, advocating the establishment of institutionalised local action plans.

The network also has available to it a specific department that takes care of all matters linked to health and safety at work, sensitisation and training being important pillars of this work.

The employers' organisations have also taken initiatives in the field of initial and further vocational training. There are initial training courses devoted to apprenticeship training, as well as further vocational training courses laid on by the trade association and also by the employers' organisations through their specialised institutes, such as the Building Sector Training Institute and the Luxembourg Institute for Training in Banking. Courses and conferences are also organised on such subjects as employee committees and the secondment of workers. Similarly, lessons in the Luxembourgish language are also provided.

Within the context of employment measures, we may also cite the development of a study identifying labour needs in the new information technologies sector; the establishment, in collaboration with the Employment Service (ADEM) of a pool of substitute workers in the commercial sector; training for the integration of the unemployed provided by the Building Sector Training Institute and the establishment, in collaboration with ADEM, of integration training for manufacturing and security staff.

Within the framework of sustainable development, we may cite the elaboration of a Charter by which the employers undertake to promote a dynamic of sustainable growth among Luxembourg companies which takes account of the economic, social, environmental and societal aspects of development.

Within the framework of the promotion of the spirit of enterprise, we find a continuation of action to sensitise young people to entrepreneurship, so as to equip them with the desire to create and innovate and to show initiative, and also to give them a taste for a challenge. This is largely effected through "mini-enterprise" projects developed and provided for students in the later years of secondary education.

In the field of health and safety at work, we see a concept being implemented which should be of assistance both to victims of sexual harassment and also to companies confronted with such issues which do not possess the means to meet the obligations put on them by the recent legislation in this area. It is to be noted that this is a sectoral initiative taken by an association of personnel managers in conjunction with the competent occupational health department. Several companies have also signed collective agreements on sexual harassment and the related mediation procedures; a package has been created to identify so-called "safety posts" in companies; initiatives have been taken by various health departments in the field of ergonomics and conferences have been held on dangerous jobs.

Within the framework of gender equality, we find individual initiatives being launched by employers' organisations and trade associations – in particular, the organisation of a forum for women wishing to join or rejoin the labour market and an information

forum for women who wish to start up their own companies. Courses in evaluating pay in relation to the classification of functions are also offered.

### ***Diversity and non-discrimination***

Even though apprenticeship and training have already been mentioned above, we are right to revisit them in this present connection. Fostering the integration of young people through education and training is regarded as a priority in the following fields of action: adapting primary education to the needs of weak students by diversifying teaching methods; individualising patterns of schooling and supervising these students in their homework (extended school day); improving the efficiency of so-called "preparatory" secondary technical education with the aim that, having satisfied the requirements of schooling, every student can successfully undertake at least an apprenticeship at the level of one of the three official certificates; keeping young people at school longer who would otherwise find themselves on the labour market; strengthening the socio-professional integration scheme for young people outside the school system.

Promoting the integration of recipients of income support is also a priority. In this connection, let us note the opportunity the legislators intend to create for people to be exempted from participation in occupational integration measures, in order to allow them to complete the studies they have begun, while receiving a supplementary allowance within the framework of the Guaranteed Minimum Income scheme.

Furthermore, the Youth Employment Traineeship, an instrument provided for in the Guaranteed Minimum Income scheme, is an aid to promoting the integration of disadvantaged persons into the labour market.

In order to encourage the integration into the labour market of persons subject to occupational integration measures as part of the Guaranteed Minimum Income scheme, a draft law laid before the Chamber of Deputies on 20 May 2003 provides for financial assistance to employers in the market or non-market sector who employ them, provided they are given a fixed-term or open-ended contract.

The integration of the disabled is still a priority. During its sitting of 15 July 2003, the Chamber of Deputies adopted the law relating to disabled persons, its aim being, among other things, to regulate the work of those persons in sheltered workshops by applying labour law to them, subject to the necessary arrangements to take account of the specific needs of the disabled and of appropriately adjusted working conditions.

### ***Conclusion***

In conclusion, we may state that the Luxembourg National Action Plan of 2003 accords great importance to the issue of quality in work in relation to productivity. Themes relating to quality appear directly, including knowledge and training, gender equality and workers' health within companies. These latter are directly involved in promoting quality in its various aspects.

The reader will have noted that it is the dimension devoted to social dialogue and worker involvement that is one of the most highly developed. Various initiatives promoting quality in work can be seen in the discussion between the social partners. These relate mainly to gender equality, health and safety, non-discrimination and training.

This is one of the characteristic dimensions of the situation in Luxembourg: through the social dialogue, itself regarded as a quality issue, progress is made on other fronts. The diversity and multiplicity of the actors involved also play their part in raising the level of quality.

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# The Netherlands

## Quality in work

This article discusses different aspects of quality in work in the Netherlands. It also examines the integrative way in which the Dutch Government tries to meet or should meet people's wishes concerning work.

## Intrinsic job quality

In the communication by the Commission, intrinsic job quality is seen as a condition for increasing labour-market participation. The key indicator of intrinsic job quality is represented by "the transitions between non-employment and employment and within employment pay level". These transitions in the Netherlands are comparable to the transitions at EU level. About 79% of unemployed people remain unemployed; this figure is a little lower than the EU average of 84%. Some 20% of those employed in the most disadvantaged group in the labour market will lose their jobs in a given year (data from ECHP UDB, June 2003).

The focus in the Commission's definition of intrinsic job quality is on getting people into a job and stimulating them to make a transition to a more rewarding job in terms of status and money. The Dutch Government is also focusing on increased labour-market participation, as indicated by its motto "participation, more jobs, fewer rules". However, this focus on obtaining work diverts attention away from the content and meaningfulness of work. Moreover, the persistent importance attached to paid work makes other options, such as unpaid work, of minor importance. Thus the main thrust of the debate and subsequent policies is to increase employment opportunities (Van Hoof, 2001). The option of not working, or of dividing one's time between paid and unpaid work, is not made explicit.<sup>1</sup>

The twin emphasis on employment and on the rewards of work in terms of status and money seems to be in contrast, at least to some extent, with the desires and expectations of employees. In a survey, employees were asked what they considered to be important and

motivating in a job. Combining work and private life came first. Secondly, employees valued challenges in their work, and thirdly, they rated learning something new on a regular basis. Salary came in fourth and the possibilities for pursuing a career eighth (Willemsen et al, 2002). The results of this survey show that in addition to combining work and private life, the content and meaningfulness of work are very important to employees.

However, these preferred aspects of work cannot always be observed in people's jobs. In 2000, 72% of employees could decide for themselves how to perform their work tasks, and 77% could find solutions to work-related problems themselves. However, 25% of employees felt that there were not enough opportunities for personal development, 7% found their job monotonous and 8% had no joy in their work (Houtman et al, 2001).

In addition, the importance of work itself in the lives of people seems to be subject to change. Work is now less considered as one's duty (Van Hoof, 2001). It is clear that work has to compete with other aspects and domains of life. This sometimes causes frictions: 21% of working fathers and 32% of working mothers perceive difficulties in combining work and care (Fouarge et al, 2002).

## Flexibility and security

Flexibility and security are represented in the Commission's list of indicators by two forms of so-called "non-standard" work: part-time and fixed-term. In the Dutch context, part-time work is no longer viewed as non-standard. This is because a great majority of women and a significant, though much smaller, group of men work part-time (the Netherlands has been referred to as "the first part-time economy in the world").

Fixed-term work is less widespread, but has increased slightly since the introduction (in 1999) of the Flexibility and Security Act. This Act has provided more leeway to employers in using fixed-term contracts, while also placing strong limits on the use of on-call and other types of atypical contracts. First and foremost, the

<sup>1</sup> One of the Government's main aims is to increase overall labour participation, although new schemes such as life-course (lifecycle) arrangements enable people to combine work with other aspects of life.

**Table 1:** Non-standard work in the Netherlands 1998-2002 (in % of total number of employees)

	1998			2000			2002		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
<b>Part-time work</b>									
Total	<b>39.2</b>	18.0	67.9	<b>42.0</b>	19.6	71.0	<b>44.4</b>	21.2	73.2
Voluntary	<b>27.0</b>	7.8	53.0	<b>30.0</b>	10.6	55.0	<b>31.0</b>	12.3	54.1
Involuntary	<b>2.3</b>	1.7	3.2	<b>1.5</b>	0.9	2.2	<b>1.0</b>	0.8	1.4
<b>Fixed-term</b>									
Total	<b>12.7</b>	10.2	16.1	<b>14.0</b>	11.5	17.2	<b>14.3</b>	12.2	17.0
Voluntary	<b>6.2</b>	4.6	8.3	<b>2.0</b>	1.8	2.3	<b>1.8</b>	1.7	2.0
Involuntary	<b>5.8</b>	4.8	7.1	<b>3.7</b>	3.3	4.3	<b>3.3</b>	2.9	3.8

Source: Eurostat Labour Force Survey

Act has further normalised temporary agency work by granting more job security and facilities (such as training opportunities) to agency workers.

In the Netherlands, part-time work is regarded as work that is carried out regularly and voluntarily (on the basis of an employment contract) during shorter working hours than those which are customary in the sector or company concerned (i.e. the normal working hours for full-time workers). Employees with a fixed-term contract, temporary employment agency workers and on-call workers – except when these last actually work part-time – are not considered to be part-time workers. In Dutch law, the *pro rata temporis* principle is strictly applied to part-time workers. This holds true not only for the position of the employee under civil and public labour law, but also for social security law and entitlements. Thus there are hardly any issues regarding the social protection of part-time workers in the Netherlands.

Fixed-term work also does not generate major social security issues in the Netherlands, because it is usually clear when the employment contract has ended and what the duration of the contract has been. Of course fixed-term work, as such, implies a lower degree of job security than in a permanent contract.

### ***Work organisation and work-life balance***

One of the major issues connected with the topic of work-life balance is the combination of work and care. Eurostat<sup>2</sup> data indicates that parenthood in particular has considerable consequences for the employment status of women, which makes the topic also a gender-related issue (see below).

In 2002, the labour-force participation rate of Dutch women with a child aged 0-6 was 11.5 percentage points lower than that of women without children. This figure is slightly lower than the EU average difference of 12.7 percentage points, but much higher than the average difference in neighbouring countries such as Belgium (3.1 percentage points) and Germany (5.2 percentage points). For Dutch men with a child aged 0-6, the labour-force participation rate was 4.7 percentage points higher than for men without children.

Many Dutch women who give up work after the birth of a child decide to start working part-time. In 2002, about 73% of Dutch female employees had a part-time job (see Table 1), which is by far the highest percentage in the EU. As shown by Table 1, the decision to work part-time is in many cases voluntary: 54% of women

indicated that this was the case. Only 1.4% stated that their part-time work was involuntary.

In the Netherlands, the topic of work-life balance fits the broader theme of the life-course (or lifecycle) approach, so it features in current debates and policy proposals on new life-course arrangements. This debate has arisen from the notion that a few decades ago each life phase featured one activity, whereas nowadays people tend to combine working, learning and caring in each phase of their life. People may therefore benefit from provision that allows them to make their own choices, that supports combining and synchronising activities, and that facilitates transitions between different life-spheres (Council for Social Development, 2002). To increase flexibility and create life-course arrangements, employers and employees need to fine-tune their interests. Such fine-tuning not only involves co-operation within organisations (micro-level), but also co-operation among organisations (meso-level) and between the social partners, government and institutional organisations (macro-level) (Korver and Oeij, 2002).

To establish a viable life-course policy, the Dutch institutional and legal framework needs to be reformed (Council for social development, 2002). This may be possible by implementing a new system of security based on three pillars: a general and compulsory arrangement for all citizens; a combination of savings and insurance (e.g. for all employees within a certain sector); and individual savings and insurances (Leijnse et al, 2002). The Dutch Social and Economic Council (SER, 2001) foresees many problem areas in developing a life-course policy, such as barriers in the labour market and in education and training (see below).

### ***Skills, lifelong learning and career development***

Attempting to develop life-course policies implies a revision of the status and role of education and training during the total course of employment. During their employment career, employees or potential employees may face difficulties such as lack of qualifications to enter a job, problems in returning to the labour market after a period of absence, or insufficient maintenance of knowledge during the last phase of employment (SER, 2001). Even though the Government wishes to lead the Netherlands to the top of the European knowledge economies, its overall policy seems to aim to increase labour-market participation rather than to enhance human capital.

<sup>2</sup> All Eurostat data in this article comes from the European Commission Employment and Social Affairs Directorate Indicators for monitoring the 2003 employment guidelines, July 30, 2003

**Table 2:** Percentage of working-age population participating in education and training in the Netherlands and the EU total, by age group 55-64 and employment status

		1998	1999	2000	2001	2002
<b>NL</b>	<b>Total</b>	<b>12.9</b>	<b>13.6</b>	<b>15.6</b>	<b>16.3</b>	<b>16.4</b>
	Age group 55-64	4.7	4.6	6.4	6.5	6.5
	Employed	14.3	15.1	17.3	18.4	18.5
	Unemployed	15.4	14.0	16.8	19.9	17.6
	Inactive	8.7	9.3	10.4	9.4	9.6
<b>EU (15 countries)</b>	<b>Total</b>	<b>5.2</b>	<b>8.2</b>	<b>8.5</b>	<b>8.4</b>	<b>8.5</b>
	Age group 55-64	0.9	2.6	3.0	3.0	3.3
	Employed	4.9	8.7	8.9	8.8	8.9
	Unemployed	6.1	8.3	8.5	8.0	8.3
	Inactive	5.6	6.9	7.2	7.4	7.4

Source: Eurostat

Participation in education and training in the Netherlands exceeds the EU average in all the categories presented in Table 2. This does not mean, however, that current education and training programmes are sufficient to break down barriers for disadvantaged groups, or to guarantee the future of the Dutch knowledge economy. According to TNO Work and Employment, the main difficulty for the Dutch labour market is the qualitative discrepancy between labour supply and demand. The gap in educational attainment between employed and unemployed people is getting larger, as employees increasingly have a higher level of education and manage to improve their skills and competences during their working years. Thus unemployed people, who on average already have a lower level of education, do not benefit from being able to acquire extra skills in a job.

In comparison with other European countries, the Netherlands invests less money in the education of unemployed people, and welfare and other benefit recipients often face restrictive regulations when they want to enter into an education programme. The supply of education programmes also needs to be extended, for example in co-operation with businesses or business associations (De Haan, 2001). In the broader context of the knowledge economy, educating the workforce and the labour supply contributes to creating a high-quality knowledge infrastructure. For both employed and unemployed people, education may strengthen their individual labour-market position and lead to a (more qualified) job.

### Gender equality

The labour-market participation of women still decreases after the birth of a child, although it is becoming much more common for women to continue working after having children. Women who had their first child between 1985 and 1989 had a labour-market participation rate of 69% before the birth and 46% after the birth. Women who had their first child between 1995 and 1997 had a participation rate of 83% before the birth and 72% after the birth. Women with a higher level of education tend to stay in the labour market. In terms of increasing labour-market participation, this seems to be positive, as research shows that it is not easy to return to the labour market after a substantial period of absence (Schippers, 2003). Yet parenthood has a great impact on the employment status of women (as indicated above). The most common consequence for women (and much less for men) is to start working part-time, which influences their remuneration and career prospects.

The average gross hourly earnings of women as a percentage of average gross hourly earnings of men appear to be lower in the Netherlands (79% in 2000) than in the average EU country (84% in 2000) (Eurostat data). This pay gap is mainly caused by differences in secondary remuneration, which men tend to receive more often than do women (AIAS, 2002). Having a part-time job influences remuneration as well. The Labour Inspectorate reported that in 2000, women earned 5% less than men and that employees with a large part-time job (generally more than 12 hours per week) earned 5% less than full-time workers. Employees with a small part-time job earned 11% less than full-time workers (Arbeidsinspectie, 2003).<sup>3</sup>

Flexible labour contracts, such as part-time contracts, affect the long-term employability of workers, particularly the opportunity to develop skills. This effect is even stronger for women, who appear to lack opportunities for skills development more often than men. There are indications that women with a flexible contract have fewer skills development chances than do men with a flexible contract (Goudswaard, 2003). Having a flexible contract or being a female employee decreases the chances of entering a training course and getting it paid for by the employer (Steijn and Need, 2003). Moreover, women have a bleaker perspective on their chances of getting a promotion within five years, a correlation that in a weaker form also exists for employees with a flexible contract (Goudswaard, 2003).

### Diversity and non-discrimination

The Netherlands aims in particular to increase employment rates for women, people aged 55-64, ethnic minorities and disabled people (see Table 3).

**Table 3:** Net employment rate in the Netherlands, 2002

	Total	Male	Female
Total	66	77	54
Age 55-64	37	52	22
Non-Western minority	50	59	40
Disabled people	49	–	–

Source: Statistics Netherlands  
– means data not available

The labour-market participation rate of people aged 55-64 is increasing slowly. Between 1997 and 2002, the participation rate of people aged 55-59 grew from 42 to 54%. In this age group, men's participation rate increased from 60 to 70%. When people reach the age of 60, participation decreases rapidly (CBS, 2003).

Young people belonging to minority ethnic groups are affected more than others by rising unemployment in the Netherlands. The unemployment rate among young Surinamese and Antilleans exceeds 25%. Although people from minority ethnic groups seem vulnerable to the changed economic circumstances, the Government formulated no specific measures in its National Action Plan (NAP) to improve their labour-market position. On the contrary, the Act on Stimulating the Labour Participation of Ethnic Minorities (*Wet SAMEN*) was abolished at the end of December 2003. The Government feels that the Act has been successful, but will no longer generate added value. It is now the responsibility of both employers and minority ethnic job seekers and employees to enhance the position of ethnic minorities in the labour market. In addition to specific labour-market regulations, minority ethnic groups benefit from labour-market instruments that are also accessible to the rest of the population. Some of these general instruments face budget cuts that will affect minority ethnic groups more than the rest of the population (see Dutch monthly labour market update for the EEO, December 2003).

People with a disability have more difficulty in entering the labour market than those without a disability. This is partly because of employers' negative image of disabled people. Some 14% of employers hold the view that people with a physical disability are more often ill, and 17 to 21% think that they are less productive. Their opinion of people with a psychological disability is even worse: more than half of employers think that these people call in sick more often, and 40% think that they are less productive. Many employers are unaware of the special regulations and subsidies they might receive when hiring a disabled person (Van Petersen et al, 2004).

### ***Inclusion and access to the labour market***

About 50% of unemployed people in the Netherlands manage to find a job. Of those who are inactive, only 18% manage to find employment (see Table 4). The NAP explicitly mentions activation and prevention measures to decrease unemployment and inactivity.

**Table 4:** Transitions between employment, unemployment and inactivity in the Netherlands (%), 2000

Status at transition	Employment	Unemployment	Inactivity	Total
Employment	94	1	5	100
Unemployment	53	18	30	100
Inactivity	18	3	79	100

Source: Eurostat

Regarding youth unemployment, one of the main concerns is to reduce the number of early school leavers. The NAP states that overall youth unemployment should be lower than twice the total unemployment rate. To prevent long-term youth unemployment, every unemployed person aged 15-22 has to find a job and/or return to school/college within six months.

Disability benefit recipients are also encouraged to re-enter work. The timescale before receiving disability benefits has been extended: the employer has to continue paying the wages of an ill employee for two years (the length of time was previously one year). People who already receive disability benefits may get a re-assessment to determine whether they are able to work once more. Those who are found fit to work can make use of a reintegration budget.

All these efforts aim towards using as much as possible of a person's capacity to work. To this end, various instruments for reintegration are available. These include a no-risk policy which guarantees no costs if a reintegrated employee falls ill, and a reduction of social security charges if employers have more than 2.5% partially disabled employees in their workforce. Employees who face a decrease in income of more than 35% may get a wage supplement to encourage them to start working again.

However, there are also some very successful labour-market instruments which have been withdrawn. These include SPAK (Specifieke Afdrachtskorting), which aimed to stimulate the labour-market participation of people with a low level of education by giving the employer a subsidy in order to reduce the total wage costs.

### ***Health and safety at work***

The Labour Inspectorate reported in 2002 that 2.4% of employees were involved in an accident at work in 2001 (2.6% in 2000). This involved about 154,000 employees, of whom 62,000 were absent from work for more than three days. In 83 cases the accident was fatal (Arbeidsinspectie, 2002). The Ministry of Social Affairs and Employment has started a new project to decrease the risk of accidents in companies and to improve health and safety at work.

Unfavourable working conditions contribute to physical and mental health risks. In 2000, the most common physical work stresses in the Netherlands were long-lasting static posture of the upper body (45%), repetitive movements (44%) and working with computer screens (VDUs) (44%). The percentage of workers who make repetitive movements in their work and those who perform VDU work have both increased (SZW/CBS, 2002). Work can also be mentally stressful. In 2002, 30% of employees had to work under intense time pressure, 33% had low task autonomy, 34% had few opportunities for development, and 38% had low remuneration. However, most employees reported a good work atmosphere (85%) (Botterweck, 2003).

Absence from work through illness decreased from 5.4% in the second quarter of 2002 to 4.7% in the second quarter of 2003 (Statistics Netherlands). The inflow into disability benefit schemes decreased in 2002 to 89,060 people (Statistics Netherlands) and the total number of benefit recipients decreased to about 790,000 in September 2003 (UWV, 2003). Since 1967, the Dutch social security system has been based on the principle of *risque social* rather than *risque professionnel*. This means that the cause of illness or disability is irrelevant to the benefit scheme (i.e. the benefit is the same for work-related and non-work related cases of sickness and disability). This may change in the future.

An important instrument to reduce risks at work and to improve illness and reintegration policies is the health and safety covenant between the Government and the social partners. This lays the primary responsibility for a good health and safety policy at the level of employers and employees within a particular sector of the economy, including clear targets. In 2002, 29 covenants were in force and another 22 sectors signed a declaration of intent (Arbeidsinspectie, 2002).



## Overall work performance

Eurostat data shows that the Netherlands had negative growth in labour productivity in 2001 and 2002 (-0.5% and -0.3%).<sup>4</sup> In 2002, only two other European countries, Italy and Luxembourg, had negative labour productivity growth. The average EU growth was 0.7%. The Netherlands Bureau for Economic Policy Analysis (CPB) expects positive labour productivity growth for the Dutch market sector in 2003 and 2004 (CPB, 2003). It even finds the labour productivity level of the Dutch industrial sector reasonably high, although the difference between the Netherlands and countries such as the USA and France is gradually increasing.

In general, two major factors stimulate the growth of labour productivity: technological innovation and lifelong learning. This implies that ongoing attention to the Dutch knowledge economy is vital for securing future labour productivity growth. Within industry, labour productivity rises fastest in sectors that innovate their production technology on a regular basis, e.g. by connecting production lines that were once separate from each other. This decreases the amount of materials and energy needed, and also the amount of labour (Creusen and Rensman, 2003).

For the quality of work in terms of job content, increased automation has both upgrading and downgrading effects (Huys et al, 1995). The need for highly skilled technicians may weaken the labour-market position of low-skilled workers, and illustrates the necessity of investing in education and training for low-skilled workers. The implementation of lifelong learning may be stimulated if labour patterns become more “transitional”, for example if education and training become recurring events in people’s lives (see earlier section on “Skills, lifelong learning and career development”) (SER, 2001).

## Social dialogue and worker involvement

Traditionally, the role of the social partners has been very prominent in the Netherlands. This role was revitalised in the mid-1990s, and the so-called Dutch “Poldermodel” (where the state eases the financial pressure of taxation and social premiums whenever necessary) was considered a major factor in the economic success of the Netherlands between 1995 and 2001. However, since 2000, a new debate has emerged on the proper division of responsibilities between the Government and the social partners, and the “primacy of politics”. Three main arguments for the end of the Poldermodel were forwarded: slow socio-economic decision-making, weakening of the primacy of politics, and limited wage differentiation. Supporters of the Poldermodel, including representatives of the Dutch Employers Association VNO-NCW, deemed this criticism unfair and incorrect. They pointed to the performance of the Dutch system compared with other European countries (Van der Meer et al, 2003).

Over the period 2002-2003, the relationship between the trade unions, employers associations and the Government has deteriorated. This is because of the change of Government and the drastic budget cuts and reforms that have been announced over the past months. Yet on 14 October 2003, the Government and the social partners managed to hammer out a new central agreement. The new agreement contains a novelty: a “wage freeze”. There is to be no increase of wages during 2004 and “approaching a zero increase” for 2005, with the exception of increases due to performance-based pay. This is in exchange for the Government’s reconsideration of reforms and measures in the area of early retirement schemes and reform of the Disability Benefits Act. In spite of this new central agreement, it is still not unlikely that labour relations will become more adversarial than in the past.

Two important points should be noted here. First, the drawbacks in the relationship between the social partners and the Government are more visible at the central level of consultation, and much less at sector or company level. At sector level, good practice in labour market (self) regulation and co-operation between the social partners and the Government exists – e.g. the work environment covenants (*arboconvenanten*). Secondly, appreciation of the role of the social partners in steering the Dutch economy seems to vary with the business cycle. The Dutch Poldermodel is a cultural dimension and long-standing tradition rather than a static model or blueprint.

## Conclusions

A few important points can be stressed, in particular in view of their position in relation to the Dutch NAP. In some ways, the Dutch Government is trying to approach work quality in a more integrative way, e.g. by providing rights to leave, financing leave schemes and attempting to facilitate the work-life balance of workers and carers. Moreover, an envisaged (national) life-course arrangement has been widely debated in recent reports. Among other things, this may stimulate the labour-market participation of women and contribute to an overall modernisation of labour-market policy.

However, in other respects an integrative view is lacking. Topics such as intrinsic job quality get less attention because of the dominating quantitative goal of increasing participation in paid work. The possibilities and merits of training for both workers and non-workers, including in terms of lifelong learning, are not given highest priority. In the long run, however, training will have a positive effect on people’s ability to stay in work and to get a better job. Paradoxically, in order to increase labour productivity, Dutch politicians stress the importance of enhancing innovation capacity, human capital and economic dynamics. This implies that not only the quantity but also the quality of jobs and the workforce should receive (more) attention.

In terms of health and safety, the conclusion of work environment covenants (*arboconvenanten*) in various sectors of industry represents one of the most promising developments. The strengthening of professional support in occupational health and safety matters and the fairly recent “tit for tat” enforcement policy of the Labour Inspectorate may also enhance occupational health and safety. The Government is aiming for a better supply of occupational health and safety information to employers, matching more adequately their needs.

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# Austria

## **Introduction: In Austria there is little political pressure to pay special attention to “quality in work”**

“Quality in work” as the overarching goal of the European Employment Strategy draws no particular political attention in Austria. It is rather the causes of the very slow employment growth and the clear rise in unemployment which are currently the focus of attention. Increasing youth unemployment and the concentration of unemployment in the eastern region of Austria, in particular, are at the centre of political arguments between the government and the opposition.

## **Austria’s above-average position in the European Union**

The government does not even see any particular challenge in the European Commission’s recent review of quality in work<sup>1</sup>. This review cites Austria as having reached above-average quality standards in many dimensions, while its position matches the EU

average in some dimensions and falls just below the EU average in a very few others.

However, the lack of political attention paid to “quality in work” as a stand-alone topic does not indicate a complete lack of measures either directly or indirectly affecting the issue of quality in work. Further details of some of these measures are given in the description of the ten dimensions of the harmonised concept of quality in work featured below.

## **The thesis of the “virtuous circle” meets with scepticism**

Before embarking on such a detailed discussion it is worth providing a brief outline of the fundamental scepticism often expressed in Austria in relation to one of the fundamental positions of the European Commission. This scepticism relates to the thesis of the “virtuous circle” of quality in work and productivity growth.

The Federal Ministry for Economy and Employment (BMWA) has commissioned two independent research organisations to carry out

<sup>1</sup> Commission Communication: Improving quality in work: A review of recent progress. Brussels, November 2003

studies on this issue. One study<sup>2</sup> examines the issue of the relationship between “quality in work” and “productivity growth” in the light of the relevant international theoretical literature. The other<sup>3</sup> sets out to compile a set of systematic empirical findings for Austria.

The “theoretical” study reaches the conclusion that the available economic literature fails to form an even vaguely unified opinion on the issue in question.

The “empirical” study was unable to establish any evidence of a clear relationship between quality in work and productivity growth in the case of Austria.

Both studies confirm the view that there are functional relationships which produce positive feedback between individual “quality factors” and productivity growth. What the studies fail to confirm is that these “positive” feedback loops definitely dominate the “negative” feedback loops. In fact, the empirical study clearly states that “for Austria in 2001” “negative” feedback exceeds “positive” feedback in quantitative terms.

This outcome is of far more than academic interest. In political terms, the question of the dominance of “positive” or “negative” interactions between quality in work and productivity growth is also of considerable practical interest: If there is a “virtuous circle” (positive feedback), then investment in quality in work will eventually pay “for itself” through increased productivity growth. If, on the other hand, a trade-off (negative feedback) exists, then there will be a “net cost” of additional investment in quality in work. If the government wishes to avoid any such additional pressures in the light of weak economic growth, it will not force the issue of improving quality in work politically.

In actual fact, the government has made no effort to invest additional resources, particularly in (continuing) training and research and development. Priority in the creation of growth incentives is currently being given to reducing the tax burden on limited companies, which is seen to be helping to secure Austria’s position as a business location. Besides, restructuring initiatives in the field of promotion of education, training and research are designed to improve the efficiency with which resources are used, without actually increasing these resources themselves. Many of the measures are in fact designed to reduce public sector spending in Austria.

### ***The ten dimensions of the harmonised concept of quality in work***

In its recent review<sup>4</sup> the Commission states:

“Quality cannot be expressed in a single parameter. The concept of quality is multi-dimensional and is built on a wide range of components which interact with one another.”

This very cautious approach is intended to take into account “diversity” in and between Member States, in particular.

However, this consideration of “diversity”, however logical, comes at a price since the Commission is unable to provide an overall assessment of quality in work (though it could be argued that this is not actually necessary).

The empirical study on quality in work in Austria commissioned by the BMWA prioritised clarity of results (which may be achievable) over diversity.

### ***The Austria Study: an alternative approach***

The Austria Study<sup>5</sup> concentrated on four features of jobs:

- The level of income obtained in a job (the higher the achievable income, the greater the opportunity for employees to secure a material standard of living which protects them from social marginalisation);
- The stability of employment in a job (the greater the likelihood of keeping a job for a long period, the greater the motivation to create a productive workplace);
- In-house training opportunities combined with employment (the greater the frequency with which training sessions are provided, the better employees’ skills and abilities develop);
- Family-friendly working hours (the less people – especially women – are required to work shifts, nights, Sundays or public holidays, the better they are able to reconcile working life and family life).

Based on a body of micro data for all jobs in Austrian businesses, the study carried out a quality assessment of each job, and the values for the four quality variables (each with identical weighting) were combined to form one single index value for the quality of a workplace).

This built up a highly detailed picture of the quality of over three million jobs and their areas of work.

In a second stage, the accessibility of these jobs for various social groups within the labour market (women/men, degree of integration in the labour market) were measured.

These analyses produced three primary results:

- There is a group of businesses in which the “virtuous circle” is in evidence;
- This group of businesses is, however, smaller than the group of businesses in which a “trade-off” exists;
- In all businesses the accessibility of a job to “outsiders” decreases the better the quality of the job in question.

These results shed new light on the procedures and results of the European Commission’s review.

### ***Intrinsic quality in work***

The Commission specifically states that subjective job satisfaction in Austria has reached peak levels.

This finding corresponds to the results of a regular survey among the working population carried out by the Upper Austrian Chamber of Commerce. This survey shows clear cyclical fluctuations (against the background of a relatively high average). Reduced employment opportunities and an increased risk of unemployment increase stress (pressure to adapt) in the job and thereby result in a drop in quality.

<sup>2</sup> H. Hofer, Chr. Ragacs, M. Riedel, U. Schuh, C. Wörgötter: Qualität der Arbeit – Ökonomische Theorie und wirtschaftspolitische Implikationen (The quality of work – Economic theory and economic policy implications) Institut für Höhere Studien commissioned by the BMWA, February 2003

<sup>3</sup> G. Kernbeiß, U. Lehner, R. Löffler, M. Prammer-Waldhör, M. Wagner-Pinter: The quality of work and employment: Methodological/ analytical framework and empirical findings for 2001. Synthesis for the BMWA, February 2003

<sup>4</sup> Communication of the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions: Improving quality in work: A review of recent progress. Brussels, November 2003

<sup>5</sup> G. Kernbeiß, U. Lehner, R. Löffler, M. Prammer-Waldhör, M. Wagner-Pinter: Die Qualität von Arbeit und Beschäftigung: Methodischer Analyseraster und empirische Befunde für das Jahr 2001 (The quality of work and employment: Methodological/ analytical framework and empirical findings for 2001). Synthesis commissioned by the BMWA, February 2003.

**Table 1:** Index value of job satisfaction

	1997	1998	1999	2000	2001	2002	2003
Total	100	103	106	108	108	107	106
Women	101	104	107	109	109	109	107
Men	100	102	105	108	107	106	104

Source: Upper Austrian Chamber of Commerce, Working atmosphere

This stress will be exacerbated by a planned measure to relax the employment protection for the unemployed. Under the new rules, anyone losing a job will be entitled to claim employment protection for a maximum of 100 days. After this time they will have to accept any work offered. This relaxation of the employment protection rules was agreed by the social partners.

### **Qualifications, lifelong learning and professional development**

Surveys<sup>6</sup> show that only just over a third of the Austrian population (16+) considers “lifelong learning” to be important.

In this training-based “quality dimension”, the European Commission agrees, Austria achieves below-average results. Even the Federal Ministry for Education, Science and Culture which takes the co-ordinating role in this field has seen no occasion to update its 2001 report on the Memorandum on Lifelong Learning.

Despite this general indifference, a number of programmes are being developed, largely triggered by the European Employment Strategy. These include, first and foremost, the provision of advice on and the promotion of training activities at business level by the Austrian Labour Market Service. In addition, there are also various initiatives being carried out by some of the federal states (e.g. Tyrol and Vienna) at the individual level which place particular emphasis on the promotion of education within the framework of territorial employment pacts.

### **Gender equality**

In the view of the Commission: “Gender equality is a dimension of quality in itself”.

In Austria developments in this area must be considered under two headings.

As far as the access of women to the labour market is concerned, women are clearly catching up with men. The vast majority of employment growth in Austria is accessible to women. At the same time, the percentage of women amongst the unemployed is dropping. This development has proved to be a robust one and is in all probability set to continue.

**Table 2:** Activity quotas<sup>7</sup> of the resident Austrian population, in Per cent

	1999	2000	2001	2002
Total	81.8	82.5	82.9	83.3
Women	76.4	77.9	79.2	79.8
Men	86.7	86.7	86.3	86.5

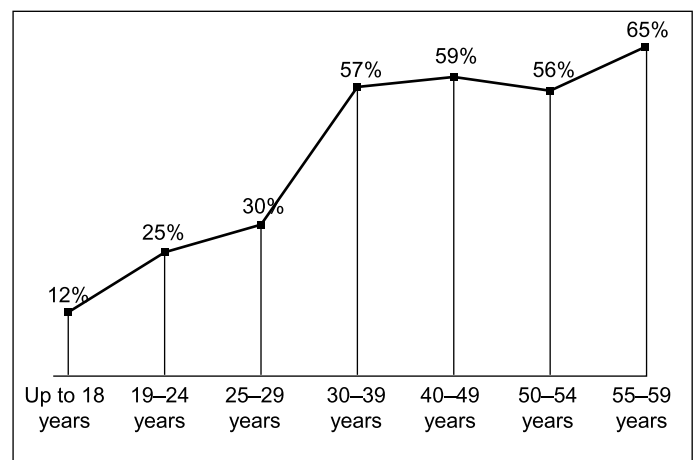
The positive development in terms of the participation of women in working life is contrasted by complete stagnation in the field of gender-specific pay differentials.

Women would have to achieve a 50% increase in pay in order to gain equal footing with their male colleagues. However, they are clearly hampered in this endeavour by the “glass barriers” which continue to apply despite explicit anti-discrimination legislation and equal opportunities officers.

There are no planned political measures capable of altering this situation.

**Fig. 1:** Income gap rises over working life

Income gap between men and women's incomes 2002 (Median)



### **Health and safety at work**

The European Commission's review shows that the incidence of accidents at work in Austria is clearly below average.

Certain large businesses have developed comprehensive new strategies in this area. An approach is exemplified by the LIFE programme run by Voest-Alpine which has more than 22,000 employees (including some 14,000 in Austria). This programme pays special attention to the safeguarding of health in various ways. In addition to a regular health consultation for each employee in the company, health-related restructuring initiatives are also carried out on an ongoing basis. For example, the amount of night and shift working is being reduced in a systematic manner. All new fixed investments are subject to a strict ergonomics test (far in excess of the statutory requirements).

The aim of the LIFE programme is to encourage older employees to continue working for the group (rather than take early retirement).

<sup>6</sup> IMAS Report 23/2002: Weiterbildung zwischen Absicht und Wirklichkeit (Further training: the tension between intention and reality).

<sup>7</sup> The activity quota indicates the percentage of the resident Austrian population of working age (women: 15-59 years, men: 15-64 years) engaged at least once in the course of a year in standard (including *Zivildienst* and measures under the Labour Market Policy Financing Law (AMSG)), marginal or other (free service contracts) employment, self-employment or registered unemployed.

## ***Flexibility and security***

The Austrian labour market has a high degree of flexibility in terms of both businesses and employment.

As far as “security” (as defined in the Commission’s review) is concerned, the aforementioned Austria Study on Quality in work has shown that only “insiders” (i.e. those who are very well integrated in the employment system) have access to high quality jobs.

**Table 3:** Quality index and degree of labour market integration 2001

	complete	average	low
Degree of integration as a percentage of the total working population	74.7%	20.5%	4.8%
Quality in work index	121	72	74

Source: Federal Ministry for Economy and Labour

## ***Integration and access to the labour market***

According to the conclusions drawn in the review, Austria ranks as one of the three Member States “with the best labour market performance in this area”. This opinion matches Austria’s own view of its performance.

## ***The organisation of work and the compatibility of working life and private life***

The employees in some 40% of all Austrian jobs are expected to carry out their work duties outside normal working hours. That is, they work nights, Sundays or public holidays.

This applies to a large number of women who cannot, however, rely on a corresponding level of flexibility in the opening times of childcare facilities which frequently do not facilitate the reconciliation of working life with family life.

A study<sup>8</sup> based on a micro-census survey on “unfulfilled” childcare wishes reveals the following finding: The availability of “comprehensive” childcare provision would increase the number of women in the labour market by 25,000.

A new initiative designed to facilitate the lives of working parents is set out in a Bill (tabled in December 2003) which plans to introduce the right to part-time working. Its scope of application, however, is extremely restricted. The legislation would apply only to businesses with more than 20 employees and those affected would have to have been working for the company for at least three years before applying.

The unions have decreed this requirement so restrictive that not even one quarter of all those affected will be able to benefit from the new legislation.

## ***Social dialogue and employee participation***

Austria numbers amongst those countries with a well-developed social dialogue and an above-average level of employee participation. This is reflected in the extremely high figure of 98% of

employees covered by collective bargaining agreements identified in the Commission’s review.

Although the level of influence exerted on government by the social partners has decreased, it is nevertheless still unusually high.

The first large-scale strike in years (2003) was called by the unions not within the framework of a collective bargaining dispute with the employers’ associations, but as a protest against government pension reforms.

## ***Diversity and non-discrimination***

The European Commission’s review details the comprehensively programmed “quality requirements” at observatory level in three areas. These are: the employment of older people (55 to 64 years), the employment of foreign nationals from outside the EU and the employment of the disabled.

As far as employment of the 55+ age group is concerned, their share of the labour market in Austria is growing for two main reasons:

- Reforms affecting access to statutory old-age provision have forced a step-by-step increase in the effective retirement age;
- Demographic developments are “independently” leading to a clear increase in the number of those in the 55+ age group among the working population.

Despite these two developments, the number of those in the 55+ age group as a percentage of the total working population in Austria is still well below the European Union average.

Foreign nationals from outside the EU are confronted by the extraordinarily restrictive regulations of the Aliens’ Police Department. Nevertheless, due to the great influx of foreign nationals at the start of the 1990s and the increase in acceptance of refugees and asylum seekers, Austria has a high percentage of individuals from a “migration” background in its total workforce.

Those with a migration background (including in particular “second generation” migrants) frequently do not consider themselves able to access employment opportunities offering a high level of quality in work. This group represents a greatly above-average percentage of the population (aged between 18 and 24) who have completed no more than the minimum compulsory years of schooling.

The basic findings on the labour market situation of disabled people of working age are as follows: In 2002 there were some 57,000 disabled people in “supported” employment as against some 31,000 who were unemployed. These modest proportions were achieved only with the help of ESF-funded programmes.

## ***Overall labour output***

In the Commission’s estimation, Austria as a business location achieved a productivity per hour worked only just (3%) above the European Union average. In 2002, however, a 1.4% growth in productivity per hour worked was twice the EU average.

Ensuring an adequate level of productivity growth is a central element of Austrian employment strategy. In pursuing this aim Austria cannot simply rely on its small percentage of young people with no training (beyond compulsory school leaving age). Although this figure is one of the lowest of all Member States, it cannot be seen as any guarantee of above-average productivity growth in the future.

<sup>8</sup> W. Altenecker, M. Kalmár, M. Prammer-Waldhör: Beschäftigungseffekte einer umfassenden Kinderbetreuung (Employment effects of comprehensive childcare provision). Commissioned by the Vienna Chamber of Workers, December 2003

***Conclusion: Quality in work – a stand-alone goal, but not a guarantee of high overall economic performance***

A comparison of the last indicator of quality in work and the nine preceding indicators leads us – in the case of Austria at any rate – back to the introductory discussion. Does investment in quality in work (as measured by indicators 1 to 9) also increase overall economic performance (indicator 10)?

In the case of Austria, there is no discernible consistent relationship between the two. This emerges from both the Commission's review and the Austria Study on quality in work.

According to the Commission's review, Austria achieves (with a few exceptions) above-average values for quality in work (indicators 1 to 9). In terms of overall economic performance, Austria is a good average.

The micro-analytical Austria Study<sup>9</sup> reaches a similar conclusion. "In Austria there is a trade-off between business expenditure on new jobs and business expenditure to increase quality in work. There is also a negative relationship between the quality of a job and the chances of outsiders being recruited to this job. For this reason, investment in quality does not increase the quantity of jobs on offer just as higher quality jobs do not increase the chances of outsiders finding employment." (page 40).

The diagnosis made in the Austria Study in no way reduces the significance of quality in work as a central goal or a sustainable employment strategy. Rather, it implies that part of overall economic performance must be used for this purpose. The "virtuous circle" alone will not be sufficient to achieve it.

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<sup>9</sup> G. Kernbeiß, U. Lehner, R. Löffler, M. Prammer-Waldhör, M. Wagner-Pinter: Die Qualität von Arbeit und Beschäftigung: Methodischer Analyseraster und empirische Befunde für das Jahr 2001 (The quality of work and employment: Methodological/analytical framework and empirical findings for 2001), Synthesis commissioned by the BMWA, February 2003

# Portugal

## Introduction

In Portugal quality in work is a recent priority and it is directly related to the European Employment Strategy (EES). The economic crisis has also helped to put the issue on the political agenda, as it has allowed the identification of some critical aspects of the national labour market.

Since the second half of the 1990s, Portugal has shown a very good performance in the main indicators of the labour market. In recent years it has had one of the highest employment rates and one of the lowest unemployment rates in the European Union (EU). Some of the goals defined by the Lisbon and Stockholm European Councils for 2005 and 2010 have already been achieved. However, this performance has hidden other important aspects of the national labour market closely related to the quality in work, such as low educational level of the workforce, the lack of social dialogue, and the low levels of productivity when compared to the EU average.

On the other hand, the positive link between quality in work and productivity identified in the Commission Communication on “Improving quality in work” seems to be not yet clear enough to the great majority of the Portuguese enterprises. This is partly due to the fact that the productive system is still concentrated on labour intensive activities.

There is no national and official definition for the concept of “quality in work.” In spite of that, the last Portuguese Governments have made a significant effort to introduce the “job quality” concept in the documents that are signed within the social dialogue process, namely in the Tripartite Agreements. Usually “quality in work” appears associated to efforts to promote a culture of lifelong learning and to increase incentives for enterprises to invest in the skills of the workforce, as well as to improvement in working conditions.

## The different dimensions of quality in work

Among the ten dimensions considered by the European Commission, some have special relevance to Portugal, namely work organisation, the training of the workers and social dialogue. However, in the present report, all 10 aspects will be addressed.

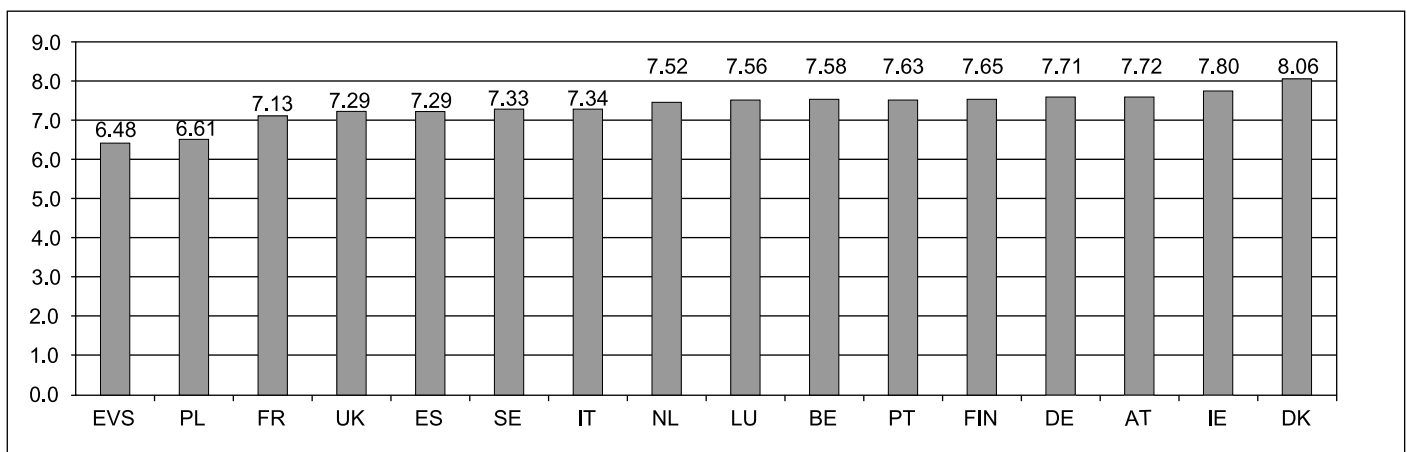
## Intrinsic job quality

Regarding job satisfaction, according to the European Values Study (EVS)<sup>1</sup>, Portugal presents one of the highest values. In fact, in a Likert type scale from 1 to 10, the Portuguese average was 7.63 (Graph 1).

There are also some national case studies<sup>2</sup> on job satisfaction. According to these studies it is possible to differentiate the level of satisfaction by sectors. In fact, considering a Likert scale from 1 to 5, workers of the public sector present a lower average of job satisfaction (3.2) than workers of the private sector (always above 3.3). On average, workers in the service sector present a higher job satisfaction than workers in industrial sectors. In one of the main enterprises in the transport sector, 47.1% of the workers answered that they were very satisfied (4 and 5 in the scale). In comparison, 70.7% of workers in an important credit enterprise were very satisfied with their jobs, which correspond to an average of 3.9 in the scale.

As regards the transitions within employment by pay level, in Portugal a little more than 30% of employees who were in the lowest earnings decile in 1999 improved their relative earning position in 2000. It is important to highlight that 31% of those who were also in the first decile in 1999 lost their jobs in 2000, which is a significant percentage.

Graph 1 – Job satisfaction



Source: EVS, 1999

<sup>1</sup> The European Values Survey refers to the year 1999 and it is an international database about the values that workers have with regards to labour. It was created by the European Foundation for the Values Study in 1978.

<sup>2</sup> The studies considered in this dimension have analysed the job satisfaction in some of the major enterprises of the respective sector and they were considered representatives.

Regarding social protection, in Portugal, the level of benefits is still relatively low. Taxation and social security contributions are low when compared to the EU average, and companies have special exemptions when they recruit target groups such as young workers entering the labour market for the first time, and the beneficiaries of the Social Integration Income. Furthermore, the Government has recently presented initiatives to change the unemployment benefit scheme, linking benefits with contribution records, age and active job search.

### ***Skills, lifelong learning and career development***

In Portugal, in spite of significant improvement in the last decade, the education level of the population continues to be one of the lowest among the countries of the European Union.

The percentage of the population aged 25 to 64 years old having completed at least upper secondary education is very low when compared to the EU average, 20.6% and 64.6%, respectively (data from 2002). In this context, it is important to note that the percentage of young workers between 20 and 24 years old who have achieved that education level in 2003 is much higher at 47.2%, although it is far from the 74.0% average of the EU countries. On the other hand, the percentage of the population aged 18-24 with lower secondary education at most and not in further education or training, continues to be the highest among the EU-15 countries, having achieved the value of 41.1% in 2003, against 18.1%.

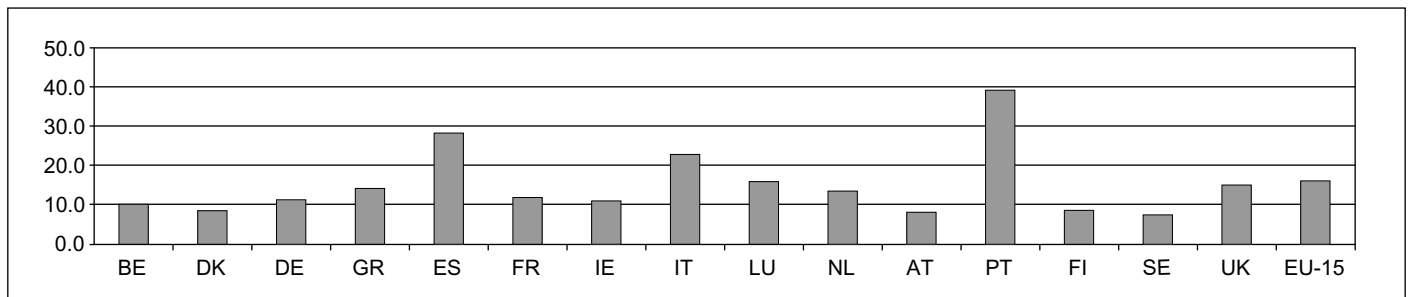
Furthermore, in Portugal, the percentage of the population aged 25-64 years old participating in education and training was only 3.6% in 2003, compared with 9.6% of the EU average (Graph 2).

In order to overcome these problems, a strategy on lifelong learning was approved in 2001, within the scope of the EES. This document outlines four main goals: (a) to improve the quality of basic education and to reduce early school dropout; (b) to expand the initial training of young people through differentiated education and training paths; (c) to improve the qualifications and the employability of adults; and (d) to develop a national process of training and certification of competencies in information and communication technologies (ICT). Also, in 2001, the social partners and the Government signed an agreement on Employment Policy, Labour Market, Education, and Training, whose priority was to improve formal education and occupational qualifications, and to promote the quality of employment<sup>3</sup>.

Other measures were being foreseen throughout previous years. Some of them involve clear targets such as the provision and certification of ICT skills for 720,000 people until 2006, the involvement of at least 10% of the workers of each enterprise as from 2002 onwards, the development of permanent and sustained training systems that assure every worker has a minimum of 20 hours of certified training each year by 2003 and 35 hours by 2006.

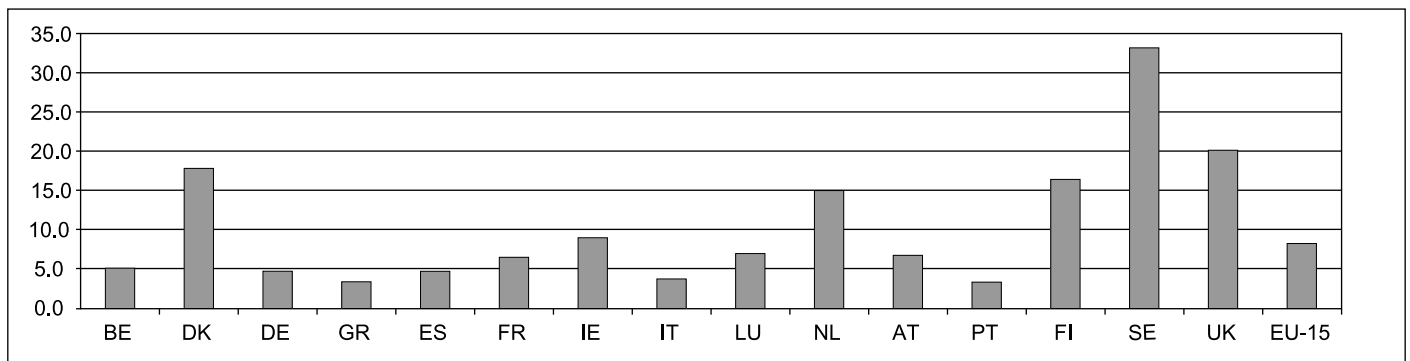
In 2003, the current Government presented the Basic Education Law and Vocational Training Law that further contributed to the objective of lifelong learning. The Basic Education Law entails a structural reform of the educational system. It foresees a progressive integration of education and vocational training, and extends compulsory schooling from 9 to 12 years. The Vocational Training Law provides a legal framework for the lifelong learning system and improves co-ordination mechanisms between education and

**Graph 2 – Percentage of the population aged 25-64 years old participating in education and training**



Source: Newcronos, 2003

**Graph 3 – Percentage of the population aged 25-64 years old participating in education and training**



Source: Newcronos, 2003

<sup>3</sup> The document foresees the improvement of the quality of employment but does not give any definition. In the document, the concept appears associated with the improvement of the education and training of the workers.



vocational training systems, incorporating the main options taken within the Agreement on Employment, Labour Market, Education, and Training Policy. In this context, it is important to note that the new Labour Code defines as an employers' duty to involve, every year, at least 10% of permanent workers in training actions.

### ***Gender equality and work-life balance***

Since the beginning of the implementation of the EES, Portugal has presented one of the highest female employment rates of the European Union countries. The female employment rate in 2002 was 60.8% in Portugal, compared to 55.6% of the EU-15 countries average and the gender employment gaps have narrowed since 1998. On the other hand, the female unemployment rate in 2002 was 6.1%, 2.6 percentage points below the EU average.

However, it is interesting to look at the evolution of the female activity rate by age groups (Graph 4).

It is possible to conclude that the performance of the female activity rate is not very different from the male one throughout the lifespan, but it is also possible to identify a decline in the activity rate of women aged between 25 and 44 years, in contrast with male activity rates. On the other hand, Portuguese women were the only group among the EU-15 countries, in 2002, which registered a negative value for the employment impact of the parenthood indicator<sup>4</sup>. Perhaps this fact can be related to the low level of the Portuguese wages.

However, women still account for a larger share of unemployed (51.7% of the total of unemployment in the third quarter of 2003) and long-term unemployment, and the average earnings of women in the private sector is still less than 75% of those earned by men<sup>5</sup>. The main reason is that, although Portuguese women have, in general, higher average education and qualification levels than men, they continue to flow into low paid sectors and occupations. However, in the public sector, women earn about 95% of the male

wage, as they can reach management positions more easily in this sector than in the private sector.

The balance between work and family life continues to be far more demanding for women, due to the cultural perception of the traditional role of women in society.

According to the Inquiry to the Occupation of Time from 1999, despite being discriminated against in the workplace in respect to career progress, Portuguese women continue to work more hours than men, when we add the time allocated to household and professional activities (Graph 5).

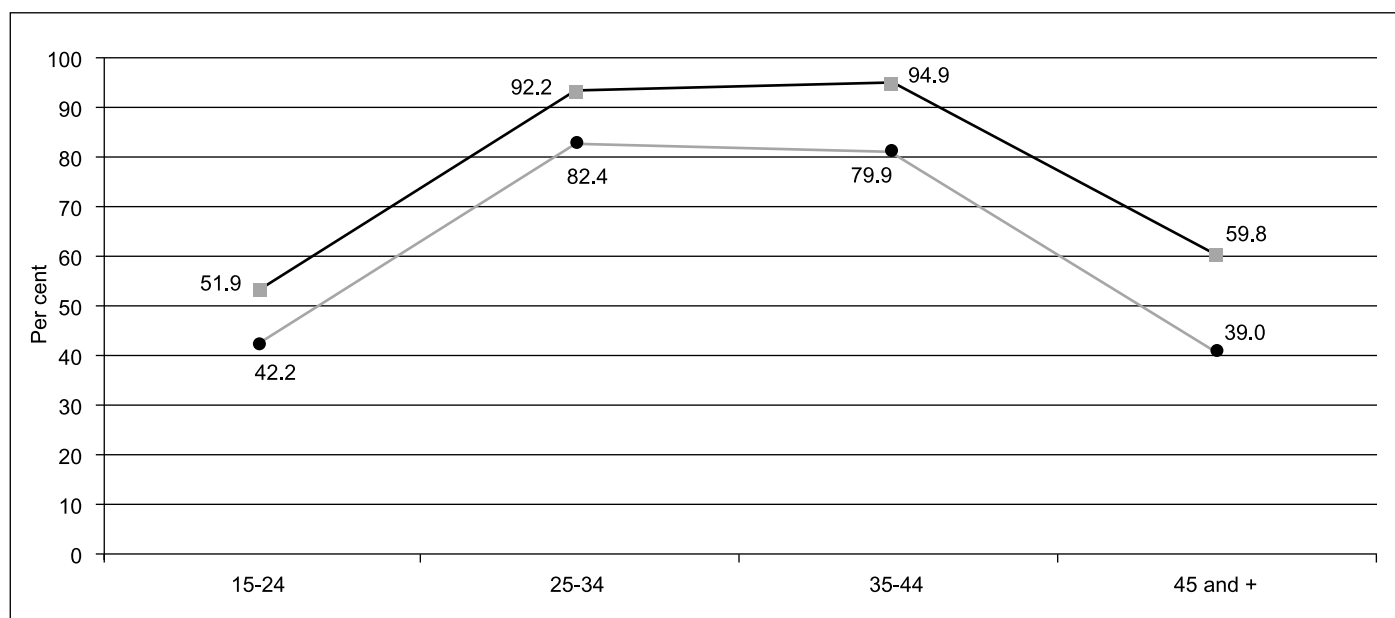
In Portugal the percentage of women who work part-time is very low when compared to the EU average, 16.3% and 33.5% respectively, which is related to low Portuguese wages. On the other hand, the percentage of temporary contract workers is higher among women (23.6%) than men (20.1%) (data from 2002).

Portuguese authorities have promoted a set of measures, among which it is possible to detach the training actions in order to change the values in relation to the traditional view of the social function of the woman. It is also important to mention that a legal decree was approved in order to extend the operating times of pre-school institutions, to ensure a timetable more adaptable to family needs.

### ***Health and safety at work***

The number of accidents at work declined significantly since 1998; the number of accidents per 100,000 workers decreased from 5,505 in 1998 to 4,863 in 2000. However, Portuguese workers in some sectors are faced with poor working conditions. This problem is aggravated when the workers are immigrants, as many of them are illegal, and the employer does not feel any obligation to the preservation of their health. In order to increase the fulfilment of working conditions demanded by the law, the current Government has already announced its intention to contract more inspectors.

**Graph 4 – Activity rates by age group**



Source: INE, Employment Survey (2nd quarter of 2001)

<sup>4</sup> Absolute difference in employment rates without the presence of any children and with the presence of children.

<sup>5</sup> This information is based in the data from the "Quadros de Pessoal", which is an administrative statistical instrument.

Graph 5 – Allocation of time



Source: INE (1999), *Inquiry to the Occupation of Time*

In 2001, the social partners and the Government signed a tripartite agreement on Working Conditions, Occupational Health and Safety and Combat of Occupational Accidents. In this agreement, a set of actions was taken to promote the modernisation of the industrial production with the adoption of measures intended to improve occupational safety (including accidents at work) and health conditions.

### ***Flexibility and security***

Since 1 December 2003, the Portuguese labour market has been regulated by the New Code of Labour. With this change of the labour legislative framework, the Government intends to promote collective bargaining, to make labour legislation more flexible, to fight the absenteeism and to increase the limit period of the fixed-term contracts (some of the main changes are presented in the box below).

#### ***The main changes of the New Code of Labour***

##### ***Working hours***

Maximum working hours per week will remain at 40 hours. However, it is now possible to have a working week of 60 hours, without any extraordinary payment, if it is accepted in the scope of the collective agreement. Also by agreement between employers and employees, it is now possible to increase daily working hours by two hours, as long as it does not exceed 50 weekly hours.

##### ***Flexibility of the working hours***

All changes in working hours must be preceded by consultation with the workers and their representatives, seven days before the change. The only exception is related to temporary changes that do not last

more than one week; the employer can use this last mechanism only three times a year.

##### ***Night work***

The period covered by the definition of night work was reduced, so that instead of starting at 8 pm, now it starts at 10 pm, although the end remains at 7 am

##### ***Holidays and absences from the work***

The vacation period was increased from 22 to 25 days “in the case of the worker not to have been absented or these absences to be justified.”

##### ***Control of sickness absences***

The absence of the worker for illness is now controlled by the company, i.e., the employer can ask the Social Security to verify the worker’s health and if the Social Security does not act within 24 hours, the employer can nominate an appointment with a doctor; the doctor cannot have had any previous contract with the employer.

##### ***Vocational training***

Vocational training becomes compulsory for all workers, even those who have a fixed-term contract. In each year, as from 2002 onwards, at least 10% of the workers of each enterprise will have to attend vocational training actions of about 20 hours, by 2003, and to 35 hours by 2006.

##### ***Fixed-term contracts***

A worker can hold a fixed-term contract for three years with a maximum number of two renewals. At the end of the three years or the foreseen renewals, the contract can be extended for a period of between one and three years. On the other hand, the employer’s

contribution to the Social Security increases in the case of companies where more than 15% of their workers have fixed-term contracts.

In Portugal the percentage of part-time workers is lower than in the EU average, 11.2% and 18.1% respectively (data from 2002). On the other hand, the percentage of temporary contract workers is higher than in the EU (21.7% and 13.0% respectively), as well as the percentage of the self-employed, 26.9% and 14.6% respectively. In this context, it is important to note that in periods of economic crises, the percentage of workers with fixed-term contracts usually grows.

The current Government has also approved the Reform of the Public Administration. The main goals are to improve the quality of services provided by these organisations and to promote productivity in a sector usually associated with low performance, through the increase of the flexibility of the workforce. In order to achieve this, the National Parliament has already approved the legal measure concerning the introduction of the individual contract in Public Administration.

### ***Inclusion and access to the labour market***

In 2002 Portugal presented a global employment rate of 68.6%, very close to the goal of 70% defined by the Lisbon European Council to be reached in 2010; the female employment rate was 61.2% and was therefore higher than 60%, and the employment rate of the older workers (55-64 years) was higher than 50% (51.4%), the other two goals defined in the Stockholm European Council for 2005. At the same time, Portugal continues to have one of the lowest rates of unemployment among the EU-15. In fact, in 2002 the unemployment rate was 5.1%, 2.5 percentage points below the average of the 15 countries of the EU (7.6%).

Meanwhile, in the National Action Plan for Employment 2003-2005, the current Government assumed new aims in this domain: to achieve an employment rate higher than 67% in 2005, a female employment rate above 60% and an employment rate of older workers higher than 50%. These objectives are above the values defined at European level.

In order to achieve this, Portugal needs to define measures which promote the diversification of the type of jobs. It is necessary to innovate in the activities older people can carry out which allow them to remain integrated in the labour market. On the other hand, it is also important to create conditions to integrate the highly-qualified immigrants into the labour market.

### ***Work organisation***

Portugal has one of the most traditional productive systems of the EU-15 countries. In fact, the services sector only represents 53.8% of total employment, against 71.0% in the EU average. The agricultural sector represents 12.4% of the employment compared to 4.1% in the European Union and industry represents 33.8% of total employment (25.0% in the EU-15).

In industry, labour intensive activities based on cheap labour are predominant. Among them it is possible to detach the textile sector that is now a source of unemployment more than of employment because of the delocalisation phenomenon. The production models and work organisation were not modernised and continue to be regulated by ancient methods. Regarding the services sector, only a few organisations have been working according to the so-called knowledge-based activities.

This dimension of quality in work is closely related to lifelong learning and the training of the workers. It is essential to make a strong effort to improve the skills of Portuguese workers.

### ***Social dialogue and worker involvement***

The percentage of employees covered by the collective agreements in Portugal in 2001 was 87%, one of the highest values among the EU countries.

However, one of the most serious systematic diagnosed problems of the Portuguese labour market is the lack of involvement by the social partners, who are the main agents of promotion and application of the measures defined, for example, in the National Action Plan for Employment. Related to this diagnosis is the traditional system of industrial relations that is still dominant in Portugal. Indeed, the workers and the entrepreneurs continue to operate on a basis of adversarial practices. In Portugal it is urgent to promote social dialogue at all levels, but especially at the company level. In this sense, it is necessary to create mechanisms which include these social interlocutors in an effective way.

In fact, although the two agreements signed in 2001 cover important aspects on various facets of the labour market, very little progress has been achieved on its implementation. Social partners need to increase their engagement at sectoral and workplace level. Right now an Agreement on the Competitiveness and Employment is under discussion.

The Government considers that the new Labour Code will promote the dialogue between employees and employers, either in the enterprise context, or at macro level.

### ***Diversity and non-discrimination***

The barriers for the integration of minorities and people with disabilities into the labour market are still significant and the identification of appropriate policy is very difficult due to the lack of indicators that do not allow an accurate assessment of the problem.

In Portugal, there are no national statistics about the employment and unemployment rates of disabled people. This makes it difficult to know the real situation of this target group in the labour market<sup>6</sup>. The EES, through the elaboration of the National Action Plan for Employment, has put the subject of disability on the political agenda. In the first phase of the EES, some measures were defined in order to give an incentive for the integration of disabled people in the labour market, among which it is possible to highlight three:

- *Occupational career counselling*: which intends to enable young people with disabilities, in the last years of school, to contact a diversified set of occupations in order to identify their preferences and those most adapted to their abilities;
- *Readjustment to work*: aimed at providing conditions for people who have become disabled (as a consequence of labour accidents, or a vocational disease), in order to help them to remain in the labour market, and
- *Incentives to work*: through two main ways; (a) suspension or reassessment of the social disability pension when the people have gained their reintegration in the normal labour market or in vocational training actions; (b) financial incentives granted to employers when they employ disabled workers.

<sup>6</sup> The Portuguese authorities recognised this situation in the recently presented National Action Plan for Employment 2003-2005, as well as in the National Action Plan for Social Inclusion 2003-2006.

Concerning the immigration issue, according to recent data published by the Eurostat, Portugal was one of the countries of the EU, which registered an increase of its population in 2003. This increase was due to migratory fluxes; the Portuguese population grew 6.9% per 1000 inhabitants and of this 6.1% were immigrants. This means that Portugal, in recent years, has become essentially an immigration country. One of the main challenges that will have to be faced in the future is the capacity to control illegal immigration, and to integrate the legal immigrants into the Portuguese society.

Immigrants from Eastern Europe have a higher level of education than Portuguese workers and with the development of a knowledge-based economy, this could directly affect the Portuguese workers. Therefore, it is a matter of urgency to improve the training of the Portuguese workers and, at the same time, to understand the importance and the great contribution that the immigrants can give to the national economy, in a context of demographic decrease.

The number of immigrant workers who can legally enter the country is defined by the annual report of the necessity of labour force that is produced by the Institute for Employment and Vocational Training (IEFP). As the most recent report has not yet been presented, the most recent available indicators show that 3,500 immigrants will be allowed to enter the country in 2004. However, we also have to add the 30,000 Brazilian immigrants that have benefitted recently from an extraordinary legalisation.

### **Overall work performance**

In spite of the good performance of the main indicators regarding the Portuguese labour market (as we have seen, some of the goals defined for 2005 and 2010 in the scope of the EES were already reached), labour productivity continues to be one of the major problems of the Portuguese economy. Indeed, the national level of productivity is one of the lowest among the 15 countries of the EU, being at this moment about 62.6% of the EU average.

Among the several reasons behind this, it is worth mentioning two of them: the low educational level of the national workforce and entrepreneurs and the traditional productive system which is still predominant in the country, based in activities of low added value.

The current Government has ordered a study "Portugal 2010"<sup>7</sup> whose main goal was to identify the main aspects which can contribute to a productivity increase. The main conclusion was that only one fourth of the differential of Portuguese productivity regarding the EU-15 average is structural and it is linked directly to the inferior Portuguese per capita income. This means that it is possible to increase the Portuguese productivity in the short and medium term. Some of the solutions pointed out by the report were already undertaken by the Government, such as the reform of the Public Administration and the new labour code.

### **Conclusion**

Although Portugal has one of the highest employment rates and one of the lowest unemployment rates within the EU-15, it presents serious problems relating to the quality of employment. One of the consequences of that problem is the low productivity level when compared to other European Union members, about 62.6% of the EU average.

All of the Employment Guidelines defined for the period 2003-2005 contribute to the improvement of the quality in work and the Portuguese Action Plan for Employment foresees a set of measures that can be integrated into the scope of the ten defined dimensions.

One dimension that assumes great importance for Portugal is "skills, lifelong learning and career development". In fact, and comparing it with the situation of the other EU countries, the Portuguese workforce is less prepared to face the big challenge of the so-called Information Society and to deal with the new technologies. This situation becomes worse when some of the acceding countries present very good education levels. In this context, the new Basic Education Law and Basic Vocational Training Law can give an important contribution.

"Work organisation" is another dimension to which Portugal must pay attention. Indeed, the national productivity system is based on activities of added value and in traditional production processes. In this context, the rule of social partners is important. In Portugal, employers and employees still establish tense relations, which do not contribute to the adoption of new production processes. In this sense, the new Labour Code promotes the participation of the workers in the enterprise management.

The big challenge is not achieving the quantitative goals defined for 2005 or 2010, but to ensure that those numbers also express good working conditions and future jobs. This will only be achieved if Portugal increases the adaptability of workers and enterprises; they have to be "able to anticipate, trigger and absorb change, whether cyclical or structural".

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# Finland

## Introduction

The Finnish Government's goal is to find jobs for at least 100,000 people by the end of the parliamentary period in 2007 and to increase the employment rate to 75% by 2011. It is recognised that to reach these employment targets the workforce participation rate must rise and people must stay in work longer. In addition, this means that job satisfaction and the general attractiveness of work must be increased. The Government aims to raise the work participation rate among the various age groups and to encourage people to stay on at work for two to three years longer than they do at present. Well-being at work and working conditions are to be improved by raising the quality of working life and by reducing accidents at work, occupational diseases and absenteeism.<sup>1</sup>

The Government aims to ensure that all citizens participate fully in working life and contribute to longer working careers. It also aims to facilitate the reconciliation of family life and work, promote equality and make work more attractive. To achieve these goals, development resources are being allocated to promoting equality, the work-life balance, psychological occupational health and safety and well-being at work. Resources are also being allocated to the more effective monitoring of working hours, development of good management practices and general expertise, workplace health promotion and the special needs of an ageing workforce. Furthermore, actions to help immigrants, people with disabilities and those who face difficulties in gaining employment, as well as lifelong learning, are on the agenda of items to be supported.<sup>2</sup>

These improvements in working life require the continuous development of employment legislation in support of good workplace practices. The Finnish legislation is based on the idea that work is attractive if employees have opportunities to contribute to the planning of work, to develop professionally in their work, and to pursue personal development through their work.

In addition to legislative changes, workplace development programmes will be reinforced. The aims of the Workplace Development Programme and the National Productivity Programme, which both end in 2004, will be merged into a new programme to be implemented in 2004-2009. This new programme is called TYKES (workplace development programme for the improvement of productivity and the quality of working life), and will promote productivity growth while maintaining quality. It will also support employees' vocational development, skills and well-being at work.<sup>3</sup>

The VETO programme (national action programme for continuation at work, employee well-being and rehabilitation) for the years 2003-2007 has the following focus: good quality of working life and occupational safety, effective occupational health care services and rehabilitation, diversity and equality in working life, and income security while enhancing incentives to make work pay. In order to further the aims of VETO, a national programme for the reduction of accidents at work will continue, and research

methods concerning accidents at work and occupational diseases will be made more efficient.<sup>4</sup>

There are concerns that the emergence of the Information Society is bringing about a polarisation of the workforce. Lack of vocational skills is also an increasingly frequent factor behind people's early exit from working life. It is recognised that education and training opportunities for adults who are at risk of marginalisation because of learning difficulties and low socio-economic standing need to be improved. The major aims are to develop and increase adult education to meet the needs of working life, and to make education itself more attractive and motivating. To fulfil these goals, a five-year NOSTE programme (2003-2007), which aims to raise the education level of adults, has been launched. Under this programme, existing adult education will be primarily aimed at employed low-skilled workers.<sup>5</sup>

## Aspects of quality in work

### Intrinsic job quality

The majority of temporary workers in Finland would prefer to have a permanent job.<sup>6</sup> In Finland, however, fixed-term job contracts have not been stepping stones to more permanent jobs to the same extent as in other EU Member States. The EU indicators on quality in work show that in Finland in 1999-2000, employees had a 22% chance of moving from a fixed-term job to a permanent one. This figure is clearly below the EU average of 35%. The figure for remaining in a fixed-term job contract was 10 percentage points higher in Finland than the EU average, and the probability of moving to unemployment was high.

According to Kauhanen (2002), the median duration of temporary employment before moving into a permanent job is 3.2 years. Temporary employees working in the public sector have less likelihood of getting a permanent job than those working in the private sector. Concerns have arisen that this situation will weaken the competitiveness of public-sector jobs in the labour market. In October 2003, the Ministry of Finance, together with the State Employer's Office, sent guidelines to state offices on the use of fixed-term job contracts. According to these guidelines, a basic principle relating to employment contracts should be that in jobs which by their nature are permanent, permanent job contracts should be used. State offices are required to suggest measures which would reduce the use of fixed-term contracts by the end of April 2004. It is expected that this process will transform thousands of fixed-term contracts in the state sector into permanent ones.

Job satisfaction in Finland is at the average EU level. However, according to the 2002 Working Life Barometer, one of the long-term trends in working life is the growing pressure on time and the burden of work. Every other employee estimated that the psychological stress of their work has grown. Women are more

<sup>1</sup> Finland's National Action Plan (NAP) for Employment 2003.

<sup>2</sup> Government programme of Prime Minister Matti Vanhanen's Government on 24 June 2003.

<sup>3</sup> Finland's NAP for Employment 2003, pp.22-23.

<sup>4</sup> Finland's NAP for Employment 2003, p.23.

<sup>5</sup> Finland's NAP for Employment 2003, pp.25-26.

<sup>6</sup> See section on 'Flexibility and security' for more detailed discussion.

likely than men to have difficulties in coping with work. The growing pressure of work has been most clearly visible in the municipal sector. This burden manifests itself, among other things, in an increase in sick leave. In 2001, the average amount of sick leave taken over the year was 12 days in the municipal sector, but this rose to 16.3 days in 2002.<sup>7</sup> Another alarming aspect is that mental health problems are the most important single reason for new disability pensions in Finland. In 2002, there were 14,587 new recipients of disability pensions. Of these, nearly 40% retired because of mental health disorders.

### *Skills, lifelong learning and career development*

One of the most striking features when the educational level of the Finnish population is analysed is that there is a sharp difference between the younger and older age groups (Table 1). In the age group 25-44, some 83% have at least upper secondary education, while nearly 74% of those aged 65 and over have only basic education. The large variation in the educational attainment of different age groups represents a significant challenge for the adult education system.

A slightly higher proportion of women aged 15-64 than men has at least upper secondary education, while among those aged 65 and over, men have somewhat higher educational attainment levels than women. There is a sharp gender segregation by field of education. As many as 89% of those who have finished education in health and welfare are women, while 83% of those with technical training are men.<sup>8</sup>

**Table 1:** Population aged 15 and over by level of education and age at end 2001

Age	Basic education (%)	Upper secondary (%)	Tertiary (%)	Total (%)
15-19	85.6	14.4	0.0	100
20-24	17.6	75.7	6.7	100
25-44	16.9	46.0	37.1	100
45-54	30.7	40.0	29.2	100
55-64	48.4	28.4	23.3	100
65 and over	73.5	15.0	11.5	100
<b>All</b>	<b>39.8</b>	<b>36.5</b>	<b>23.7</b>	<b>100</b>

Source: Statistical Yearbook of Finland 2003, 492.

The turn of the millennium was a significant milestone in Finland regarding adult education policy. The parliamentary Adult Education and Training Committee completed its work at the end of January 2002. Its report to the Ministry of Education contained a national strategy for adult education policy over the period 2002-2010, based on the *lifelong learning* principle.<sup>9</sup> The committee grouped its proposals under three headings. First, in the next few years basic adult education and training resources will be weighted towards continuing vocational training and adult education in universities and polytechnics. The aim is for all citizens to have

opportunities for one to two weeks of training each year and for more thorough upgrading every 10 to 15 years. Secondly, the committee proposed a separate action programme offering opportunities for the untrained active adult population to acquire secondary qualifications.<sup>10</sup> Thirdly, measures will be taken to effect co-operation among adult education organisations in each field.

Finnish society emphasises the importance of competence and skills. In 2000, training investments amounted to 6% of gross domestic product (GDP), the second highest in the EU. As many as 18.9% of the working-age population participated in adult education and training (21.4% of women and 16.5% of men). The EU's recommended target that at least 12.5% of the adult working-age population should participate in lifelong learning by 2010 is already fulfilled in Finland. The culture of learning is strong. According to the *Adult Education Survey 2000*, 54% of Finns aged 18-64 participated in adult education in 2000: 59% of women and 49% of men. The highest rate of participation was achieved in the 25-44 age group, where two-thirds of the population were involved; the lowest participation rate, one-third, was in the 55-64 age group. Every second person aged under 25 took part in adult education and training.<sup>11</sup>

In 2002, Finland had the EU's second-highest proportion (49%) of the working population aged 15 or over trained in job-related information and communications technology (ICT) skills. The EU average of 27% is well below the Finnish figure. According to the *Adult Education Survey 2000*, three-quarters of the Finnish population aged 18-64 had used a computer in their work, for studying, at home or otherwise in their spare time. The proportion of computer users decreased with age: as many as 80% among those aged under 45 had used a computer, while only 61% of those aged 45-54 and 33% of those aged 55-64 had done so.

To meet the challenges of the knowledge-based society, 98% of primary schools and all secondary and tertiary schools are connected to the Internet. In 2002, as many as 72% of teachers had been trained in the use of computers and 60% in using the Internet. In 2003, the Government launched an Information Society Programme, the aim of which is to boost competitiveness and productivity and to promote social and regional equality through effective use of ICT in all sectors of society. In order to achieve this aim, the Government will – among other things – ensure that all populations and age groups, business operators and the public sector possess the skills needed for a rapidly developing Information Society.<sup>12</sup>

### *Gender equality*

To increase gender equality, the Finnish Government's main aims are to improve the reconciliation of work and family life, narrow the gender pay gap, reduce the number of fixed-term public-sector employment contracts, increase the number of women involved in decision-making and the economy, and increase female entrepreneurship.<sup>13</sup> The Government will draw up a national equality action plan, to be ready by winter 2004 and implemented primarily between 2004 and 2007.

Contrary to most other EU Member States, the overall gender pay gap is higher in the public sector than in the private sector: 25%

<sup>7</sup> Finland's NAP for Employment 2003.

<sup>8</sup> Figures refer to year 2001.

<sup>9</sup> Ministry of Education (2002).

<sup>10</sup> Along these lines, e.g. the NOSTE programme was launched in 2003.

<sup>11</sup> Blomqvist et al. (2002).

<sup>12</sup> Government Strategy Document (2003).

<sup>13</sup> Finland's NAP for Employment 2003, p30.

versus 15%. According to an extensive study on gender pay differentials by Vartiainen (2001), the greater pay gap in the public sector can largely be explained by the fact that gender segregation in occupations is stronger in the public sector than in the private sector. When people in similar occupations with similar education and experience are compared, gender pay gaps reduce dramatically and tend to be smaller in the public sector than in the private sector.

However, Vartiainen (2001) shows that roughly half of the overall gender pay gap of 20% cannot be explained by factors such as educational attainment and occupational segregation. Prime Minister Anneli Jäätteenmäki, who was in office only for a short time in 2003, urged for the necessary action to be taken to eliminate unjustified differences in pay between men and women. The present Prime Minister Matti Vanhanen's Government is committed to this target as well. Together with labour-market organisations, the Government will promote equal pay and workplace equality through a long-term programme. The Act on Equality between Women and Men will be reformed. The reform will promote job evaluation across the boundaries between collective agreements, and the principle of equal pay. It will do this by including in equality plans surveys of the evaluation of jobs held by men and women and wage differentials, and by making wage information easier to obtain in cases where discrimination is suspected.

The employment rate among women in Finland has risen steadily since 1994. According to the *Labour Force Statistics 2002* (Statistics Finland, 2003), the gender difference in employment rates among those aged 15-64 was 3 percentage points in 2002: 69.2% for men and 66.2% for women. The gender gap in unemployment has been small and stood at zero in 2002. Strong growth in the service sector has been beneficial for women's employment in Finland.

Gender segregation in sectors and occupations in Finland is slightly below the average EU level. European Social Fund (ESF) programmes include an allocation of about EUR 70 million for equality-promoting projects in training and working life in 2003-2006. For example, funds will be used to improve the skills of women working in male-dominated sectors and to enhance their career opportunities.

### **Health and safety at work**

There were extensive measures to promote occupational health and safety in Finland throughout the 1990s. EU-level indicators on accidents at work show that Finland is one of the top performers in this respect. The risk of accidents decreased throughout the 1990s. In 2000, wage and salary earners suffered from 28.8 occupational accidents (leading to disabilities lasting at least three days) per 1,000 wage and salary earners. Almost 80% of the victims of work accidents were men.<sup>14</sup> In 1990, the corresponding accident incidence rate was 48.7 per 1,000 wage and salary earners.

Reducing workplace accidents has been an important policy concern in Finland. Through a decision-in-principle, the Finnish Government started a medium-term action programme: "Prioritising Occupational Safety – Occupational Accident Prevention Programme 2001-2005". The objective of this programme is to steadily reduce the number and seriousness of occupational accidents in Finland. The core idea of the programme is to promote the adoption of a high-standard safety culture and the "vision zero" concept in all sectors of Finnish working life. The "vision zero" approach to accidents is based on a memorandum by a

group of experts that was prepared for the Ministry of Social Affairs and Health in 2000. It was approved on a tripartite basis in discussions with labour-market organisations.

Furthermore, a new Occupational Safety Act came into effect in Finland on 1 January 2003, following proposals issued in December 2001 by a tripartite committee which examined reform of the existing Occupational Health and Safety Act. The new Occupational Health Care Act came into force on 1 January 2002. One of the aims of the new legislation is to address work-related stress, by reorganising conditions in the workplace so as to promote coping with work.

According to the new Act, employers are obliged to apply safety management methods in all operations, including planning and organising work. An accelerating pace of work and increased stress can lead to exhaustion, which increases the risk of accidents. The new Act requires that employers match human resources with the volume of work. Employers are also expected to arrange relevant monitoring of workloads and the endurance of employees. They also need to take actions to prevent harassment in the workplace.

### **Flexibility and security**

Finland has the second highest proportion of fixed-term jobs in the EU. In 2002, 19.6% of female employees and 12.6% of male employees were in fixed-term work.<sup>15</sup> Among women, 55% of fixed-term jobs were in the public sector, while among men 68% of fixed-term jobs were in the private sector. However, this larger than average share of fixed-term job contracts in Finland does not mean that these are voluntary in nature – quite the contrary. For 71% of women and 61% of men, the reason for fixed-term employment was that a permanent job could not be found. These figures are clearly above the EU average. To improve the situation, the public sector will take action to turn recurrent fixed-term job contracts into permanent ones.

In 2002, about 8% of men and 17% of women in Finland worked part-time. The proportion of female part-time workers is low in Finland compared with other EU Member States, where on average over a third of women work part-time. A specific feature of part-time work in Finland is that only 9% of Finnish women have a part-time job in order to look after children or adults, whereas the corresponding proportion among other EU Member States is nearly 32%. In 2002, as many as 34% of women had a part-time job in Finland because they could not find a full-time one. This figure was well above the EU average of 13%.<sup>16</sup>

Overall, the flexibility of working hours is growing in Finland. About 75% of wage earners have the option of flexible working time. In August-September 2002, about 40% of wage earners were in contact with their workplace outside working hours by telephone or the Internet. To improve flexibility, the Annual Holidays Act will be reformed so that it will be possible to save up annual holiday for a longer paid "sabbatical" or study leave. Labour-market organisations are highlighting the development of long-range and versatile individual working-time options by investigating, for instance, the scope for specific working-time arrangements for individual companies and working-time pools and banks.

There are somewhat mixed targets related to part-time employment in Finland. In 2002, an Employment Working Group suggested in its final report that part-time work should be promoted as a way of increasing the flexibility of working time in different life situations.<sup>17</sup>

<sup>14</sup> Statistics Finland (2002).

<sup>15</sup> Statistics Finland (2003).

<sup>16</sup> European Commission (2002).

<sup>17</sup> Prime Minister's Office (2003).

At the same time, conditions for receiving part-time pensions have been made stricter. One reason for this was that part-time pensions have turned out to be an attractive option for highly skilled employees.<sup>18</sup>

### ***Inclusion and access to the labour market***

Since 1998 the numbers of long-term unemployed people have been decreasing faster than other types of unemployment in Finland. In 2002, the long-term unemployment rate was 2.3%, which was about half of the 1997 figure. The Government has introduced a structural reform of public employment services, to be carried out in 2004-2006. Services for the most difficult-to-place job seekers will be structured separately at labour force service centres. These centres will involve municipalities, employment offices, municipal social and health care units, youth affairs units, the Social Insurance Institution (KELA) and other experts and service providers. The aim is to give clients individual, appropriate and high-quality services at the right time. When the centres start to function – 40 of them in total – it is hoped that employment offices will be able to focus more clearly and effectively on helping the client groups with greater potential for finding work on the open labour market than is currently possible.

In 2002, the proportion of unemployed young people as a share of total population was 10.8% – the highest among EU countries. This can largely be explained by the fact that a relatively large proportion of full-time students participate in the labour force in Finland, and that EU statistics are collected from the second quarter of the year, when Finnish students enter the labour market for the summer holidays.

According to the Organisation for Economic Co-operation and Development (OECD) Employment Outlook (July 2002), in Finland as many as 38.2% of employed young people aged 20-24 were attending education in 2000, while the average figure in OECD countries was 18% (median 13.4%). Nearly 43% of unemployed young people in this age group in Finland were attending education, while across all countries only 17.8% did so on average (median 12%). The OECD estimated that if students were not included in the figures for unemployed people in Finland, the population share of unemployed young people aged 20-24 would have dropped from 13.2% to 7.5% in 2000. This figure of 7.5% would have been around the OECD average of 7.3%.

A Finnish study (Hämäläinen, 2001) indicated that excluding full-time students from the labour force makes a marked difference to unemployment rates. Table 2 shows Finnish unemployment in 2000, using various definitions.

In 2002, 19.8% of all unemployed job seekers were full-time students. The labour-force participation of students also means that

it can take a long time for them to complete their studies. To address this problem, an action plan was drawn up at the end of November 2003 to promote the completion of degrees within the recommended time, and the study grant system will be made more incentive-based. It is recognised that in order to shorten study times, the socio-economic position of students must be improved.

### ***Work organisation and work-life balance***

According to the Labour Force Survey, 72% of women and 96% of men with children under the age of seven participate in the labour force. In 2002, the gender difference in employment rates was highest in the 30-34 age group (when children are young in typical Finnish households): 74% for women and 87% for men. For both sexes, employment rates are highest in the 35-39 age group: 81% for women and 87% for men. These figures are in accordance with Sauli (1998), who showed that families with children have the highest propensity to employment. Women with young children work a similar amount of overtime as others, and men with young children work even longer hours than other men.<sup>19</sup>

In Finland, the right to maternity leave is universal for all expectant mothers. The duration of maternity leave is 105 days. The Parental Leave period of 158 weekdays begins when maternity leave ends. There is a further allowance of 60 days parental leave for multiple births. Universal paternity leave is up to 18 days, which can be extended by one to 12 days if the father takes the last 12 days of the parental leave. Parental leave can be taken by either parent, and is flexible so that one or both parents can work part-time. However, only 2% of fathers have taken parental leave, whereas 75% take paternity leave.

Parents can choose to work reduced hours until the end of the second school year of the child. Despite this, 9% of female part-time workers (and a very small number of men) have taken part-time jobs in order to be able to look after their children.<sup>20</sup>

In Finland, every child under school age is entitled to a daycare place provided by the municipality. Families who decide not to use this entitlement are eligible for home care allowance until the youngest child is three years old. A parent who takes care of a child at home until the child is aged three has a right to return to his or her previous job.

In 2000, only 22% of children aged under three were cared for outside the home. The majority of children (73%) were cared for at home on either homecare allowance or parenthood allowance. Childcare arrangements vary according to the age of the child. Of all children aged 3-6, 62% were in municipal daycare in 2000. Municipalities are required to arrange pre-school teaching for six year olds.<sup>21</sup> The statutory school age is seven.

**Table 2: Unemployment in Finland in 2000 (%) according to different definitions**

Age group	Official unemployment rate	Population share of unemployed people	Unemployment rate without full-time students	Population share of unemployed people, without full-time students
15-19	30.5	10.2	12.1	3.2
20-24	16.9	11.5	11.8	7.6
25-64	8.1	6.5	7.7	6.1

Source: Hämäläinen (2001)

<sup>18</sup> Takala (2001).

<sup>19</sup> Lehto and Sutela (1999).

<sup>20</sup> See earlier discussion on part-time jobs.

<sup>21</sup> Ministry of Social Affairs and Health (2002).



Together with the social partners, the Government will aim to encourage working-time arrangements which accommodate the needs of families and children better. Among other things, the right to parental care leave will be extended to cover parents who are reducing their working hours to care for a child in the first two years of school. Provision for parents of children aged under 10 to shorten their working hours will be implemented gradually. Men will be encouraged to take family leave. From autumn 2004, first and second-year pupils will be guaranteed morning and afternoon care.<sup>22</sup>

### ***Social dialogue and worker involvement***

Finland is one of the EU countries in which the tradition of corporatism is strong. Proposals for policy in labour and social security legislation, and employment policy programmes and decisions are prepared in committees and working groups on the International Labour Organisation tripartite principle, involving representatives of employers' and employees' organisations. The joint bodies involved in employment and workplace development were reformed in 2001. The Act on Co-operation Within Undertakings is also being reformed. The aim of this reform is to include a wider range of issues concerning workplace development and operation, and the organisation of co-operative working.

Trade union membership is around 70-80%, depending on the method of measurement. The centralised incomes policy agreement for 2003-2004 covered about 90% of trade union members. A national collective agreement between a trade union and an employers' federation for a particular industry is binding on all employers belonging to the federation. If about half of the employees in that industry work for employers who belong to the federation, then the national collective agreement is universally binding. This means that it also applies to employers who are not members of the federation. In 2002, there were about 178 collective agreements, of which 79% were judged to be universally binding.

The main principle of the government programme is to continue to enhance collaboration based on agreement, especially between the social partners and trade unions. In recent years, extensive incomes policy agreements have included clauses on the development of working life and lifelong learning.

### ***Diversity and non-discrimination***

According to the Council's recommendation, Finland should strengthen its efforts to sustain the availability of labour in the long term. Several reforms related to working life and the social insurance system have been implemented in Finland to do this. In 2003, Parliament approved the most substantial reform in the history of the private-sector employment pension system, including disincentives to early exit from work and strong incentives to remain employed for longer.

Disabled people and immigrants are the groups which are most susceptible to exclusion from the Finnish labour market. In 2002, of all unemployed people 13.5% were disabled and 4.8% were foreign nationals. At the end of 2001, the unemployment rate among immigrants was about 33% – more than three times higher than the overall unemployment rate. The Government has taken several steps to promote the employment of disabled people and immigrants. In autumn 2003, a Bill on social enterprises was submitted to Parliament. When enacted, this will enable the consolidation and proliferation of social enterprises. The Government has also

submitted to Parliament a Bill for an Equality Act, based on the EU Directives on racism and discrimination at work. A product development project to further multiculturalism in workplace communities was launched in ESF programmes in 2003.

### ***Overall work performance***

In Finland, growth in labour productivity has been above the EU average. This is in line with the Finnish Government's aims to improve economic growth potential and reinforce economic structures by increasing the attractiveness of entrepreneurship, incentives to work and skills. To support this, the TYKES programme will be launched in 2004.<sup>23</sup> Its focus areas are: support for qualitatively sustainable productivity growth, opportunities for personnel participation in decision making in workplaces, developing workplace development methods, reinforcing developmental co-operation between workplaces and universities and polytechnics, and disseminating good practices in working life.

### ***Conclusions***

There is no denying that developing quality in work is an integral part of the Finnish Government's programme. It is widely understood that reaching employment targets and sustaining the welfare state will require people to stay on in work longer. This means that job satisfaction and the general attractiveness of work must be increased. Strong actions have been taken to improve quality in work in Finland. The years to come will show how successful the chosen policy line has been.

Reija Lilja

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# Sweden

## Introduction

The priority given to the quality of work would appear to have declined somewhat in the last 15 years in Sweden. Previously the vision of high quality in work (*det goda arbetet*) was very apparent in both government and trade union circles. It is likely that the lower priority given to this issue is related to the massive job loss in the 1990s.

Between 1990 and 1994 employment fell by 13%, just under 600,000 people, and open unemployment increased from 1.6 to 8.0%. Policy efforts have shifted perspective from how to improve job quality in a full-employment society towards how to improve job creation. The job loss of the 1990s represents, *per se*, a deterioration of the quality of work. Employment security is a key component of quality of work and will have impacted on perceptions of security for even those who remain employed. Moreover, the rapid increase in unemployment coincided with a significant increase in temporary employment contracts and there is a well-established relationship (in Sweden and elsewhere) between poor working conditions and temporary employment.

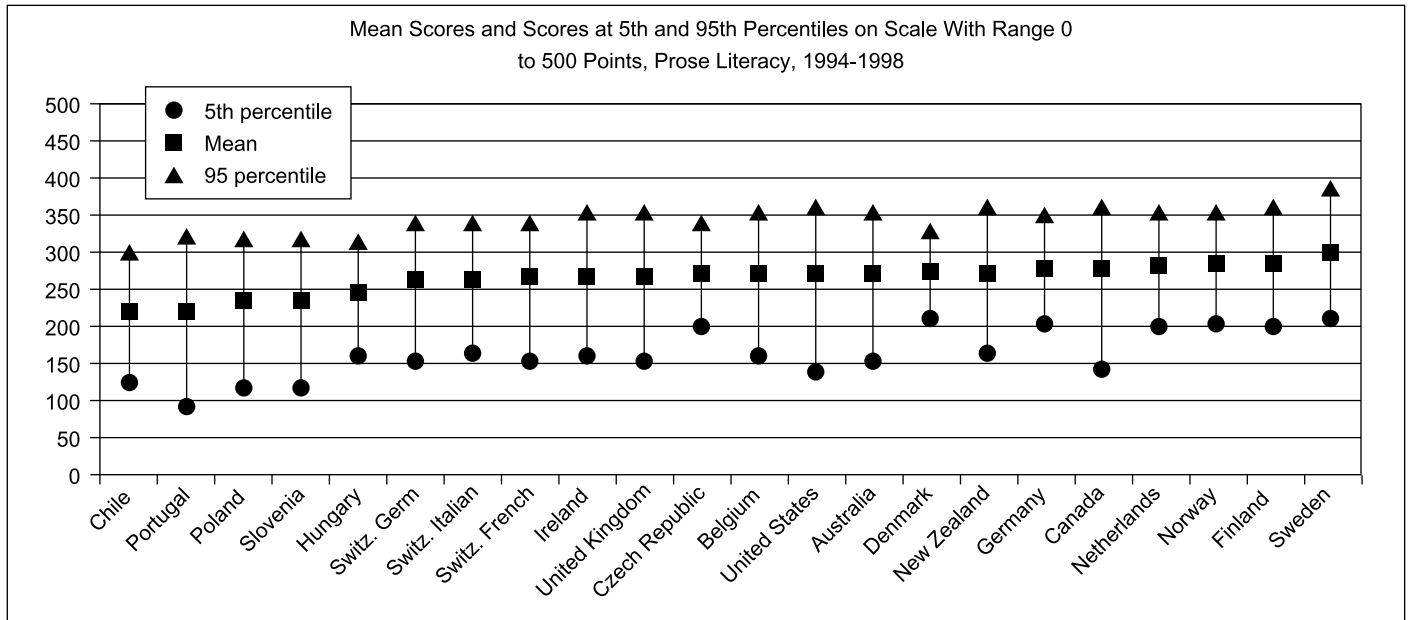
Moreover, there are reasons to believe that the appreciable deterioration of the labour market in the 1990s (which has still not recovered to pre-1990 employment rates) may have impacted on various dimensions of the quality of work. Much of the day-to-day regulation and monitoring of working conditions is bargained upon at the workplace. Weaker union power has presumably had a negative impact in some of these bargaining outcomes and there is considerable empirical evidence of a deterioration of the working environment.

However, in many respects Sweden would still appear to have a relatively high quality of jobs in terms of, for example, skill content,

low occupational accidents and, despite the traumatic 1990s, relatively secure employment. The extensive worker protection legislation enacted in the 1970s (employment protection, co-determination, health and safety at the workplace) remains basically intact. Moreover, while perhaps trade unions are not as influential as before, union density is still the highest in the European Union and they continue to play an important role in trying to improve the quality of work.

Around the turn of the millennium one aspect of the quality of work re-emerged as probably the most prominent issue of debate in the labour market. This was related to the very rapid increase in sickness absence, particularly for women. One of the proposed explanations for this has been a deterioration of the working environment. Thus, this is the main issue taken up in this article. However, one may note at the outset that while the level of sickness absence is currently high in Sweden (and probably the highest in the European Union), they have yet to attain the high levels observed before the recession of the 1990s. It would appear that a major part of the policy concern is not so much related to the quality of work *per se*, but rather to an increased reluctance to finance sickness benefit through the public budget.

Labour productivity figures (growth in GDP per hour worked) since 1995 have been excellent. They have been higher than the productivity figures in the USA and, within the European Union, are surpassed only by Finland. Thus, while there are no recent national studies related to the Commission's assessment of a positive link between quality of work and productivity, full employment and social cohesion, a casual look at the data is hardly encouraging. However, there has always been a conception in the discourse in Sweden that there is, in fact, a close relationship between quality of work and productivity. The Swedish Model of

**Figure 1: Common prose literacy test scores for the adult population in various countries**

Source: International Adult Literacy Survey (IALS), Statistics Canada

the labour market (as advocated by Gösta Rehn and Rudolf Meidner) is a model of promoting structural change out of low productive (low skill) sectors and occupations towards higher skills and greater productivity. In terms of labour market policy, this is driven by ambitious re-training and mobility enhancing measures and a refusal to subsidise low productivity (and skill) work by either industrial policy or taxation.

## Specific aspects of the quality of work<sup>2</sup>

### Skills, lifelong learning and career development

This is a field in which Sweden has a very good record. The average level of literacy skills is probably the highest in the world. See Figure 1.<sup>3</sup>

This high average (and even distribution) of literacy skills is partly due to a decent and even provision of basic education up to 16 years of age. Moreover, adult education also plays an important role. This occurs as a part of active labour market policy and other adult education schemes such as The Adult Education Initiative. On the job training is also relatively prevalent in Sweden in comparison with other EU countries.

### Gender equality

Sweden has a very good record as regards the degree of female labour force participation. A recurrent country recommendation from the Council is, however, the segregation of the labour market and the indicator of segregation by sector (see COM (2003) 728 Final which shows very high segregation). It should, however, be underlined that this is almost certainly, to a considerable extent, a result of high female participation. In Sweden the gender division of all types of labour is manifested in the labour market (e.g. day and elderly care); in other countries women also perform such work but in the home.

Women appear to suffer more ailments and sickness absence from work, and a greater proportion of them are in temporary employment.

Women have lower earnings than men. The wage gap has not narrowed during the last decade. In 2002, the average monthly salary for all employees was SEK 22,100 (EUR 2,407) (working time adjusted). The average for women is SEK 20,000 (EUR 2,179) per month and male salaries average SEK 24,100 (EUR 2,625) per month. Thus the average wage for women is 83% of that of men. No account is taken here of factors other than gender that may explain these differences, such as age, experience, education, profession and the economic sector.

### Health and safety at work

Industrial accidents in Sweden are the lowest in the European Union. See the key indicator 14 (in COM (2003) 728 Final). However, absence from work due to sickness is comparatively high (probably the highest in the EU, see Barmby et al. 2002) and has increased rapidly since 1997.<sup>4</sup> The key recommended indicator (accidents at work) is a very poor measure of health at work and reflects an outdated view of this concept. It certainly does not capture the current concerns about the health effects of work in Sweden. See Table 1 below for more appropriate measures.

Absence from work due to illness has become the main current issue as regards the quality of work in Sweden. However, one should note that despite the increase, the figures still remain below those from the late 1980s. See Figure 2.

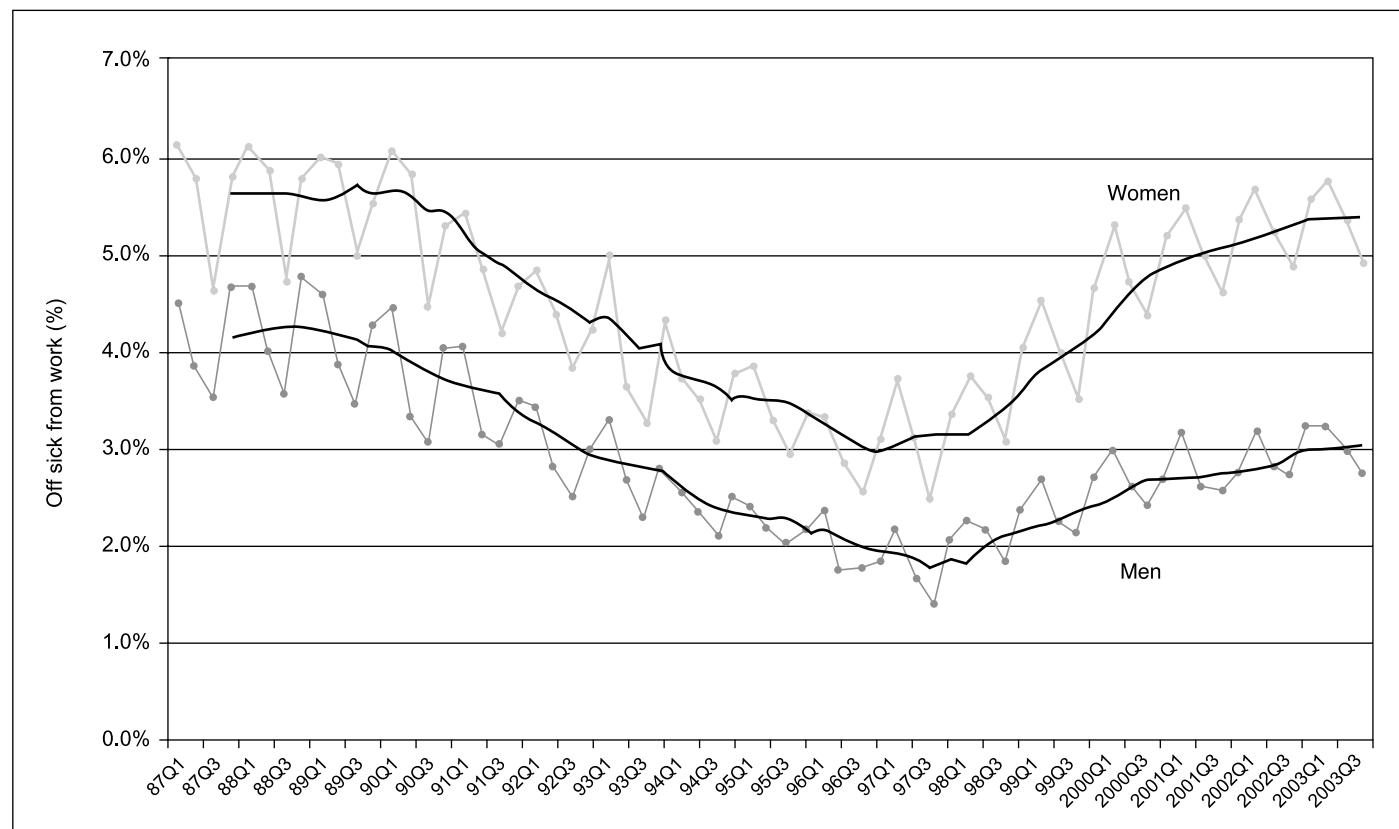
Perhaps the most striking feature of Figure 2 is that the gender gap has widened appreciably and that female absence due to sickness is now almost double that of men's.

Between 1997 and 2002 the costs for sickness benefits have increased from SEK 13.9 billion to SEK 41.3 billion. Note also that in contrast to the labour force survey data from Figure 3 that these figures also include sickness benefit for the unemployed. Until 2003

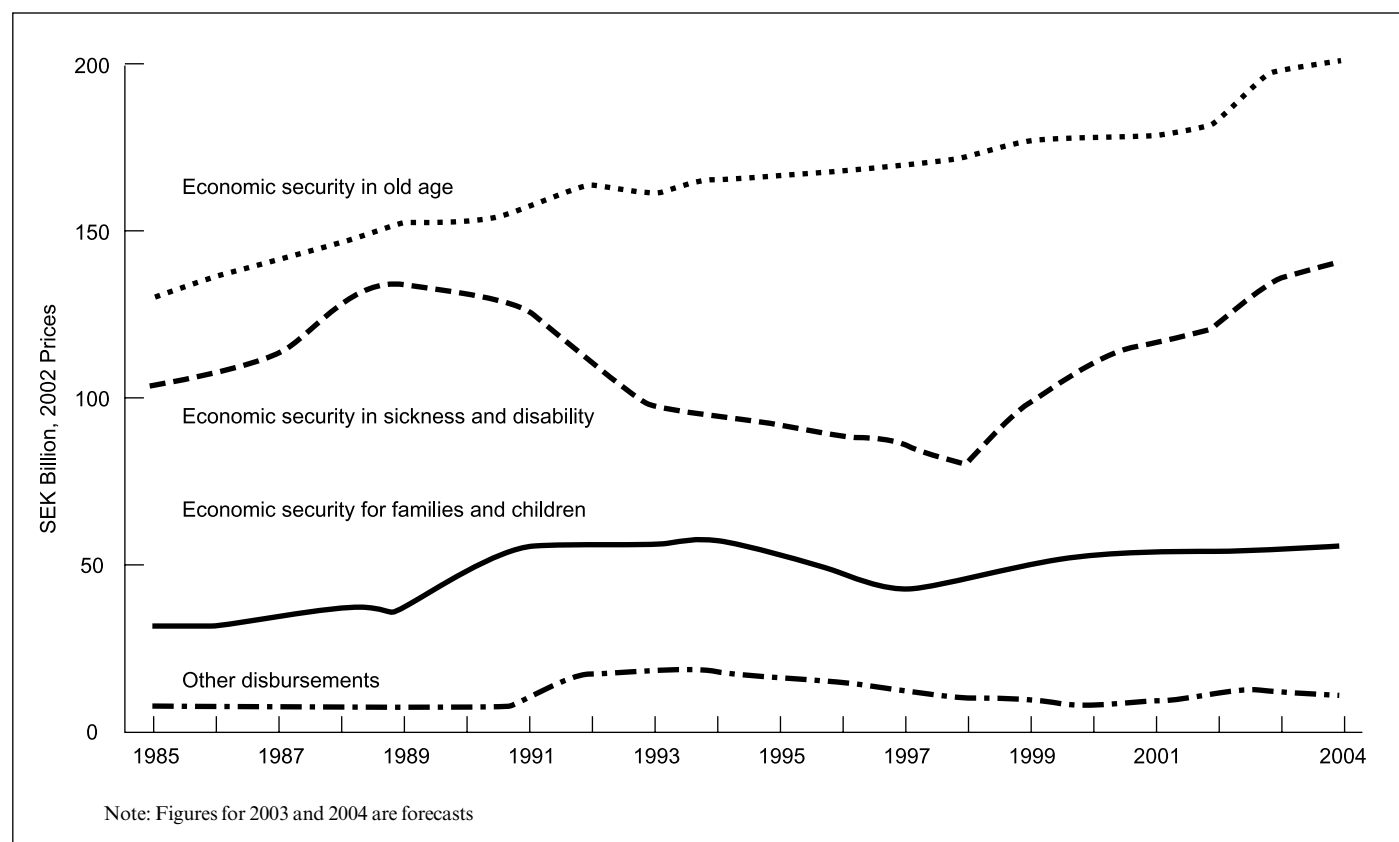
<sup>2</sup> Another term used is "intrinsic job quality". It is very difficult to provide an operational definition of this term. The term is not used in the Swedish debate. The proposed indicators for this term are from the European Community Household Panel. Sweden is not included in this survey.

<sup>3</sup> This is based on identical tests of literacy given to a random sample of the adult population.

<sup>4</sup> According to the European Labour Force Survey, the rate of sickness absence in 2002 was 4.3% in Sweden, 4.3% in Norway, 3.1% in the Netherlands, 2.7% in France, 2.5% in Finland, 2.1% in the UK and 1.8% in Denmark. The EU-15 average in 2001 was 1.9%.

**Figure 2:** Absence from work due to sickness, at week of interview, percentage of employed.

Source: Labour Force Surveys, Statistics Sweden.

**Figure 3:** Social expenditures by main category.

Note: Figures for 2003 and 2004 are forecasts

Source: National Insurance Board

it was economically advantageous for the unemployed to register as sick. See Larsson (2002).

Perhaps one should view the prominence of this issue in the public debate not so much in terms of the working environment but from the perspective of government finances.

The Working Environment Survey (*arbetsmiljöundersökningar*) conducted by Statistics Sweden shows considerable deterioration in the working environment between 1991 and 1997. According to Eklund (1999) it is the combination of work with “high demands” and “low influence” that is the most problematic (termed “high pressure”). In 1991 the share of women with such work was 25%. By 1997 this figure had risen to 37% in the public and 30% in the private sector. In 1991 the corresponding figure for men was 18% in 1991 and 25% in 1997. The increase has been greatest for women in the public sector and particularly for day-care teachers, nurses and other less qualified care and teaching professions. For men there has been a significant increase of “high pressure” work in manufacturing, from 15 to 23%. The greatest levels of “high pressure” are found among female, middle level, white-collar workers.

Indications of a continued worsening of the working environment can be found from the raw tables of the Working Environment Survey between 1997 and 2003. See Table 1. Again one can observe a greater deterioration for women.

**Table 1: Ailments at work 1997 and 2003**

	1997		2003	
	Men	Women	Men	Women
Physical ailment	16.7	19.5	20.0	24.8
Non-physical ailment	4.7	7.9	8.8	14.0

Source: *The Working Environment Survey, Statistics Sweden.*

The same source shows that the greatest increase has been for stress or psychological disorders, from 3.7 to 8.2% for men and from 7.1 to 13.6% for women.

The survey also finds that in 2003, 39% of men and 44% of women who were off sick at the time of the interview attributed their sickness to factors related to their jobs. This has increased from just under 30% for both sexes in 1996.

However, it is not simple to explain the increased absence from work due to sickness in terms of deterioration in the working environment. Absence declined from 1990 to 1997. Sickness absence is clearly cyclical. When unemployment is high, absence is low and *vice versa*. The observed data may be showing that with the severe recession of the early to mid-1990s, workers were reluctant to be absent from work due to fear of losing their jobs. When the labour market recovered they were more prone to take leave. Moreover, it may in fact be the case that not taking days off sick up to the mid-1990s led to a deterioration of health that led subsequently to more serious ailments and longer-term absence. Long-term absence is the major factor behind the increase in both the number and costs of sickness absence.

## Flexibility and security

### Employment contracts

Swedish employment protection is not particularly strict from an EU perspective and the only changes in legislation since the beginning of the Nineties have been to accept temporary work agencies and to relax restriction on the use of fixed-term contracts. However, in Holmlund and Storrie (2002), we show that the increase in fixed-term contracts is not due to change of legislation or shift in demographic or industrial structure. The increase was closely associated with the increase in unemployment.

This increase of up to around 16% for all jobs implies a lower level of employment security, which is an important factor in employees' perception of what is important for them at work. The available evidence shows that there is a very strong preference for job security in Sweden. For example, responses from a representative sample of Swedish employees in the International Social Survey Programme ranked job security as the most important of the factors listed (Edlund and Svallfors, 1997).

Available survey evidence indicates substantial heterogeneity among fixed-term workers with regard to self-reported job satisfaction (Aronsson et al, 2002). On-call contracts are associated with “bad” working conditions along a number of dimensions, whereas project work and, in particular, probationary contracts, are perceived as more attractive. On-call workers are *less likely* to receive training during paid working time, have the opportunity to learn and develop, or to be able to decide on work organisation and *more likely* to have back or neck pains, feel tired and hesitate to comment on working conditions.<sup>5</sup> It is noteworthy that women account for some 65% of all on-call contracts, whereas they represent less than 40% of the project workers.

Figure 4 shows that there has been a significant shift in the distribution of fixed-term contracts by type of contract. By far the largest increase has been in poor quality on-call jobs.

While Sweden has among the highest rate of fixed-term contracts in the EU, other figures indicate greater job stability. OECD (2003a) shows that jobs are of a relatively long average duration, of 11 years. This is similar to levels in Belgium, France, Italy and Greece.<sup>6</sup> While stability may indicate quality it may also just reflect the unavailability of other options.

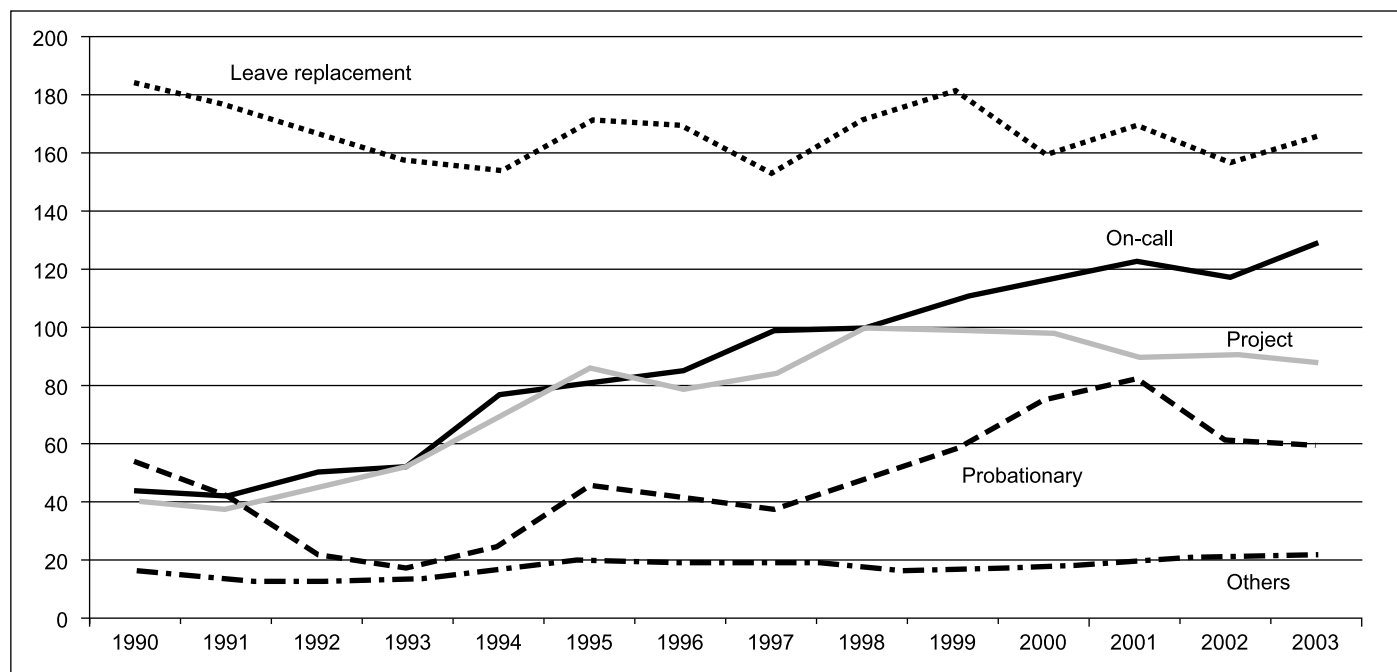
### Working time

The bargaining rounds of 1998 and 2001 led to several central collective agreements on working time in the private sector and affected roughly 880,000 employees. The agreements left much to be implemented at the local level. The reduction in working time was largely implemented by compensatory leave and working time banks. Roughly half of these employees chose to reduce working time, the others took the money. There have been several examples of reduced working time in the public sector. Evaluations have shown that employees experience better health and, in several cases, that absence due to sickness declined. See Malmberg *et al.* (2003)

It appears unlikely that long working hours are a problem, at least compared to other EU countries. OECD (2003a) shows that, for both men and women, the share of employees working longer than 45 hours a week is among the lowest in the EU.

<sup>5</sup> The base category is open-ended contracts.

<sup>6</sup> Short average durations are found in Denmark, Ireland, the UK and the Netherlands.

**Figure 4: Fixed-term contracts by type****Table 2: The Labour Reserve 1990, 1995 and 2000**

Year	Unemployed		Part-time		Discouraged		Total number Of hours
	Persons	Hours	Persons	Hours	Persons	Hours	
1990	751	2.77	1917	2.00	366	0.83	5.61
1995	3327	12.77	3599	4.58	1549	4.94	22.29
2000	2031	7.77	2639	3.31	1302	3.74	14.82

Note: Persons in hundreds, hours in millions.

Source: The Labour Force Surveys

### ***Inclusion and access to the labour market***

While employment rates are high from an EU perspective, there has been a marked fall in employment rates in the last decade.

Table 2 gives some measure of the “labour reserve”. This can be expressed both in terms of persons and hours. The labour reserve is comprised of the unemployed, those working part-time due to lack of work, and discouraged workers.<sup>7</sup> Thus the labour reserve in 2000 was roughly 9 million hours greater than in 1990. Five million of these hours are accounted for by higher unemployment and 3 million by discouraged workers and just over a million by involuntary part-time.

**Table 3: Labour market status of inactive 20-24 year olds**

	Women	Men
Discouraged workers	18	17
“Idle” or “free”	13	18
Sick	11	12
Working abroad	15	18
Visiting abroad	25	14
Others	18	20
Total	100	100

Source: Statistics Sweden: Valfärds Bulletin 2003/3

This is most prominent for those born abroad and the young. The Nineties have seen a significant fall in employment rates for the youngest members of the labour force (20-24). In 2002, 10% of all 20 to 24 year olds were “inactive” (i.e. out of the labour force and not enrolled in education, doing work in the household or military service). The corresponding figure in the 1980s was 3%. In 2002, the inactive 20 to 24 year olds were engaged in the following:

Up to the mid-1970s employment rates for immigrants did not differ much from those of native Swedes but has gradually deteriorated. The negative trend was accentuated during the severe crisis in the labour market at the beginning of the 1990s when the foreign-born were particularly hard hit.

This was also reflected in the unemployment figures. Before the mid-1980s there was little difference in unemployment rates among Swedish and foreign citizens. In 2002 the unemployment rate for foreign citizens in Sweden was 10.3% while for all residents the corresponding figure was 4%. By the mid-1990s the poor position of foreigners in the Swedish labour market had become an obvious and serious problem.

One should also point out that as the labour market improved up to the turn of the century, there have been some signs of an improvement in the labour market status of foreign-born relative to native Swedes.

<sup>7</sup> Discouraged workers satisfy all the criteria for ILO unemployment apart from actively seeking work.

### Work organisation and work-life balance

Employment rates for Swedish women are very high. This is commonly attributed to the very high rates of publicly subsidised childcare and generous parental leave. However, some see the very rapid increase of sickness absence from work as being due to difficulties for women to combine family and working life.

According to a recent survey of company practices (Jamombud, 2003), the most frequent factors hindering a better balance between work and family commitments are: inflexibility of working time and atypical working time (shift work, etc), heavy workload, job-related travel and income constraints. The survey also found that among the most common measures Swedish companies undertake to enhance work-life balance are: flexitime and modification in working time arrangements, income compensation for employees above the social security ceiling for parental leave, the adoption of meeting schedule and location, extended opportunity to work at home and subsidised home service (for both housework and childcare).

The social security ceiling policy is particularly important for inducing fathers to take their parental leave, since men most often have the higher wage. According to the line managers and human resource managers interviewed, the various measures implemented toward employed parents have had a positive impact on employees' satisfaction, motivation and also the work atmosphere.

A key slogan of employment and social policy is to provide the opportunity to combine family and working life. The high female labour force participation was facilitated by very high levels of public childcare and very generous parental leave. The high levels of absence from work due to sickness for women in particular may suggest that this has not been as successful as previously thought. The double burden of domestic and market work has also figured in the debate on the rapid increase in sick leave for women in particular.

### Social dialogue and worker involvement

Trade union representation and influence at the workplace is largely governed by the Co-determination Law (MBL) and the Law on the Position of a Trade Union Representative at the Workplace. MBL allows the unions to obtain information on issues relevant to them and to negotiate with the employer about impending decisions. However, the term "co-determination" may be misleading as, in most issues, the final decision is the employer's. In most collective bargaining areas the co-determination law is complemented by a Development Agreement, which provides more detailed content. Indeed the primacy of the collective bargain is still a distinguishing feature of Swedish industrial relations and collective agreements still regulate almost every issue and area of the labour market. Collective agreements regulate matters that in other countries are usually regulated in statutory law, for example, industrial conflicts. One can view the Co-determination Law as being mainly designed to support the process of obtaining a collective agreement. There are no works councils in Sweden.

Trade union membership is still amongst the highest in OECD countries and indeed remained quite stable during the 1990s.

Another legal characteristic of industrial relations in Sweden of relevance for the quality of work is the influence of the social partners in the wide range of employment and health and safety law that may be replaced by collective agreements. Any assessment of the content and impact of large parts of labour law in Sweden must, in addition to statutory law, consider both the relationship between

law and collective agreements and the content of collective agreements. In both respects Sweden is rather unique. In most countries statutory law is a floor of guaranteed minimum worker rights upon which collective agreements may build, but not erode, further protection for the employee.<sup>8</sup> In Sweden, however, several paragraphs of, for example, the Employment Protection Law,<sup>9</sup> permit bargaining outcomes that may entail not only higher but also lower levels of protection for the employee. As collective agreements cover practically the entire labour market, the potential impact of this "negotiated flexibility" is considerable. In the context of employment protection, collective agreements may lower worker protection in existing contractual forms, for example, by permitting longer than the statutory maximum probationary period of six months. They may even allow contractual forms that are not explicitly permitted in statutory law. For example, several agreements in the trade and transport sectors permit contracts. See Holmlund and Storrie (2002) for further details. Thus the Social Partners, if they can agree, have considerable opportunities to adapt statutory law to the particular conditions of their economic sector.

### Diversity and non-discrimination

Foreign-born workers also appear to have a lower quality of jobs. See Table 4.

**Table 4:** Measures of quality of work for Swedish and foreign-born workers

Country of origin	Stressful or monotonous work %	Reduced work capacity – health (%)	Fixed term contracts (%)
Denmark	-	24	14
Native Swedes	10	19	11
Finland	13	29	12
Nordic	13	27	12
Second generation immigrants	12	22	12
Iran	-	32	42
Germany	-	21	14
Central EU	13	21	15
Norway	12	24	11
South America	21	28	25
All foreign-born	18	27	19
Eastern Europe	23	28	17
Poland	-	34	16
Middle East	20	31	40
Southern Europe	24	32	28
The former Yugoslavia	25	33	30
Africa	-	23	34
Turkey	-	30	41

Central EU – Germany, Austria, France, Belgium the Netherlands, Luxembourg, UK and Ireland.

Southern Europe – Greece, Italy, Spain, Portugal and the former Yugoslavia

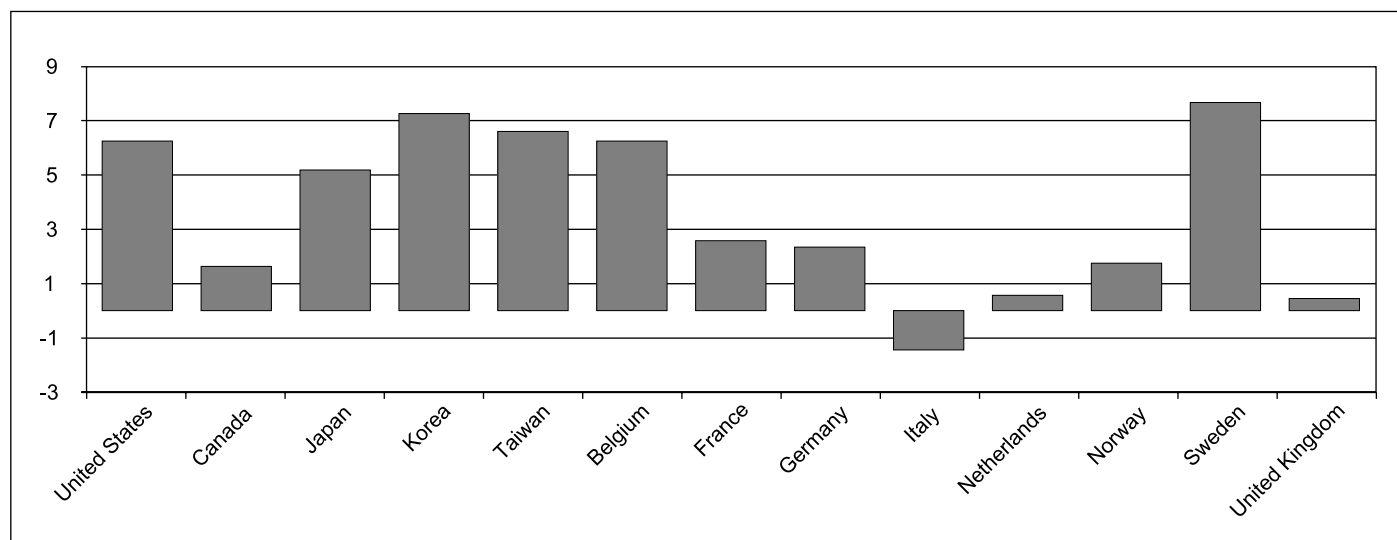
Eastern Europe – The former USSR, Poland, Czech Republic, Slovakia, Hungary, Romania and Bulgaria

Middle East – Turkey, Iran, Iraq, Syria, Lebanon and Jordan

Source: Level of Living Surveys, Statistics Sweden

<sup>8</sup> It should be noted that if statutory law is the implementation of an EU-Directive, then Swedish law is required to prohibit agreements that arrive at a lower level of protection for the worker than stipulated in the Directive.

<sup>9</sup> Other prominent examples include working time law and health and safety at the workplace.

**Figure 5: Percentage change in manufacturing output per hour, 2002**

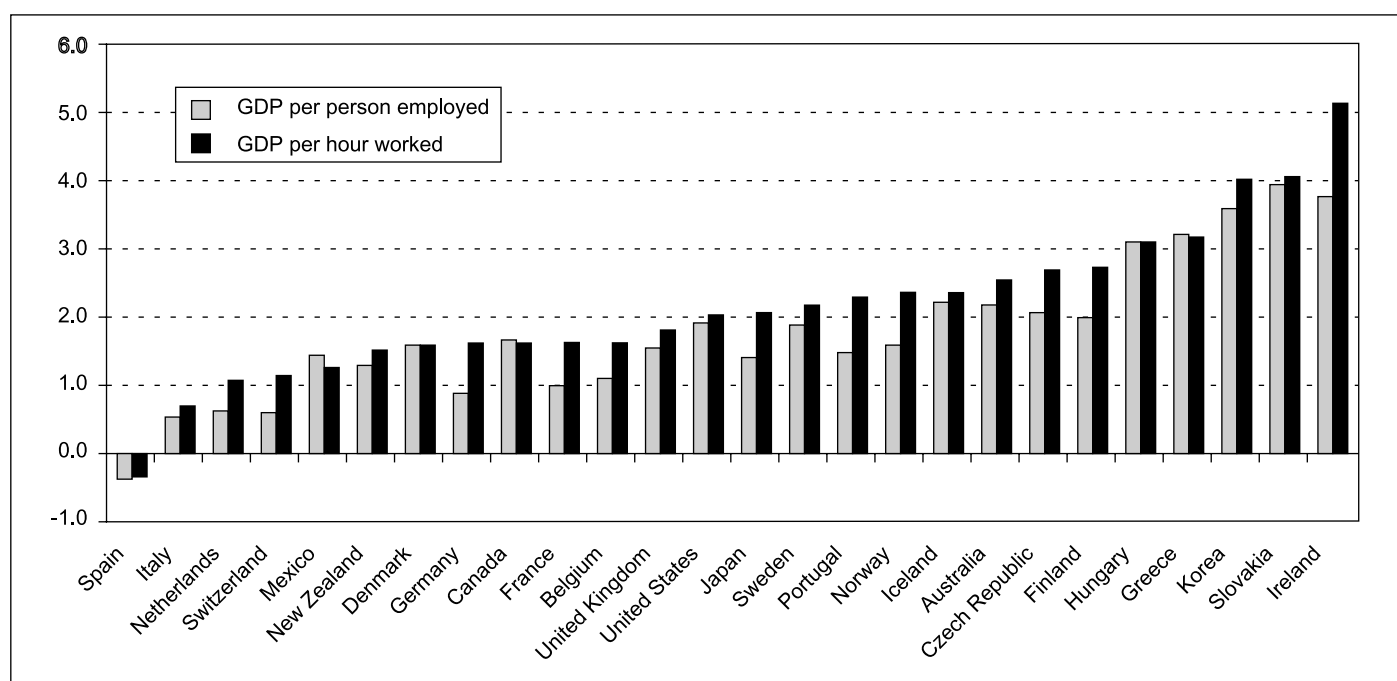
Source: US Bureau of Labor Statistics, *International comparisons of manufacturing productivity and unit labour cost trends, 2002*

Concerted efforts to integrate foreigners in Sweden began in earnest only after the severe recession of the 1990s when their relative position on the labour market deteriorated significantly. The new policy orientation is more specifically designed towards a quick integration into the labour market.

Legislation on prohibiting ethnic discrimination came rather late in Sweden and the first law in 1994 was strikingly limited. For example, it only applied to employees and thus did not cover recruitment. The current law dating from 1999 is somewhat more extensive and prohibits direct and indirect discrimination as regards working conditions, bullying at the workplace and recruitment. It is, however, still much more modest than not only the current Swedish

legislation regarding discrimination on the basis of gender, but also compared to certain EU Directives in the field.

The weakness of current Swedish legislation on those of foreign origin compared to the Swedish sexual discrimination law is largely related to the lack of stipulated active measures to be taken by the employer. The legislation on gender calls for an increase in the participation of the under-represented sex and that the employer should examine the wages of men and women for possible discrimination.<sup>10</sup> Moreover, the discrimination legislation does not apply if it is the result of consideration to other interests, such as discrimination in terms of sex or handicap. The relatively low impact of this legislation would appear to be reflected by the low-

**Figure 6: Labour productivity growth in OECD countries, 1995-2002**

Source: OECD, calculations based on the OECD productivity database, from OECD (2003b)

<sup>10</sup> This is not to say that even as regards gender, “positive discrimination” (in Swedish “positive special treatment”) is not a controversial issue.



profile legal and other activities of the Ombudsman for foreign workers compared to the sexual equality Ombudsman.

In terms of the two above-mentioned Directives, current Swedish legislation is more limited in scope. For example, the EU Directives cover the self-employed, training, social security, health and housing. These Directives are not yet implemented in Swedish law. According to Community law, Directive (2000/43) was to be implemented by 19 July 2003 and Directive (2000/78) by 2 December 2003.

### Overall work performance

Productivity in terms of manufacturing output per hour is a basic measure of performance. International comparisons of productivity are, however, fraught with very serious measurement problems. Thus, figures are from two sources, both of which testify to very high recent productivity growth in Sweden.

Figures from the International Programme at the US Bureau of Labor Statistics have in the last five years been high in Sweden compared to most comparable countries. The most recent figures show the greatest increase in manufacturing productivity has occurred in Sweden. See Figure 5.

The OECD data (OECD, 2003b) show a very high increase in GDP per hour worked in Sweden since 1995. Within the EU it is surpassed only by Finland.

### Conclusions

The early Nineties were traumatic times in the Swedish labour market and most of the subsequent public debate and policy was directed at recovering from the massive job loss of the early part of the decade. Possibly as a consequence of this priority, the issue of the quality of jobs was pushed somewhat into the background. However, towards the end of the decade and onwards it re-emerged mainly as a response to the increase in absence from work due to sickness.

The very high level debate on sickness absence is in some respects exaggerated in a job quality context. The levels of sickness absence are still below those of the late 1980s and the increase is in part due to an older population of working age. Nevertheless, there is some evidence that employees have experienced a deterioration of their work environment during this period, particularly as regards stress and other psychological factors. This has been particularly the case for women in the public sector. Research has not been able to account for the rapid increase in sickness absence since 1997. It is hardly due to the individual incentives as rules have become stricter and benefit levels lower. Available empirical evidence shows some deterioration in the working environment. However, the different development of both these variables over time does not suggest a simple relationship between sickness absence and the working environment.

The other major issue in the last decade is the rapid increase of various forms of temporary work (particularly of temporary work of the most precarious type). Research in Sweden and elsewhere shows that temporary work is associated with poor working conditions. Moreover, the rise of temporary work together with other factors has contributed to perceptions of lower job security. However, this issue does not really figure in the public debate to anywhere near the same extent. Despite the recent negative developments, the relatively good Swedish ranking of quality of work, according to the Commission's indicators, would appear to be roughly correct. They do not, however, capture the recent major issue of sickness absence.

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\* With thanks to Dominique Anxo for some useful comments.

# United Kingdom

## Introduction

### Quality in work in the UK policy debate

The notion of quality in work as defined in various recent EU official documents<sup>1</sup> is not in widespread use in current debates regarding UK employment and labour market policy.

At the time of the Lisbon European Council summit (March 2000), the notion that policy in the age of the knowledge economy should focus not only on the quantity of jobs, but also their quality, was equally found in UK discussions. The win-win model of jobs growth through high productivity, high-quality, and high value-added employment was increasingly seen as the holy grail of macro-labour market policy, reinforced by US evidence that rapid jobs growth does not necessarily imply low-quality jobs<sup>2</sup>. This emphasis can be seen in UK Government pronouncements of this period: in May 2002, Patricia Hewitt (Secretary of State for Trade and Industry) asserted that the three goals of labour market policy were:

*“Full employment, high levels of productivity, and higher standards – including greater diversity and choice – in the workplace. More jobs, better jobs and high performance workplaces.” (Patricia Hewitt: Speech to the Work Foundation, May 2002).*

A key difference between the UK approach, however, and that adopted at EU level, is that the latter has gradually broadened the notion of quality in work beyond simple notions of intrinsic job quality (covering working conditions, pay, skills and productivity). It includes other dimensions, which are less to do with the quality of jobs, and more to do with the distribution of employment, and the functioning of the labour market. Arguably, the EU's concept of quality now covers more or less everything to do with the way the labour market operates, and has lost its narrower original meaning relating to good jobs. The narrow meaning, however, still prevails in the literature on job quality in the UK. This does not mean that the wider issues (access to jobs, equality, diversity, social dialogue) are not part of the UK policy debate; rather it means that they are not seen primarily as issues about the quality of jobs *per se*. In considering the UK's position on the aspects put forward by the Commission, the relative weight we have given to the various indicators reflects this interpretation of the UK debate.

### Job quality and the productivity debate

A key tenet of the Commission's approach is that job quality is a key driver of both employment levels and productivity. The relationships between job quality, employment levels and productivity are also debated in the UK, although there is no consensus about the causality underlying the observed relationships.

In this article we can consider only some aspects of these debates, which contain at least two strands. The first relates to the pay dimension of quality<sup>3</sup>, and the traditional economic argument that

improving the quality of jobs at the bottom end (*eg* through regulation on low wages), will reduce overall employment. The heat of this debate has somewhat dissipated recently, however, since the introduction of the National Minimum Wage (NMW) in 1999. Empirical evidence suggests that the NMW has eliminated the worst poverty wages, with no measurable negative impact on employment (Stewart 2003 a) and b)).

The second strand refers to the element of job quality relating to high levels of skills, training and human capital. A key element is a presumed causal link between skills on the one hand and productivity on the other; a link posited both at the firm level and at national level, although empirical evidence has traditionally been scant.

The weak UK productivity record, however, is well-documented, with output per hour worked in France, Germany and the USA persistently more than 20% higher than in the UK. Some commentators point out that the UK's strong employment performance may itself have held down productivity growth *eg* as improved labour market participation brings lower productivity workers into the labour market<sup>4</sup>. Nevertheless, despite these short-term fluctuations, recent economic history confirms that the UK productivity deficit is long-standing, with no evidence to date of policies denting it. It is also clear that the deficit is not a compositional effect (due to the balance of UK industry being slanted towards lower productivity sectors). Plant level data suggest that the deficit persists within individual sectors (services and manufacturing). National level research (Crafts and O'Mahony, 2001) shows further that:

- lower capital stock per worker contributes to the UK's lower productivity in comparison with US and European countries;
- lower skill levels contribute to the UK's lower productivity in comparison with European countries (and to a much lesser extent with the US);
- lower levels of total factor productivity (the efficiency with which labour and capital are used together) contribute to lower productivity compared with the US (but less so compared with Europe). This is the point at which perceived deficiencies in UK managerial practices are brought into the story.

The evidence suggests, therefore, that skills are one part of the UK productivity story (but not the whole story) and that skill weaknesses, especially at intermediate level, contribute to lower national productivity. The UK Government's national *Skills Strategy* is heavily based on this conclusion.

The UK study cited in the Commission Communication shows that a 5 percentage point increase in the proportion of workers trained in a sector generates a 4% increase in value added per employee (Dearden *et al.*, 2000).

A related debate concerns the extent to which the UK economy is stuck in low skills equilibrium (a vicious circle of low value-added,

<sup>1</sup> See, for example: the Commission News Release: [http://europa.eu.int/comm/employment\\_social/news/2001/jun/152\\_en.html](http://europa.eu.int/comm/employment_social/news/2001/jun/152_en.html); the current *Guidelines of the European Employment Strategy*; the recent *Commission Communication* (26.11.2003: COM(2003) 728 final) on “Improving quality in work: a review of recent progress”; and *Employment in Europe 2003* (especially Chapter 4).

<sup>2</sup> For a useful debunking of some of the myths about US employment creation, see Freeman, 2000.

<sup>3</sup> Although the notion that low quality jobs also tend to be low-paid jobs has been challenged by recent empirical evidence; see, for example, the section on wages and job satisfaction below.

<sup>4</sup> Gregg and Wadsworth (2000) have provided evidence of this latter effect.

low skills and low wages), and what policies might stimulate a shift to a high skills equilibrium path. Under this model, firms opt for low specification markets, in line with the predominant availability of low skilled labour, and the supply side has little incentive to train, given weak demand from high value-added firms. For recent evidence of the low skill equilibrium in the UK, see Wilson, Hogarth *et al.* 2003.

### *Aspects of quality in work*

Here we look briefly, for each of the Commission's indicators, at their relevance to the UK, and the UK evidence on each of them. We emphasise some aspects more than others because, as already noted, the notion of job quality current in the UK is narrower than that proposed by the Commission.

#### *Intrinsic job quality*

The Communication cites three indicators for this aspect: two relate to transitions within employment and between non-employment and employment; the third relates to job satisfaction.

#### *Job transitions and income dynamics*

The first two would not, in the UK context, be widely seen as indicators of intrinsic job quality; rather, such transitions would be seen as reflections of how the (internal and/or external) labour market functions.

This is not to say that the issue of low-income job mobility and dynamics of entry from non-employment into employment are not part of the UK policy debate; they are, but they tend not to be discussed as aspects of intrinsic job quality.

#### *Wage levels and distribution*

More relevant as indicators of changes in the incidence of low quality and high quality jobs, are changes in the levels and distribution of wages. These would certainly be included in any discussion of job quality in the UK, although they are not indicators chosen by the Commission.

A major issue in the UK is the high and growing level of wage inequality. As Machin (2003) notes, the UK has seen significant growth in wage inequality since the late 1970s, which has slowed, but continued for most of the 1990s and up to the present time. Much of this growth was due to rapid wage increases at the top end of the distribution, and widening differentials associated with higher levels of qualification. Despite this, most recent policy measures impacting on inequality focus on increasing wages at the lowest end (via the NMW) or reducing the association between low wages and poverty (through tax credits). We have already noted that the NMW had negligible impact on overall employment levels. Also relevant is the evidence that, despite failing to reach the coverage originally anticipated<sup>5</sup>, and having had modest effects on household incomes and poverty, the NMW has had an important impact in specific sectors. In particular:

*"... in the care home sector, the lowest paying sector in Britain, the NMW had a huge effect on pay, raising the wages of 30 per*

*cent of workers. This resulted in small falls in employment in this sector"* (Dickens and Manning, 2003).

Finally, of particular interest in the UK is recent evidence of a growing polarisation of jobs and pay levels (Goos and Manning 2003a<sup>6</sup>). This work draws an equivalence between pay and job quality (i.e. good jobs are those in the highest deciles of the hourly wage distribution, and bad jobs those in the lowest deciles). The authors recognise that this approach is simplistic. Nevertheless, their findings are interesting. There have been big increases in the number of well-paid jobs in the UK over the last 25 years, but also increases in the number of poorly-paid jobs; while jobs in the middle of the hourly wage distribution have disappeared. This cannot be explained by compositional changes in the labour force; changes on the demand side are equally relevant. The authors' explanation is a version of the skill-based technical change argument (see Wood 1995 and Katz and Autor 1999). This variant (Autor, Levy and Murmane, 2003) argues that ICT replaces human labour in routine activities, but not to the same extent in non-routine tasks. This replacement has occurred particularly in intermediate skilled and semi-skilled occupations (e.g. craft manual jobs, book-keeping etc.) in the middle of the wage distribution. High-skilled professional and managerial activities using technology in a non-routine manner have been less affected and, crucially, so have some lower-level unskilled manual jobs (e.g. cleaning, catering and personal services) which cannot easily be automated. The two most prevalent occupations in the lowest wage decile are: sales assistants and check-out operators; and cooks, waiters and bar staff. Over 1979-99, the number of workers in these two occupations increased from 1.2m-1.9m; jobs in the highest paying deciles saw even faster growth, but employment fell in many intermediate level occupations.

#### *Job satisfaction*

Job satisfaction is closely linked with discussions of intrinsic job quality in the UK. Strictly, it does not measure intrinsic job quality, but rather workers' satisfaction with various aspects of job quality (wages, working time, etc.). Nonetheless, it is a useful indirect indicator; trends in job satisfaction may reflect changes in underlying job quality. It should, however, be noted that changes in satisfaction may also occur because individual preferences and tastes have changed. Thus even with constant job quality, workers may have higher expectations and report declining satisfaction over time. This is one interpretation of some recent trends in the UK (Green and Gallie, 2002) where declining job satisfaction has been particularly noted among people in higher skilled jobs. In part, this is attributable to higher pressure and declining autonomy in work, but it may also reflect improved education, and less willingness to be satisfied with existing working conditions.

Despite the UK's relatively high employment rate, data suggest that those in work show high levels of dissatisfaction compared with other EU Member States (these data are not, however, available in the data sets used for the Commission's Communication). Most notably, in the UK context, there has been a steady fall in expressed level of job satisfaction over the last decade. Between 1992 and 2001<sup>7</sup> the proportion of workers very or completely satisfied with their jobs fell from 52% to 43% (Green 2003). Similar data (Taylor, 2003)<sup>8</sup> suggest significant variation between different groups: while women

<sup>5</sup> Thus the most recent estimates of the total number of beneficiaries of the NMW suggest that it is much smaller than was originally estimated when it was introduced – on its introduction, it was estimated that 2 million job holders would benefit from a wage increase due to the NMW; by the time the Low Pay Commission issued its 4th annual report in March 2003, this estimate of the number of beneficiaries had been revised downwards to 1.2 million (the revisions are mainly due to changes in the statistical methodology of the Office for National Statistics). Independent assessments (Dickens and Manning, 2003) suggest that the number may be even lower than this at around 815,000.

<sup>6</sup> For a fuller exposition, see also Goos and Manning (2003b).

<sup>7</sup> From the 1992 Employment in Britain Survey (Gallie *et al.* 1998), and the 2001 Skill Survey (Felstead *et al.*, 2002).

<sup>8</sup> Based on comparisons with the 1992 Employment in Britain Survey, and the 2000 Working in Britain Survey.

and older workers have benefited from recent jobs growth, both groups report among the largest falls in satisfaction (with hours worked, with pay, with quality of management and with the kind of work they do). Thus, 48.6% of older workers were completely or fairly satisfied in 2000, compared with 61% in the early 1990s (for women the figures were 49% and 54% respectively). Dissatisfaction was particularly marked among women aged 30-50, those most likely to have a family, and those in low-skilled employment.

### *Wages and job satisfaction: do they measure the same thing?*

Finally, it is worth noting that recent UK econometric evidence on the role of pay alongside other factors in influencing job satisfaction challenges the (often implicit) assumption that low paid jobs are low quality. Importantly, this evidence challenges the Commission's assertion (*Employment in Europe 2002*, page 83) that all Member States show strong positive correlations between job satisfaction on the one hand, and wages, job status and job-related skills on the other<sup>9</sup>. Thus Leontaridi and Sloane (2003)<sup>10</sup>, using British Household Panel Survey data, argue:

*"The finding that low paid workers have higher job satisfaction than higher paid workers casts doubt on the notion that there are good jobs and bad jobs. Rather it appears that low paid workers obtain compensating differences in the form of non-pecuniary benefits. There is, therefore, no justification for the European Commission's assertion that low paid jobs are inherently jobs of low quality, at least as far as the British evidence is concerned"* (Leontaridi and Sloane, 2003, p13).

### *Skills, lifelong learning and career development*

The debate about skills in the UK is driven not primarily by job quality issues, but by concerns to raise skill levels to reduce the productivity deficit. Nevertheless, the argument that higher skilled jobs generally entail higher levels of job quality is plausible, although as noted above, the equation between skill and job satisfaction is increasingly challenged by the empirical evidence.

The Commission proposes three indicators for this aspect, relating to participation in education and training, participation in job-related training and the use of ICT. We have reservations about these indicators. Thus individual participation in education and training is, arguably, little to do with job quality per se. A significant proportion of those in education and training are not employed, and even among those who are, their participation may have little connection with their work, and may be undertaken independently of their employer. Participation in job-related training is more relevant, if it measures job-related training which employees are offered as part of their work. Even here, however, the indicator also picks up job-related training offered to non-working people. And even when working, an individual undertaking job-related training may not be a positive indicator of job quality (they may even do the training to get out of a dead-end job). Thus part of the job-related training recorded in surveys is short-term induction training offered to new employees in low-skill, low-quality, high turnover occupations. Without better information about whether the training is linked to the job, and why, it is hard to see this as a robust indicator of job quality. Turning to the third indicator, it assumes that ICT skills correlate with job quality; again this is a strong assumption, and it is easy to think of jobs including ICT training

which may involve low levels of job quality.

This supply-side orientation in the Commission's indicators fails to address the demand side of the skills equation. This is particularly relevant in the UK, given the debate about the low skills equilibrium discussed above. In the UK, a simple emphasis on up-skilling individual workers, without generating a higher level of demand for such skills, may result in a growing pool of workers over-qualified for available jobs, and even skill shortages in low-skilled jobs. Thus the current government target of 50% participation of 18-30 year-olds in university level education by 2010 has been criticised by many, arguing that the UK already has a large and high quality output of university graduates, and that the key deficiencies are at sub-degree level skills and in basic skills.

These reservations aside, it is, nevertheless, interesting to note that the UK scores well on the first indicator, with an education and training participation rate of 22.3% in 2002, the highest of any Member State, and nearly three times the EU-15 average. This high participation rate is despite a relatively high rate of young people leaving education at 16 or soon after. Thus the UK's high participation rate is partly due to adult participation in education and training (lifelong learning).

The UK also has scores well on the CVT participation indicator but does less well on the ICT indicator (albeit still above the EU-15 average). In choosing a CVT indicator, which says something meaningful about job quality, however, it is important to identify that part of CVT which is close to the job, or which is provided by the employer. Interesting evidence on employer-sponsored education and training is provided by OECD (2003). The UK performs well here: 45% of workers participated in employer-sponsored education and training, compared with an average among the 16 OECD countries examined (8 EU and 8 non-EU Member States) of 27%<sup>11</sup>. Further, the proportion of all CVT which is entirely paid for by employers is over 90% and higher than in any of the other countries; similarly the UK (at 45%) records the highest proportion of employer-sponsored CVT taking place at work and focusing on firm-specific skills<sup>12</sup>.

Turning to policy, the current UK approach aims at further increasing the level of employer-sponsored and job-related training, particularly that targeted at intermediate skills. Thus the Employer Training Pilots, which provide financial compensation to employers who grant their staff time off for job-related training at NVQ level 2, have been recently expanded, following a broadly positive evaluation of their early impact (Hillage and Mitchell 2003).

Finally, although skills and qualification levels measure the quality of labour supply rather than the quality of jobs *per se*, it should be noted that the UK's performance on the output side (qualifications) remains disappointing, despite good performance on the input side (participation rates). McIntosh (2003) gives a useful summary of recent evidence. The UK has one of the highest proportion of adults with poor literacy and numeracy among advanced nations (data from the mid-90s show that Britain has more of the working age population scoring at the lowest two levels of basic skills than all but two of the other countries surveyed). Further, McIntosh notes that there is no evidence that basic skills are improving between generations (with younger cohorts performing as badly as older ones).

<sup>9</sup> An assertion somewhat contradicted by data in same document (*Employment in Europe 2002*, Annexe 3.1, page 109) showing a significant negative association between high skill and job satisfaction after controlling for hourly wages.

<sup>10</sup> See also Jones and Sloane (2003) for similar conclusions relating to Wales.

<sup>11</sup> OECD 2003, table 5.1, p. 242

<sup>12</sup> OECD 2003, charts 5.4 and 5.5, p. 247

One possible interpretation, therefore, of the UK's strong performance in participation in employer-provided CVT, is that it does not reflect a high incidence of high quality jobs with high levels of skill and training. Rather, it may reflect the persistent inadequacy of workforce skills even at a basic level for low-skilled jobs, for which employers compensate through training provision. Paradoxically the apparently good position of the UK on participation indicators may be as much a reflection of relatively low levels of workforce quality as it is of relatively high levels of job quality.

### Gender equality

Gender equality in employment and the gender pay gap are major policy concerns in the UK. Again, however, it is rare for them to be seen as aspects of quality in work. Rather they are debated in the context of the functioning of the external labour market (access to jobs), and internal labour markets (equality of access to career development, promotion, etc., and the gender pay gap, etc.). This does not imply that there is not an issue due to the concentration of women in particular kinds of jobs and occupations (especially low paid, and possibly also low quality jobs and occupations). Analytically, however, there are two questions underlying this issue. One concerns the incidence and nature of jobs of different levels of pay and quality. The other concerns the question of whether jobs of different quality are differently and unequally/unfairly distributed among different population segments (men and women, white people and ethnic minorities). The first question is the relevant one to the quality of work debate in the UK. In the UK, the second question is usually seen as relating to mechanisms in the labour market, and in firms' human resource practices, which lead to discrimination. We will, therefore, give only relatively slight treatment to gender equality in this article.

The Commission proposes several indicators in this area: measures of the gender pay gap; gender differences in employment and unemployment rates; and measures of occupational and sectoral gender segregation. The data presented by the Commission confirm what is already well-known; the UK performs poorly on most indicators of gender equality.

The gender pay gap (2000) in both public and private sectors is significantly higher than the EU-15 average. The introduction of anti-discrimination legislation in the 1970s caused the gap to fall, but since the early 1990s, average women's pay has stuck at around 80% of men's. According to the latest data for 2003, the gap has narrowed to its lowest value since records began; women's average hourly pay is now 82% of men's. An analysis of the UK gender pay gap and its causes can be found in Anderson *et al.* (2001).

Similarly, the UK has higher than average rates of occupational and sectoral gender segregation. Despite increased employment rates, women remain concentrated in particular areas of work. In particular, public administration and education and health account for 41% of women's employment (and 16% of men's) while the figures for distribution, hotels and catering are 22% and 17% respectively. Women are also under-represented in higher level occupations. Only 8% of employed women work in managerial occupations, compared with 18% of men. Women are concentrated in lower-level jobs, with 24% in administrative and secretarial occupations, 13% in personal service occupations and

13% in associate professional occupations (Dench *et al.* 2002). Women also remain poorly represented among top-level positions in both the public and private sectors, although recent data<sup>13</sup> show that in 2003, for the first time, the number of women directors on the boards of companies in the 100 top companies listed on the UK stock exchange has exceeded 100.

The only indicators in which the UK records a good performance are employment and unemployment rate differences. Thus, while not as high as some Scandinavian countries, the UK has relatively high female employment rates, and the gender employment rate differential is lower than the EU average. There has, however, been no significant improvement in these indicators (gender segregation, and employment rate differences) in recent years. Thus Robinson (2003) shows that the gender employment rate gap stayed virtually constant during the recent period of economic growth (1996-2002), and that there has been little recent lessening in the degree of occupational segregation.

When it comes to unemployment rates, the UK is one of three countries in which the female rate is lower than the male (and the difference in the UK is larger than elsewhere). In the UK discussion, this is rarely seen as a positive indicator of gender equality; the pattern is long-term and persistent, evident in all stages of the economic cycle over the last 30 years. It is more typically, however, seen as a reflection of aspects of the institutional regime in the UK (benefit rules and the availability of childcare) which disproportionately discourage workless women from active job search. Thus, compared with some other countries, it is more likely that non-working women in the UK appear in survey data as inactive than as unemployed. In the UK, therefore, the unemployment rate difference by gender is a poor indicator of gender equality in access to employment: the indicator based on employment rate differences is to be preferred.

Turning to policy responses, the government has expressed concern about the gender pay gap and, following the report by the Kingsmill Commission<sup>14</sup>, equal pay audits have been introduced (compulsory in the public sector, and encouraged elsewhere). Much will depend on the UK's success in encouraging such audits in the private sector. The evidence to date is not optimistic: a small scale study (Neathey *et al.* 2003) suggested that around a third of employers had either undertaken an audit, had one in progress or had one planned to take place before the end of 2003. A key finding, however, was that nearly all of those undertaking audits were large employers. The Equal Opportunities Commission is keeping the voluntary approach under review, and is likely to push for legislation if there is no evidence of further progress. The NMW has also had some impact at the lower end of the distribution<sup>15</sup>:

*"The advent of the NMW seems to have had some effect on removing gender pay inequality at the bottom of the wage distribution. But the WFTC<sup>16</sup> is also aiding this process by encouraging women to remain in the labour market. The timing, and repetition, of exit and re-entry of women into jobs over their child-rearing years would seem to be a huge part of the explanation of the gender pay gap and WFTC attempts to counteract this. However, although many processes have been acting in the interests of women, the occupational segregation of women remains and women are noticeably absent from the high-paid occupational sub-groups"* (Robinson 2003, p. 246).

<sup>13</sup> The evidence is presented at: <http://www.som.cranfield.ac.uk/som/research/centres/cdwbl/downloads/FTSEIndex2003.pdf>

<sup>14</sup> See: <http://www.kingsmillreview.gov.uk/>

<sup>15</sup> See also Robinson (2002).

<sup>16</sup> Working Families Tax Credit (an in-work benefit administered through the income tax system).

As far as policies to tackle segregation are concerned, the approach is summarised in the most recent *UK NAP (2003)*<sup>17</sup>. Although the government states a commitment to challenge gender-stereotyping, and outlines current work in the area of science, engineering and technology in the NAP, it is notable that it has not prioritised gender equality in a number of recent relevant policy developments of clear potential relevance to occupational segregation. These include the vocational education agenda, recent revisions to educational and training provision for 14-19 year olds, and the new national Skills Strategy.

### **Health and safety at work**

This is a major dimension of quality in work and would feature in any UK discussion of the quality of working life.

The Commission proposes only one indicator, the incidence of accidents at work. This incidence in the UK rose slightly over 1998-2000, but at a level of 1,600 per 100,000 workers, it remains considerably below the EU-15 average. It is unlikely that the UK's good performance reflects a reporting effect; this is perhaps the most extensively regulated area of the UK labour market, with long-standing and enforced legislation, and associated institutions (The Health and Safety Commission/Executive), and a strong culture of workplace health and safety.

A key issue in the UK, however, is the broadening of policy beyond traditional health and safety issues (concerned with the physical working environment and the avoidance of working hazards and accidents) to embrace other issues associated with modern working patterns, particularly workplace stress and trauma. This broadening is not reflected in the UK's NAP, however, in which the government reports a number of targets at the national level, which are mainly of the traditional type. There are, nevertheless, guidelines produced by the UK Health and Safety Executive on workplace stress and the assessment of psychosocial risks, including good practice guidelines for employers<sup>18</sup>.

The background to this development is evidence that stress and related conditions have worsened sharply among British workers in the last decade. A series of surveys on self-reported, work-related illness conducted in 1990, 1995, 1998/99 and 2001/02 show that stress and related conditions are the second most commonly reported group of work-related ill-health conditions after musculo-skeletal disorders. The most recent survey (Jones *et al.* 2003) estimated that work-related stress, depression or anxiety affects 563,000 people in Britain, with 13.5m lost working days due to these conditions in 2001/2. This represents 29 working days lost per year per affected case and makes stress, depression or anxiety the largest contributor to the overall estimated annual days lost from work-related ill-health. A further 80,000 people reported work-related heart disease, and most of these ascribed its cause to work stress. This implies an overall prevalence estimate of nearly two thirds of a million people reporting work stress at a level that was making them ill.

We have already noted the evidence on declining job satisfaction in the UK, and there is a body of evidence linking falling job satisfaction with rising stress levels (Green 2003a, Green 2003b, Green 2004, Green and Gallie 2002, Felstead, Gallie and Green 2002).

### **Flexibility and security**

The indicators proposed by the Commission here focus on part-time work and temporary (fixed-term contract) work, and the extent to which these are undertaken on a voluntary or involuntary basis (for

recent data on trends in the incidence of these forms of work in the UK see McOrmond 2004). Unfortunately the data presented by the Commission are not these voluntary/involuntary ratios, but the proportions of part-time and temporary employment in total employment. These reveal the well-known picture, namely that only the Netherlands has a higher part-time incidence than the UK (with nearly 25% of the employed workforce in part-time jobs, compared with an EU average of 18%). This incidence grew during the 1980s and early 1990s but has been relatively stable in recent years. In 2003, 5.66m part-time workers were women, 78.7% of all part-time workers. However, more men have taken up part-time work in recent years. In 2003 1.53m men worked part-time compared with 1.42 million in 2002.

In the case of temporary (fixed-term contract) employment, the position is reversed, and the UK has a very low incidence of temporary work. At 6-7% of the employed workforce, it is half the EU-15 rate, and only Ireland records a lower rate. Temporary work is a small and occupationally-concentrated part of the UK labour market, and its share of total employment has remained within a few percentage points for 25 years. Fluctuations are cyclical in nature, with temporary work increasing in the early stages of an economic upturn. There is no evidence of any long-term trend in temporary work.

However, these data (high incidence of part-time work; low incidence of temporary work) in themselves tell us nothing about quality in work in the UK. It is an empirical question whether part-time jobs or temporary jobs are low quality jobs. The relevant criteria for assessing quality are the reasons for undertaking such work, the extent to which it meets individual needs (for flexibility, or for work-life balance), and whether it offers lower pay rates, or inferior access to training, career development, pensions, etc.

Looking at part-time work, the proportion of involuntary part-time work is low and has fallen steadily over the last decade (in 2003 8% of part-timers said they worked part-time because they could not find a full-time job). Most part-timers (74.1%) stated that they did not want a full-time job. There are, however, big gender differences: among women part-timers, 81.4% did not want full-time work, compared with only 46.8% of men. Among men, 16.7% said they could not find a full-time job, compared with only 5.7% of women. These findings appear to suggest that the high representation of female part-timers stems mainly from choice, that the level of involuntary part-time working is low and falling, and that involuntary part-time work is more of an issue among men. However, it is important to remember that in the UK context, where the supply of low-cost childcare is limited, one reason why women say that they do not want a full-time job may be that they know that if they took a full-time job they would not be able to find affordable childcare. It is debatable, therefore, how far this response indicates that the part-time choice is an unconstrained voluntary choice.

Further concerns about the quality of part-time work in the UK are evident from the comparative literature on this topic, which suggests that the conceptualisation of part-time work is different from that in some other countries. Thus, a study of Great Britain and Denmark (Warren 2001) reinforces previous evidence that in Britain, part-time working is predominantly associated with female carer-workers; women who have reduced their hours to bring up children and are able to do this because of the presence of an alternative income source (a male breadwinner). However, in Denmark, also with a relatively high incidence of female part-time work, the conceptualisation is more of a dual-breadwinner, in the context of higher levels of social protection for part-time jobs.

<sup>17</sup> The NAP is at: [http://europa.eu.int/comm/employment\\_social/employment\\_strategy/nap\\_2003/nap\\_uk\\_en.pdf](http://europa.eu.int/comm/employment_social/employment_strategy/nap_2003/nap_uk_en.pdf)

<sup>18</sup> see: <http://www.hse.gov.uk/stress/index.htm>

The proportion of involuntary temporary working is considerably higher than is the case among part-timers; in 2003, 26.7% of temporary workers said they took a temporary job because they could not find a permanent job. This proportion, however, as with involuntary part-time working, has been falling in recent years.

In this context, it is worth noting recent research with panel data, looking at the relationship between individual well-being and atypical employment (Bardasi and Francesconi, 2004). It shows that temporary and part-time work does not have adverse consequences for people's health, after controlling for other factors. Indeed, people working up to 15 hours per week have higher levels of job satisfaction than full-timers (possibly because of the flexibility offered by such jobs and the benefits in terms of work-life balance). Only seasonal and casual employment lead to lower levels of job satisfaction; employees in these jobs reported higher average levels of mental distress than their counterparts in regular employment.

### ***Inclusion and access to the labour market***

The Commission proposes indicators, based on: transitions (between employment, unemployment, and inactivity; and between unemployment and education and training); various employment rates; the long-term unemployment rate; low-qualified young people not in education or training; and youth unemployment rates.

In it is unclear from the various Commission documents, however, what these indicators have to do with quality in work. Rather they seem to be saying something about the quality or health of the labour market, and/or about the extent and effectiveness of various labour market institutions and measures (e.g. active labour market measures). Given our inability to relate this proposed dimension and its associated indicators to any concept of quality in work prevalent in UK discussions, we do not consider it further in detail. The issues covered by this dimension are, of course, part of the wider debate about the functioning of the UK labour market and its implications for social exclusion/inclusion, and there is a wide range of literature on this topic.

### ***Work organisation and work-life balance***

The Commission's proposed indicators for this aspect of quality are: differences in employment rates between those with and without pre-school age children; the proportion of children in non-family childcare; and the proportion of employees having left jobs for family or education reasons in the last 12 months who remain inactive for those reasons, as a percentage of all employees.

In practice, the Commission presents data only the first indicator; the employment impact of parenthood. The UK position (in 2002) is a stark one. For men, parenthood has little impact on the employment rate; as in other countries, fathers of young children have a slightly higher employment rate than non-fathers. For women, however, the impact is massive, and is larger than in any other Member State. Pre-school age children reduce the female employment rate by 22.9 percentage points (the EU-15 average is 12.7%).

More generally, the wider issue of work organisation and work-life balance, as the Commission points out, overlaps with several of the other aspects of quality covered elsewhere in this article. Nevertheless, the extent to which work organisation enables workers to achieve balances of work and family life, and flexibility and

security, are central aspects of quality in work. This is, moreover, a prominent area in the recent UK debate.

Traditionally, the British emphasis on 'flexible labour markets' (which emerged in the 1980s) focused almost exclusively on 'flexibility for the employer'. Only recently has 'flexibility for the employee', via greater 'work-life balance' entered the public debate in a major way in the UK. In particular, the reconciliation of paid employment and family life has risen up the political agenda since 1997, with several important initiatives, and new regulation. The overall policy thrust remains 'voluntaristic' in nature, however, with the main emphasis on promotion and encouragement of good practice. The EU Working Time Directive was implemented in 1998 with important concessions to employers (in the form of an 'opt-out'). The Employment Relations Act 1999 introduced rights to parental leave and dependant care leave. In 2000, the government launched the *Work-Life Balance Campaign* to persuade employers of the benefits of work-life balance practices, including an emphasis on tackling the 'long hours culture'. The Employment Relations Act 2002 enhanced maternity leave entitlement<sup>19</sup> and introduced paid paternity leave and leave for adoptive parents. The latter Act also implemented provisions<sup>20</sup> giving parents of children under 6 and disabled children under 18 the right to request flexible work, and a duty on employers to consider such requests seriously.

Policies to support working families have been complemented by the *National Childcare Strategy*<sup>21</sup>, which aims to increase the level and quality of childcare. Under this strategy, financial support for childcare is provided to parents (through tax credits) and to childcare providers.

Evidence on the impact of the various measures, and on the awareness and take-up of them among employees and employers, is only recently emerging. Thus Woodland *et al.* 2003 reported high levels of support among employers for work-life balance; 65% believed that everyone should be able to balance their work and home lives in the way they want. There was also a growing recognition of the business case for taking such an approach.

However, work-life balance initiatives to date have predominantly focused on flexible working arrangements to allow for the care of dependants. There is little emphasis on work-life balance for general health and well-being. For example, Woodland *et al.* (2003) found that employers were much less likely to accept requests to change from full-time to part-time hours made by employees who were not returning from maternity leave. Only 38% of employers regarded such requests as acceptable.

Another key dimension of the work-life balance debate has been working time, and the prevalence of long hours working in the UK (although this is not discussed in the Commission Communication). The UK is distinctive in its extreme polarisation of working hours. Despite similar average working hours to many other EU Member States, it has much higher representations of extremely long hours working (especially among men) and extremely short hours working (especially among women). Internationally comparative evidence (Kodz *et al.* 2003) shows that long hours working (over 48 hours a week) is more prevalent in the UK than in most EU countries, but similar to the levels in the USA, Australia and Japan. After a period of long-term decline, the proportion working long hours a week rose throughout the 1990s (although there is some recent evidence that long hours working in the UK has reduced in the last few years: the

<sup>19</sup> The new provisions, implemented in April 2003, mean that women are entitled to 26 weeks ordinary maternity leave regardless of length of service and the right to a further 26 weeks additional leave for women who have worked for the same employer for at least one year.

<sup>20</sup> *Work and Parents Taskforce*, 2001; Department of Trade and Industry, 2001. Report available on: [http://www.workandparentstaskforce.gov.uk/flexworking\\_report.pdf](http://www.workandparentstaskforce.gov.uk/flexworking_report.pdf)

<sup>21</sup> This strategy, published by the former Department for Education and Employment, can be found at: <http://www.dfes.gov.uk/childcare/chldcare.doc>

proportion of men usually working more than 45 hours per week fell from 39% in 1995 to 33.3% in 2003). As Kodz *et al.* note, however, the UK's unusual working time pattern does not entirely reflect a 'long-hours culture', as is often argued. The evidence suggests rather that, among managerial and professional workers, the incidence of long hours working is similar to that in many other Member States. What is distinctive about the UK is the long hours working found among manual workers, as a result of systematic overtime, itself often due to low rates of hourly pay in manual jobs. While this does reflect 'choice', it is choice constrained by the unequal distribution of earned income in the UK (the inequality of which continues to increase). Arguably, therefore, two aspects of job 'quality' (hourly wages and working time) are closely intertwined, and for many workers in low wage jobs, the quality of their working lives is doubly impaired by the need to work long hours for a decent income.

There is no reliable evidence on how far the slight recent fall in the extent of long hours working reflects the UK's implementation of the Working Time Regulations. Green (2003a) observes that although it is tempting to attribute the decline to the Regulations, there are two reasons for doubt. First, falling working hours began several years before the Regulations were implemented in 1988 (and the UK evidence shows generally low levels of employer awareness of forthcoming legislation). Second, as Green also shows, the fall occurred to the same extent in sectors and activities excluded from the Regulations (such as transport workers, and the self-employed) as among sectors covered by the Regulations.

Finally, it should be noted, that the equation of long hours with low levels of job quality is not universally supported by the evidence. Thus Green (2004) notes that other factors such as the level of task discretion are critical components of job quality, and lead to higher job satisfaction. In his analysis of British surveys, controlling for such other factors, Green finds that:

*"... job satisfaction is least for those working 30 to 40 hours per week. Thus, despite the extra work strain experienced by long hours (more than 45 hours) workers, such workers report higher levels of job satisfaction than those working more normal hours"* (Green 2004).

### **Social dialogue and worker involvement**

Under this heading the Commission proposes indicators of: employee representation and involvement; coverage of collective agreements; industrial disputes, and trade union density. In its Communication, however, the Commission presents only data on the coverage of collective agreements among the workforce (the coverage of collective agreements is much lower in the UK than other countries at less than 30%); and trends in days lost through industrial disputes (on this indicator, the UK sits in the middle of the EU-15 ranking).

It is important to remember that the terms 'social dialogue' and 'social partners' are rarely used in UK discussions about employment and labour market policy. In practice, however, the indicators proposed by the Commission relate to fairly traditional measures of industrial relations and collective bargaining. The latter do feature in UK discussions of employment policy and regulation, and although rarely explicitly linked to the theme of job quality (arguably they describe aspects of the institutional framework of industrial relations, rather than job quality *per se*), there is clearly an indirect link. It is often argued in the UK, for example, that (despite falling union membership and collective bargaining coverage) there are clear benefits to employees (and indeed employers) of collective bargaining. Nevertheless, while it is largely uncontroversial that a falling rate of industrial disputes is a positive indicator of the labour

market, there would not be universal agreement in the UK debate that a high rate of union membership or high levels of collective bargaining coverage are unambiguously positive indicators of quality. While the government is committed to securing employee rights to collective bargaining, there is no explicit policy objective to increase collective bargaining coverage or union density. It is clear, moreover, that some recent trends in the UK (over the last 20-plus years) have been in the opposite direction to those regarded as 'positive' according to the indicators in the Commission Communication (*eg* declining union membership and the shift towards direct communications between management and workers, not taking place through unions or work councils — Metcalf 2003).

### **Diversity and non-discrimination**

EU legislation requires that all workers be treated without discrimination in terms of sex, age, disability or ethnic origin. Sex discrimination has already been considered above. All these aspects are a major part of the UK policy debate but they are not primarily seen as issues of job quality. The key point is that whether a job is of 'high quality' or 'low quality' depends on the characteristics of the job, not on the characteristics of the person occupying it; a low quality job remains a low quality job, whether it is done by a man or a woman, a white person or a member of a minority ethnic group, a disabled person or a non-disabled person, a young person or an old person.

It is nevertheless the case in the UK that non-whites and disabled people are disproportionately concentrated in lower paid, lower level jobs, and this would appear to be the main (albeit indirect) link between issues of job quality, and issues of discrimination/diversity. However, it is interesting to note that the three indicators proposed by the Commission do not relate to the concentration of disadvantaged groups in lower level jobs. Rather they relate to the relative employment/unemployment rates of such groups, and it is difficult to see these as indicators of job quality, rather than indicators of the (discriminatory) functioning of the external labour market and its institutions (and in the case of older workers, the interaction between the latter and factors such as the pensions and benefits systems). Despite our reservations regarding their relevance, as the Commission Communication contains no data on these topics, we briefly discuss these indicators in the UK context in the following sections.

### **Older workers**

Older workers' employment rates have risen strongly in recent years: using UK definitions (males aged 50-64 and females aged 50-59) the employment rate has risen from 63% in 1995 to 69.9% in 2003. Particularly notable is the growing employment rate of older men, after several decades of decline (over 1995-2003 it increased from 65% to 72%). Disney and Hawkes (2003) conclude that these trends are driven by changes in the macroeconomy rather than by the impact of policy initiatives. They see the buoyant economy and the strong association between GDP growth and the employment rate of people in their 50s (who are the main beneficiaries) as a key factor, reinforced by demographic change and the shift to a service-based economy. Uncertainty regarding pension entitlements (due to falling stock markets, and tighter rules regarding ill-health related retirement) may also have encouraged some people to postpone retirement. In contrast, they argue that there is no clear evidence that reforms to the incapacity benefits system, active labour market measures such as the New Deal 50 Plus, or the voluntary code of practice encouraging employers to tackle age discrimination, have made a significant contribution to older workers' employment. Disney and Hawkes are sceptical of evaluation evidence on the New



Deal 50 Plus (Atkinson, 2001) which suggests that the programme has had some net impact, and that job retention rates are high, even after the period of financial subsidy under the programme expires.

### *Ethnic minorities*

Ethnic minority groups face persistent disadvantage on the UK labour market (the differential between Black and Minority Ethnic (BME) communities and the white community on most indicators is substantial and largely invariant to the economic cycle). While space prevents a detailed consideration, it should be stressed, moreover, that there are major differences between the different BME groups (and between men and women within ethnic groups). Looking first at the employment rate, the rate for the white working age population in 2003 was 76.5% and that for BME 57.7%. Similarly BME groups are more likely to be unemployed than their white counterparts, with an unemployment rate of 10.9% compared to 4.3%. This difference cannot be explained by educational levels or other personal characteristics (the clear implication being that discrimination plays a major role). BME groups are also more likely to be economically inactive than their white counterparts, at 34.5% compared with 19.9%.

### *Disabled people*

The measured extent of disadvantage faced by disabled people, and trends over time in that disadvantage, depends heavily on the definitions used. On any definition, however, the disadvantage is marked and persistent.

Using the government's preferred definition (used to set targets for raising disabled people's employment rate — see the UK *NAP* 2003), the employment rate for those of working age with a long-term disability in 2003 was 48.8%, considerably lower than for non-disabled people (80.8%). There has been some recent (slight) narrowing of this differential, but it should also be noted that using an alternative definition, preferred by some commentators (based on those who report a work-related disability), the differential is even greater, and has shown no significant recent improvement. Unemployment rates are much higher for disabled than for non-disabled people. However, unemployment rates are a particularly poor indicator of the level of worklessness among disabled people, given that they are much more likely to be economically inactive than non-disabled people (46.8% compared with 15.4%). Among the economically inactive, disabled people are more likely than non-disabled people to want a job (14.7% compared with 3.7%). A high proportion of this group is dependent on incapacity-related benefits, and is a key target of current welfare-to-work initiatives in the UK.

### *Overall work performance*

The key indicator proposed under this heading is the growth in labour productivity (supported by indicators relating to GDP per head and per hour worked, and on the percentage of the population achieving at least upper secondary education). Only the data on growth in labour productivity per capita and the absolute level of labour productivity are presented in the Commission Communication. They show what has already been discussed above namely that, despite a relatively good productivity growth performance, the UK still has a low absolute level of labour productivity. Thus in 2001 and, to a lesser extent in 2002, UK productivity growth exceeded the UK average; when we look at the index of labour productivity, however, in 2002 the UK's GDP per hour worked was only 87% of the EU average (only Spain, Greece and Portugal record lower levels).

This issue is of major concern to the UK Government and the consensus is that it stems partly from the UK's deficiency in basic and intermediate skills. It remains unclear whether current initiatives are likely to be sufficient to reduce the productivity deficit. The UK Government's *Skills Strategy* (2003) focuses heavily on this area of skills. Also relevant to this debate is the recent *Strategy Document* (2003) from the DTI which, for perhaps the first time in such a document, acknowledges the depth and severity of the UK productivity deficit. The strategy focuses on raising skills, as well as innovation and knowledge transfer, and extending 'competitive' (i.e. unregulated or lightly-regulated) markets.

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# Norway

## Introduction

This article is aimed at providing comparable Norwegian statistics for the quality dimensions identified in the Commission Communication on “Improving quality in work: a review of recent progress”.

- Intrinsic job quality
- Skills, lifelong learning and career development
- Gender equality
- Health and safety at work
- Flexibility and security
- Inclusion and access to the labour market
- Work organisation and work-life balance
- Social dialogue and worker involvement
- Diversity and non-discrimination
- Overall work performance

For most of these dimensions, a key indicator is recommended. We will try to illustrate these indicators with Norwegian data.

## Intrinsic job quality

This dimension relates to the quality of tasks, the requirements, the pay, the working environment and the work contract of a particular job from the viewpoint of the employee.

There are no figures available for the recommended *key indicator*, which is based on transition between non-employment and employment and within employment by pay levels. Neither are there comparable data on job satisfaction.

Based on the panel data of the LFS, Table 1 shows the transitions between non-employment and employment and within employment by type of work contract. This is not an indicator of intrinsic job quality as such, but a context indicator illustrating the possibilities to move to jobs with better intrinsic job quality.

In this article we show that 8.6% of employees had a fixed-term contract in 1999. One year later, almost half of them had a permanent job, 31% were still in a fixed-term contract and 19% had left employment.

The EU-15 has a transition rate of 35% from fixed-term into permanent employment. Norway seems to have a higher rate, but the comparability of statistics is uncertain.

About a quarter of those outside employment in 1999 and in the age group 16-64 had entered employment one year later and 37.9% of these had obtained a fixed-term contract. Therefore, getting a fixed-term job seems to be a common way to start up in paid work in Norway. It represents a good opportunity to get a permanent contract.

The current rule is that fixed-term contracts are lawful only to the extent that hiring for a fixed term “is warranted by the nature of the work” and the work concerned “differs from work ordinarily performed in the enterprise”. An exception to the main rule applies for the hiring of substitute workers. In the state sector, the regulations on temporary work are looser.

In the National Budget 2004, the government proposed to ease the restrictions on temporary work. The proposition was to permit 12 months’ temporary work during a three-year period for the same employee and to allow for temporary work when needed only for a specific task. The intention was to increase employment opportunities for workers with little work experience and to make it easier for firms to undertake short-term projects or tasks.

In terms of Table 1, the idea was to increase the transition from non-employment and into employment by increasing the possibilities for transition into fixed-term contracts and decreasing the possibilities for transition from fixed-term work into permanent work.

Left-wing parties and labour unions fiercely opposed this softening of temporary work regulations. To reach an agreement on the budget, the government tempted the Labour Party into negotiations by conceding over the issue of temporary work. The proposition on temporary work has been sent back to a commission working on a revision of labour laws. Liberalisation will probably re-emerge as an area of political debate later in the year.

## Skills, lifelong learning and career development

This dimension concerns the extent to which adults participate in education and training. The recommended *key indicator* is the percentage of working age population participating in education and training (age group 25-64).

Only 3.5% of the adult working population (age group 25-64) consider themselves as primarily a student, attending a school or a university. Most young people have completed their education at the age of 25, but in the age group 25-34, 9% are still engaged in education.

**Table 1:** Transition between non-employment and employment and within employment by type of contract. Average transition rates from two equivalent quarters. Age group before transition: 16-64

	2000, 4 quarters later			Total
	Permanent contract	Fixed-term contract	Non-employment	
1999				
Permanent contract	92.3	2.4	5.2	100.0
Fixed-term contract	49.8	31.0	19.2	100.0
Non-employment	16.2	9.9	73.8	100.0

Source: Quarterly panel data from LFS, Statistics Norway

When including job-related training and public training measures for the unemployed, the participation rate increases to 15.4% in 2002, which can be compared to 8.5% for EU-15.

Adult women have a somewhat higher rate of participation in education and training than adult men. The participation rate falls with age. Only 6.4% of those with less than upper secondary education participated in education or training in 2001, compared to 16.9% of those with completed upper secondary education (but not upper tertiary).

About 15% of employees have participated in job-related training and two-thirds of them have paid wages. Women participate more often than men. Their participation does not fall markedly with age until the age group 45-54.

The use of computers is widespread. In the 16-74 age group, 89% have used a PC. Half of the people in this age group use a PC at least once during a working day; 47% use a PC at their place of work. The use of computers increases with educational level and falls with age.

## Gender equality

This dimension relates to gender gaps under several other dimensions, like hourly earnings and employment rates.

The recommended *key indicator* is the ratio of women's hourly earning index to men's for paid employees at work 15 hours or more each week. It is recommended to adjust this for sector, occupation and age. Comparable computations for this indicator are not yet available.

In 2003, Statistics Norway presented wage statistics for the first time that included all full-time as well as part-time employees from all sectors in the economy. By calculating full-time equivalents, the average monthly earnings can be compared between men and women. The result is that men earn 19.2% more than women on average. Monthly earnings include basic paid wages and salaries, variable allowances, bonuses and commissions, etc.

The employment rate of women in Norway is 74%, about 7 percentage points below men's. The unemployment rate is slightly higher for men than for women, reflecting the fact that men are more employed in private industries exposed to business cycles.

## Health and safety at work

The recommended *key indicator* for this dimension is the number of serious and fatal accidents at work per 100,000 persons in employment. Serious accidents means "accidents resulting in more than 3 days' absence from work".

We are not able to present such figures for Norway, but 3% of employees have been exposed to an accident at work in the last 12 months.

## Flexibility and security

This dimension relates to the degree of flexibility in work organisation, working time, contractual arrangements and national or geographical mobility.

The recommended *key indicator* is the share of employees working voluntarily and involuntarily on part-time and fixed-term contracts.

**Table 2: Total employment rate (age group 16-64) and the employment rate gap of women compared with men**

	1999	2000	2001	2002
Total employment rate (Q18)	78.1	77.8	77.5	77.1
Men (Q18)	82.1	81.6	81.1	80.3
Women (Q18)	73.9	73.9	73.7	73.9
Absolute employment gap (Q10)	-8.2	-7.7	-7.4	-6.4

Source: LFS, Statistics Norway

**Table 3: The unemployment rate (age group 16-64) and the unemployment rate gap of women compared with men**

	1999	2000	2001	2002
Unemployment rate	3.2	3.4	3.6	3.9
Men	3.4	3.8	3.7	4.2
Women	3.0	3.0	3.5	3.7
Absolute unemployment gap (Q11)	-0.4	-0.8	-0.2	-0.5

Source: LFS, Statistics Norway

Among all employees, 31% are part-time workers. Almost half of women and only 15% of men work part-time. Working on a fixed-term contract applies to 9% of employees; 7% of men and 11% of women.

Two-thirds of women in part-time work prefer this kind of work, while only half of the men in part-time work do. Among employees on fixed-term contracts, men seem to be more satisfied with this arrangement than women.

**Table 4: Percentage of employees having non-standard employment (part-time or fixed-term contracts).**

	1999	2000	2001	2002 2nd Q
<b>Part-time or fixed-term contracts (Q15)</b>	30.8	30.6	30.6	31.3
Men	14.4	15.2	15.3	15.8
Women	49.7	48.3	48.0	48.8
<b>Part-time (Q15)</b>	26.3	26.0	25.8	26.1
Men	10.3	10.9	11.0	10.8
Women	44.6	43.3	42.6	43.2
<b>Fixed-term contracts (Q15)</b>	8.6	8.6	8.6	9.6
Men	6.2	6.5	6.5	7.3
Women	11.3	11.0	11.0	12.2
<b>Voluntary share of contracts</b>				
Part-time	58	56	55	60
Men	52	47	38	51
Women	60	59	62	64
Fixed-term	50	51	50	50
Men	60	55	55	55
Women	45	50	47	47

Source: LFS, Statistics Norway

**Table 5:** Transition between employment, unemployment and inactivity. Average transition rates. Age group before transition: 16-64

	2000, 4 quarters later			Total
	Employment	Unemployment	Inactivity	
1999				
Employment	93.2	1.4	5.3	100.0
Unemployment	92.2	1.9	6.0	100.0
Inactivity	79.3	2.3	18.4	100.0

Source: Quarterly panel data from LFS, Statistics Norway

**Table 6:** The long-term unemployment rate, by gender. Unemployed at least 12 months, relative to all unemployed. End of each year

	2001	2002	2003
Total	11.5	13.4	12.3
Men	11.7	13.1	11.9
Women	11.4	13.8	12.7

Source: Labour Market Administration (Aetat)

### ***Inclusion and access to the labour market***

This dimension relates to the ability of the labour market to include all citizens of working age who are willing and capable of work.

The recommended *key indicator* is the rate of transition from unemployment and inactivity into employment.

Among unemployed people in 1999, 92.2% were in employment one year later. Only 1.9% were still unemployed, but 6.0% had left the workforce. Of those not active in the labour market in 1999, 79.3% were in employment one year later and 2.3% were unemployed and looking for a job.

Employment rates are lower in the 16-24 age group than in the 25-54 group because of higher participation rates in education and difficulties in accessing the labour market. In the 16-24 age group, the employment rate is 57%, compared to 85% in the 25-54 age group. The employment rate is particularly low for 16-24 year-olds who have less than an upper secondary education (43%).

The incidence of long-term unemployment, measured as the percentage share of the registered unemployed who have been unemployed for at least one year, increased from 11.5% in December 2001 to 13.4% one year later and then down to 12.3% in 2003. There are only minor differences between women and men.

The rate of early school leavers is illustrated in Table 7.

**Table 7:** Percentage of 18-24 year-olds having achieved lower secondary education (ISCED level 2) or less and not attending further education or training

	1999	2000	2001	2002
Total	6.7	6.3	4.9	7.7
Men	7.1	7.2	6.0	9.6
Women	6.3	5.4	3.9	5.7

Source: LFS, Statistics Norway

The unemployment rate in Norway for 16-24 year olds is about 10%. No significant difference between women and men is registered in the period 1999-2002, see Table 8.

**Table 8:** Youth unemployment rate. Unemployed young people (age group 16-24) as a share of the workforce in the same age bracket

	1999	2000	2001	2002
Total	9.5	10.1	10.6	11.4
Men	9.5	10.0	10.8	12.4
Women	9.4	10.2	10.4	10.3

Source: LFS, Statistics Norway

### ***Work organisation and work-life balance***

This dimension relates to the ability to organise a reconciliation between work and family life. The recommended *key indicator* is the absolute difference in employment rates with and without children aged 0-6, by sex.

We have prepared figures for this key indicator in Table 9, showing that the impact of parenthood in 1999 is a reduction in the employment rate by 5.9 percentage points. Behind this reduction, however, is an increase in the employment rate of men and a decrease in the rate of women.

### ***Social dialogue and worker involvement***

A total of 9,900 employees, 0.3% of total employment, were affected by labour disputes in 2002. About 151,000 working days were lost.

#### **Diversity and non-discrimination**

This dimension relates to the ability to fulfil the principles of equal treatment and non-discrimination in terms of sex, age, disability or ethnic origin.

Only context indicators are recommended for this quality dimension. The first is the employment rate of 55-64 year olds. This rate is about 68% in Norway, 73% for men and 62% for women.

The unemployment rate varies between different groups of first generation immigrants. Immigrants from outside Western Europe and North America have an unemployment rate 2-5 times higher than immigrants from Western Europe.

Immigrants from Africa have the highest unemployment rate. In August 2003 their unemployment rate was almost five times as high as the unemployment rate for the whole population.

**Table 9:** Employment impact of parenthood. The absolute difference in employment rates (age group 20-50) without the presence of any children and with the presence of a child aged 0-6

	1999	2000	2001	2002
<b>Employment rate without children aged 0-15</b>	83.9	-	-	-
Men	86.7	-	-	-
Women	79.6	80.1	78.7	78.5
<b>Employment rate with at least one child aged 0-6</b>	78.2	-	-	-
Men	93.0	-	-	-
Women	73.7	75.3	78.8	79.7
<b>Absolute employment gap</b>	5,7	-	-	-
Men	-6.3	-	-	-
Women	5.9	4.8	-0.1	-1.2

Source: LFS, Statistics Norway

People with disabilities have problems entering the labour market. In the second quarter of 2003, 42.5% of the people with disabilities had a job, and 3.9% were unemployed. In total, 46.4% were economically active, compared to 79% of the population aged 16-66.

**Table 10:** Employment rate of age group 55-64

	1999	2000	2001	2002
<b>Total</b>	67.2	67.5	67.5	68.3
Men	73.1	73.6	72.7	73.0
Women	61.2	61.5	62.3	63.6

Source: LFS, Statistics Norway

**Table 11:** Unemployment rate by region of birth

	May 2002	Aug 2002	May 2003	Aug 2003
The Nordic countries	3.0	3.8	4.4	4.9
Western Europe	3.5	3.9	4.4	5.3
Eastern Europe	9.1	10.5	10.4	11.8
North America and Oceania	4.4	4.7	5.7	6.4
Asia	10.6	12.3	13.0	14.5
Africa	14.5	17.2	17.7	20.5
South and Central America	7.7	9.6	11.1	11.9

Source: Statistics Norway

**Table 12:** Percentage growth in GDP (constant prices) per hour worked

	1999	2000	2001	2002
GDP per hour	1.5	3.7	2.9	1.9
Mainland GDP/hours	3.5	3.5	3.5	2.7

Mainland GDP = GDP excluding petroleum and shipping.

Source: National account, Statistics Norway

### Overall work performance

The recommended *key indicator* for overall work performance is the growth in labour productivity.

The growth in GDP per hour worked, excluding petroleum and shipping, was 3.5% from 1999 to 2001. Then productivity growth started to slow down.

An important context indicator is the percentage of working age population having achieved at least upper secondary education (ISCED level 3), by gender, age group and working status. In the 25-64 age group, this proportion reached 85.7% in 2002, compared with 64.6% for EU-15.

In the 25-34 age group the rate is 93.4%, falling to 73.0% in the 55-64 age group.

The educational level defined this way is particularly high among the employed (88.8%), lower for the unemployed (85.2%) and even lower for the inactive (70.2%). It is almost the same for women and men.

Knut Arild Larsen

# Czech Republic

## Introduction

The Czech economy still finds itself at the stage of profound restructuring. The soft economic environment and the inconsistency of earlier reforms made it possible to keep the unemployment rate under 4% until 1996. On the other hand, it also kept productivity down and encouraged mutual debts between big enterprises, tolerated by state-owned banks. This necessitated repeated and massive interventions of the state into the bank sector. Large-scale over-employment was possible until the balance-of-trade deficit triggered a recession between 1997-1999, accompanied by a wave of bankruptcies. The economy shifted from the “prenatal stage” of economic restructuring (centred around privatisation and liberalisation of the economy) to “the stage of real deregulation of the supply side of the economy” (with efficiency and competitiveness established as a norm).

Despite being relatively mild, the three-year recession triggered off the processes of restructuring and labour shedding. Between the end of 1996 and 2000, employment dropped by 4.6%. Registered unemployment grew by nearly 6% between the end of 1996 and the end of 1999 and stabilised at around 9%.

Despite recent growth in GDP, unemployment reached 10% in September 2003. The Czech Republic apparently entered the stage of a “standard market economy” in 2000: the level of employment and unemployment have since been fluctuating, following the variations of economic growth, with only a growth rate over 2.0% bringing employment gains.

Since 2000, economic growth has been driven mainly by labour productivity, particularly in industry, being directed primarily by foreign-controlled companies. The upward trend continues in 2003 – it had increased by 8% by mid-2003. However, a constant pressure on the labour market emerges from the relatively fast growth of wages, around 4-7% over the past two and a half years, which is more than twice as high an increase as that in labour productivity. This probably contributes to the constantly high unemployment levels. As we shall see below, the low disciplining impact of unemployment on wage pressures may be explained by the high proportion of long-term unemployed people as well as by inadequately co-ordinated wage bargaining.

The Czech Republic will be admitted to the EU in mid-2004, a decision which received broad public support in the national referendum in May 2003. In the last two years, the government has speeded up the adoption of the prescribed legislation which was explicitly appreciated by the Commission.

The government has also focused on the improvement of the public financing deficit (which approximates to 6% of the GDP) in order to meet the Monetary Union’s criteria. The public financing reform was started in September 2003. It involves not only cuts in welfare spending and an increase in the retirement age (63 years for both sexes), but also the reduction of general tax for companies. On the other hand, the fraction of social insurance allocated for employment policy, which currently amounts to 3.6% of the payroll, will be reduced to 2% in favour of the pension policy which is now deficient.

## Labour market trends

### Employment and wages

Between 1996 and 2002, employment dropped by 4.1% (from 4.972 million to 4.765 million people) and continued to decrease in 2003: by the third quarter of 2003, employment had declined to 95.3% of the 1996 average. According to Eurostat, the proportion of people employed in industry in the Czech Republic is the highest in Europe (about 40%). In most industries, modernisation is not sufficiently intensive as yet. Employment losses have been most severe in agriculture and mining (about 25% of the 1996 level), while employment in public administration and in the health sector has increased by more than 10%. The proportion of entrepreneurs, including self-employed persons, is similar to other European countries. However, the change of the educational structure of employed people, which is still in progress, is most striking: about a third of employees with primary education have left the labour market since 1996, while the employment rate among persons with tertiary education has risen by about a quarter. This is partly due to the improving structure of education in the population but it should primarily be attributed to losses of unskilled jobs in all sectors of the economy.

**Table 1:** The change of the educational structure of employment in percentages

Level of education	1996 average	2002 average	2003, 3rd Q.	Men	Women
Primary	10.9	7.3	6.9	4.8	9.7
Secondary (lower)	46.0	43.5	43.7	51.5	33.5
Secondary (baccalaureate)	32.3	36.0	36.0	29.5	44.5
Tertiary	10.8	13.2	13.3	14.1	12.3

Source: Labour Force Survey

Employed women’s educational structure still contrasts unfavourably with that of employed men, with the proportion of primary educated women being twice as high compared with men (especially in the 40–59 age cohort, where it is about 20%). The proportion of university-educated people is still considerably below the EU average, even though participation in university study programmes has increased by nearly half since 1989.

Czech employment practices are not very flexible when it comes to labour contracts; in the third quarter of 2003, temporary contracts represented a mere 7.8% of employment and part-time jobs a mere 5%. The part-time contracts seem to be insufficiently attractive for employees (because of inadequate remuneration), and for employers (because of requirements on their adaptability).

The real wage growth oscillated between 4% and 7% in the last three years, thus exceeding the pace of GDP per capita growth. Since 1998, the government has repeatedly increased the minimum wage in order to encourage work incentives. The ratio of minimum wage to average wage has improved from 20% to 31%. Income distribution has not significantly changed over recent years. The gap between low-paid (often unskilled) and highly-paid jobs widened

most markedly in the first half of the 1990s. In recent years, income growth has been relatively higher, especially at top-level positions.

The difference between the income of men and women remains constant at about 25% of the average wage, with a wider gap in the 95th percentile of wage distribution (32%). Variations according to education and profession have stabilised as well, with unskilled workers receiving less than 70% of the average wage and people with university education nearly 180% of the average wage. The critical role of education is more obvious in the case of men: salaries of men with university education are 2.6 times higher compared to unskilled men. In the case of women it is only 2.22 times greater.

The gender wage gap is determined not only by a lower number of regular working hours and less overtime hours of women but also by a gender-specific employment structure: women predominate in the health sector (82% of employment), education (73%), banking and insurance (66%) and public administration (62%). Finally, it also follows from a worse educational structure of employed women (see above).

### Participation rates

Two significant demographic trends can be observed today: firstly, the improving structure of education (see above) and, secondly, the ageing population.

In recent years, the total participation rate of the population over 15 years of age has slightly dropped, more markedly among men than among women. This is a consequence of the increasing participation of young people in the educational system, both in secondary and university study programmes, as well as of the diminishing activity of older workers (early retirement was one of the strategies to cope with the explosion of unemployment after 1997). On the other hand, activity rates of people between 45–59 have increased – mainly among women – probably due to the “substitution effect” of real wage increases.

The decreasing participation rates have not had much influence on the level of employment as yet because the baby boom of the 1970s has so far been feeding the working-age population – but this trend is certain to reverse in the coming years.

With the 15–64 age group’s activity rate at 70.7% and employment rate at 65.0% in 2001, the Czech Republic exceeds the EU-15 average (Employment 2002). However, owing to increased unemployment and lower activity rate among older workers, the country does not fulfil the EU employment target. The activity rate in the 55–64 age group is 40.6% – owing to the lower retirement age in the Czech Republic: 62 years for men and 57–61 for women. Retirement age is to be increased to 63 years for both sexes and a system of lifelong learning is to be implemented in order to facilitate an increase of older people’s participation rate.

### Unemployment

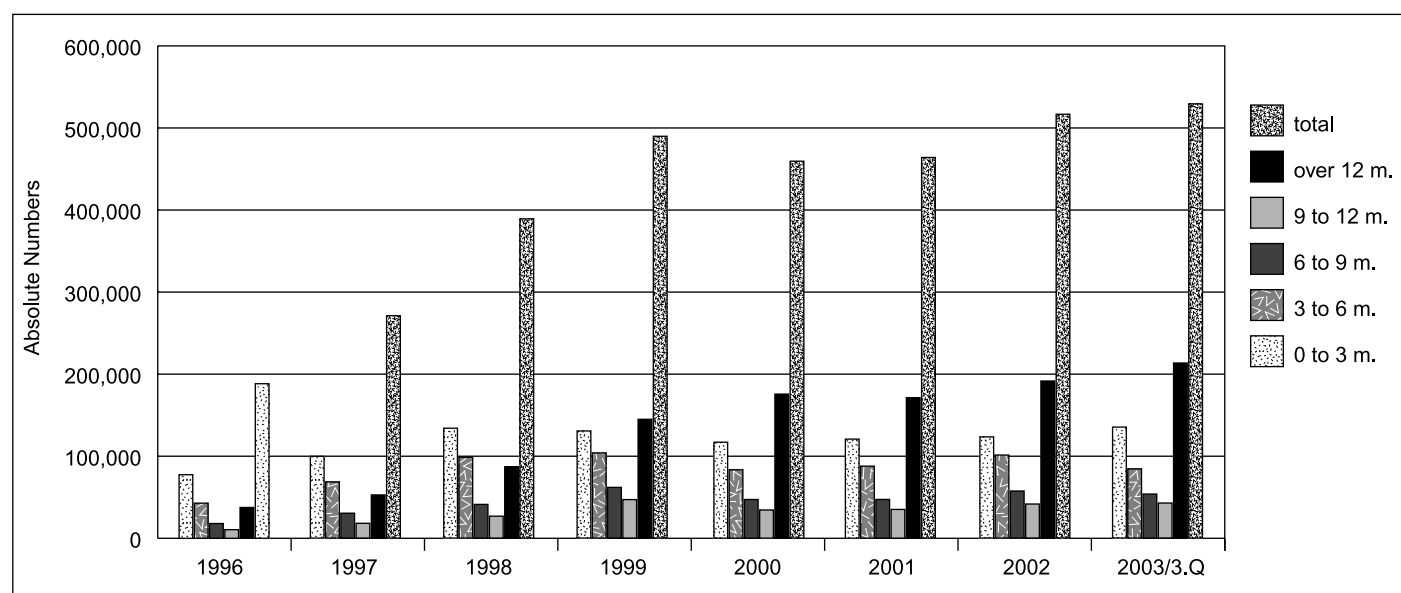
Due to the economic restructuring which was necessitated by the 1997 recession, unemployment exploded in the Czech Republic and the registered unemployment rate increased from 3.5% in late 1996 to 9.4% at the end of 1999 when it stabilised (it was 8.8% at the end of 2000 and 8.9% at the end of 2001). By the end of 2002, it increased to 9.8%, and by the end of the third quarter of 2003 to 10.1%.

The most negative feature of the deteriorating unemployment figures was the growing proportion of long-term unemployment. In absolute numbers, it rose about five times (today it represents about 40% of the total registered unemployment), while short-term unemployment (less than 3 months) only doubled (see Graph 1).

Regional disparities are striking, with two regions being disproportionately affected by unemployment: the *Ustecky* region in the north-west of the country and the *Moravskoslezsky* region in the north-east. Both regions struggle with the consequences of restructuring as well as with a lack of new entrepreneurial activities. Together, they are responsible for nearly 40% of the country’s unemployment. On the contrary, *Prague* and *Jihocesky* regions (south-west) find themselves in the favourable position of territories attractive for investors. The other regions are close to the average.

The continuation of unemployment not only results from restructuring but also from great differentials in the risk of (long-term) unemployment among individual population groups. If we calculate specific unemployment rates from employment figures

**Graph 1: The Duration of Unemployment**



Source: Ministry of Labour and Social Affairs.



(Labour Force Survey) and from registered unemployment at the end of September 2003, we find the following axes of labour market segmentation:

- Regions (see above), with two regions disproportionately affected by industrial recession;
- Gender, with women affected more seriously than men: specific unemployment rate among men is 8.7%, while among women it is 11.8%; women raising children are affected most;
- Age, with young people affected more than twice as severely than others (most of them are school graduates without any work experience): specific unemployment rate among people under 25 years of age is 23.8% (they represent 26.5% of the unemployed), in the 25–34 age group it is 9.1% (24.6% of the unemployed), in the 35–49 age group it is 7.9% (29.3% of the unemployed), in the 50–59 age group it is 8.9% (19.6% of the unemployed), and among people aged 60 and over it is 1.1% (0.9% of the unemployed);
- Education, with unskilled workers affected more than three times as seriously compared with others: specific unemployment rate among people with primary education is 33.2% (30.7% of the unemployed), among people with lower secondary education it is 9.9% (42.9% of the unemployed), among those with higher secondary education it is 6.6% (22.8% of the unemployed) and among university graduates it is 2.9% (3.5% of the unemployed);
- Disability, with disabled people coping with a 42.1% specific unemployment rate (13.2% of the unemployed);
- Ethnic affiliation, with Romanies facing a specific unemployment rate of about 45% (estimated 8–10% of the unemployed) (Vyzkum 2001, Ivanov et al. 2002), with their position being determined primarily by their low skills.

Of course, these handicaps overlap and concentrate within specific population categories and in specific regions. Besides, it is not only the lack of vacancies, human capital and labour market segmentation that produce such differentials. Poor work performance also plays its role – as well as employment incentives: wages in low-paid jobs are approaching levels of social assistance benefits: replacement rates in the case of long-term unemployment are around 70–80% which is one of the highest levels in Europe (Benefits and Wages 2002). Besides, income tax and social contributions amount to 47.5% of the payroll in the Czech Republic (of which two thirds are paid by employers), with no exemption for low wage earners.

## Labour market policies

### Active labour market policies

Facing a sharp increase in unemployment between 1997–1999, the Czech Government retreated from the trend of restrictive active labour market policy pursued from 1995–1997. The number of participants in active labour market policy measures started to grow

fast, both in absolute numbers and in relation to the number of unemployed. As a matter of fact, the Czech Republic met the EU target requiring the activation of at least 20% of the unemployed in 2000.

Emphasis has been laid – in correspondence with the needs of the labour market as well as with the European Employment Strategy Guidelines – on the effective use of available instruments, on the targeting of the most disadvantaged groups, particularly young people and long-term unemployed, and on a preventive and individual approach.

By 2000, the scope of policies stabilised. However, increasing unemployment and cuts in public budgets, including the ALMP measures, necessitated a restriction on the number of subsidised jobs, both in the public and private sectors, by a third in 2002. The 2003 budget seems to be somewhat more favourable, which is reflected in a slight increase in the number of participants in ALMP programmes. Regardless of temporary shifts, the Czech Republic ranks among countries with the lowest ALMP expenditure.

The set of active labour market policy instruments seems to correspond to the standard design applied elsewhere in Europe. Differences may be identified in the less frequent use of flexible forms and in the relatively lower quality in the sense of more limited expenditure and hence lower level of subsidies and shorter duration of vocational training, etc.

Considering the high proportion of long-term unemployed people and the high degree of concentration of unemployment within specific population groups, targeting is especially important. The national budget for ALMPs is allocated to individual labour offices according to the level of unemployment in their respective districts/regions. The data on targeting shows that job creation measures are well targeted to the groups at risk, while the targeting of vocational training is efficient only to some extent, with young people (most often school graduates) being the most frequently participating group.

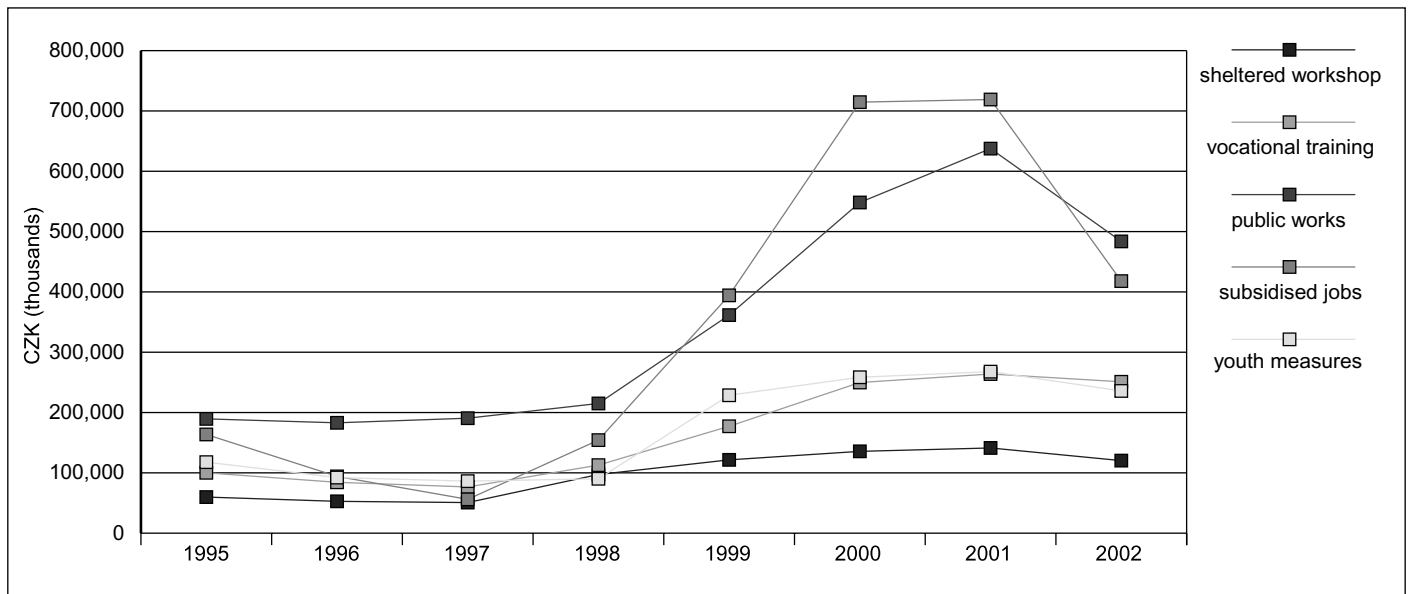
Certain risk groups are under-represented: disabled people, unskilled people, people over 50 years of age and long-term unemployed people – their numbers should be at least doubled if their share in unemployment is to be counterbalanced.

Nonetheless, the emphasis on preventive approach has led to increased participation in vocational training for the unemployed since 2000. Also profiling (diagnostic methods), motivation courses, practical training for graduates, job clubs and activating measures are becoming ever more frequent. In 2002 and 2003, the Public Employment Service started to implement the EES Guidelines 1 and 2 and to experiment with Individual Action Plans (IAPs) at 15 labour offices (out of the total of 77) – “First Chance” for unemployed people under the age of 25 and “New Start” for those over 25. In 2002, labour offices successfully covered (on a voluntary basis) about a quarter of the relevant cohort. It seems that about 70% of the young and 50–60% of older participants were prevented

**Table 2:** Unemployment and active labour market policy

	1995	1996	1997	1998	1999	2000	2001	2002
Unemployment rate (end of year)	2.9	3.5	5.2	7.5	9.4	8.8	8.9	9.8
No of unemployed per vacancy	1.7	2.2	4.3	10.3	13.9	8.8	8.9	12.7
ALMP participants as % of unemployed	36.0	17.1	11.3	12.0	13.7	20.3	19.0	14.7
Vocational training participants as % of unemployed	8.8	6.5	4.3	4.2	4.7	7.3	7.6	7.0

Note: Vocational training participants are included in ALMP participants

**Graph 2: Real expenditure on active labour market policy by instruments**

from falling into long-term unemployment. IAPs are to be implemented at all labour offices as of 2004. However, implementation is likely to be difficult because the number of Public Employment Service employees is equivalent to, at best, about half the respective number in the EU countries. Less than 5000 people are employed in the PES, including the headquarters, per 520,000 unemployed, which is more than 100 unemployed persons per employee, creating high workloads for advisers.

### *Passive labour market policies*

The Czech Republic is among countries whose unemployment benefits are less generous. Since January 1992, unemployment benefits have been provided for no longer than 6 months and the replacement rate is set at 60% of the previous net salary during the first three months and at 50% during the remaining 3 months. If the unemployed person participates in vocational training, the replacement rate is 70%. While no minimum level of benefits has been defined, the ceiling was originally set at 1.5 times the minimum wage. Within the scope of the “austerity package” implemented during the recession in 1998, benefits were cut and the replacement rate was lowered to 50% and 40%, respectively. On the other hand, in September 1999 the benefit ceiling was increased to 2.5 times the minimum subsistence level of a single person: this practically means that only people with above-average earnings do not reach full replacement rates in the case of a job loss. In the past two years, the coverage ranged between 36–38% of the unemployed; in 2003, it dropped to 34% due to a high proportion of long-term unemployed persons, who lose the benefits entitlement after 6 months of unemployment, as well as to a high occurrence of repeated unemployment.

Even though the living standard of households where the breadwinner loses a job is not well protected through the unemployment insurance scheme, the households' income is supplemented with a set of income-tested family-related benefits which increase the replacement rates (as well as the marginal effective tax rates), especially when it is the partner with a lower income who has lost a job. The minimum subsistence level to which the unemployed are entitled after 6 months of unemployment is relatively high for people with low skills and low earnings, as well as for large households: the level of social assistance benefits for a family of four is higher than the average net earnings of an unskilled worker.

The complex effect of income support schemes (OECD 2002: 36) can be seen if we compare net replacement rates for long-term unemployed persons: the replacement rate for families with children is 74–80% in the case of average earnings, but 90–100% in the case of incomes at two thirds of the average, which ranks the Czech Republic among the most generous countries (Denmark, Sweden, Switzerland).

In spite of the fact that the protection of unemployed people's living standards is often poor, strong disincentives emerge in many cases from the complex of social transfers, especially when combined with undeclared work. In the opinion of labour offices' staff, this is one of the most crucial determinants of the high proportion of long-term unemployment. The Public Employment Service has already prepared a new Employment Act to be negotiated in the Parliament, in which requirements to participate in activation programmes or temporary work (over three months) are included in order to increase pressure on those who choose voluntary welfare dependency. On the other hand, it has also been proposed to extend the benefit to 9 months and 12 months for unemployed persons over 50 and 55 years of age, respectively, and to increase the replacement rate to 45% of the net wage as of the fourth month of unemployment. The Ministry of Labour and Social Affairs has also proposed imposing stricter means-testing procedures on social assistance benefits.

### *The quality of work*

In general, available indices of the quality of work are less favourable compared to the EU average; nonetheless, some of them still stand comparison with the other newly-acceding countries.

### *Job characteristics*

Comparative data show that the average annual hours worked in employment were 1980 per person in the Czech Republic in 2002, which is the highest figure in Europe. In Germany it was 1444, in Italy 1619 and in the UK 1707, to give a few examples (for more detail, see the Employment Outlook 2003). If we only look at people working full-time, their actual weekly working hours are 43 (44.4 for men and 41.0 for women), with industry being the most decisive

factor: the average in hotels and restaurants is 49 hours per week, in trade and car or consumer goods repair it is 48 hours, in services for enterprises it is 47 hours (Czech Statistical Office 2003).

On the other hand, participation in continuous vocational training (CVT) is below average in the Czech Republic: 20% out of the total of employed persons participated in 1998 – 15% in CVT courses and 5% in formal education – while the 16 OECD countries' average was 27% (26% and 2%, respectively); nevertheless, the figure is higher in the Czech Republic than it is in Hungary (15%), Poland (12%), Italy (14%), Ireland (12%), Switzerland (15%) and Belgium (13%). A Survey of the Social Situation of Households (Czech Statistical Office 2003), which covered a sample of more than 10 thousand households in the Czech Republic, confirmed the participation of 24% of employees in employer-provided forms of vocational training. However, employees with no more than primary education are lagging behind, given that only 10% of them participate.

And if we focus just on the data on the adult population (25–64 years), the proportion of people in formal education and training is 6.0% in the Czech Republic, which is more than it is in Hungary (3.3%) and Poland (4.3%), but less than the EU average (8.5%) and, of course, less than the EU target of 12.5% (COM 2003).

Feelings of job insecurity are slightly above the OECD average in the Czech Republic. In 1997, 82% of employees did not strongly agree that their job was secure (84% among men and 79% among women), while the OECD average for 18 selected countries was 78%. The proportion of “insecure” employees was higher in East Germany, Hungary, Poland and the United Kingdom, and very similar in Sweden and Switzerland (OECD Employment Outlook 2003). The Survey of the Social Situation of Households in 2001 showed that dissatisfaction with their salary and job security represented a problem for a significant proportion of employees: about 52% of them were not satisfied (more or less) with their salary and 44% were not satisfied with their job security (deeper dissatisfaction was identified among those with primary education – 60% and 52%, respectively).

The job content, working schedule, working hours, work conditions and commuting to work were perceived as less problematic but even so, each of these items was associated with rather negative feelings by about a quarter of employees.

### ***Health and safety and work***

The development of indicators of on-the-job accidents seems to be only partly a positive move that may be attributed to the imposition of liability for accidents at work on employers during the 1990s. The number of on-the-job accidents per 100 persons dropped from 2.27 in 1997 to 2.03 in 2002. On the other hand, the average duration of work absence per accident increased from 38.5 to 41.7 days and the average percentage of work absence is very similar: 0.237 and 2.232, respectively. The number of fatal accidents dropped from 296 to 206 (Výzkumný 2003).

The available indicators of quality of work show that Czechs work longer hours (especially men and people in the service sector), their participation in employer-run training or in formal education is below the OECD average but is not amongst the worst, job security is slightly worse than the average of OECD and job security, as well as other aspects of job quality, are perceived rather negatively by at least a minority of employees. The position of employees with primary education is less advantageous in all respects.

We conclude that, in spite of the increased unemployment rate and extensive working hours, as well as the problems with job security

and other aspects of the quality of work, certain selected job characteristics stand international comparison. This might partially be attributed to the improvements of the structure of employment in terms of qualification and educational structure: between 1993 and 2002, the number of jobs for unskilled workers dropped by 25% and jobs for skilled workers by 15%. On the other hand, the number of managers rose by 43%, the number of top professionals by 10%, lower administrative staff by 10% and workers in services and trade by 16%.

### ***The outlook***

In the short and medium term, there is no promising outlook for a significant decrease in the level of unemployment. Firstly, given the low labour productivity and the persisting over-employment in many branches of the economy, the economic growth of about 2% of the GDP (i.e. the employment threshold) does not by itself diminish the unemployment rate. After joining the EU, the employment threshold might even increase. The banks, privatised in the hands of foreign financial institutions, create a more competitive environment for companies. Cuts in the public budget will have a negative impact on economic activities, as well as employment.

More foreign investments arrive, and will continue to do so, which speeds up the processes of modernisation and labour productivity growth within industries and the substitution of labour by capital. Only in the long term might this trend yield a growth in labour productivity and an increase in competitiveness of the economy, and encourage job creation in services where there is still sufficient room and need for it.

However, the inadequate growth of real wages and the high level of long-term unemployment represent a serious problem in the long run: labour market inflexibility is enormous, both in terms of strong wage pressures in the primary labour market and low employability of the workforce in the secondary labour market. The absence of effective mechanisms of collective bargaining and the cuts in the labour market policy budget (related to the Public finance reform) will undermine the government's capacity to improve the labour market performance. Finally, the extensive shadow economy not only restrains the state's tax revenues but also hinders the emergence of a transparent entrepreneurial environment. No effective tools to reverse these trends are available at present.

Another problem follows from restrictions of public expenditures that erode investments into human capital, i.e. education – particularly university education – and active labour market policies – particularly vocational training for unskilled workers and older workers. Such investments condition a future improvement in labour productivity and employability of the labour force. This poses a serious problem also with respect to the fact that neither a legal and financial framework nor lifelong learning programmes exist, nor are there any incentives motivating employers to participate.

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# Cyprus

## General economic trends and preparations for accession

The macroeconomic performance of Cyprus, which had been exemplary, now shows signs for concern – see Table 1. Real growth had been strong but the world slowdown and the Iraq war have reduced growth from the 1998-2000 average of 5% to less than half that during 2002-2003. The growth rate is expected to rebound in 2004 to 4%. Consistent with this strong growth, the unemployment rate in Cyprus had been less than half that prevailing in the EU in the period since 1998; however, it has recently increased and is expected to stay in the region of 3.5%<sup>1</sup> for the next year. Inflation had been higher than the EU average and will increase to 4.6% over 2003. This reflects recent increases in indirect taxation. Nevertheless, the inflation rate will present a challenge for Cyprus given its intention to join the euro zone. Productivity growth has slowed down since 1998 and is expected to more than double in 2004. The fiscal deficit as a percentage of GDP is expected to rise to 5.3% in 2003, reflecting pay rises for civil servants and the acceleration of public investment projects aimed at counteracting the effects of the Iraq war. The euro/Cyprus pound exchange rate has been maintained at approximately 1.71.

Cyprus has been employing an increasing number of foreign workers, now at 38,411 or 12.2% of the gainfully employed. A large number of illegal workers, estimated at around 30,000, is also present. An increasing number of Turkish Cypriots has been crossing to the area controlled by Cyprus as day workers.

With accession in May 2004, EU nationals will have access to employment opportunities in Cyprus and they will have priority over workers from third countries. The number of illegal third country workers may increase as workers attempt to remain in Cyprus past their contracts. This, along with more day workers from the north, will enhance labour supply and underline the need for a well-thought-out labour market policy.

In other respects, adequate labour legislation is in place. Legislation governing conditions of employment, enacted in 1968, was strengthened in January 2003 with EU-harmonising legislation. This improved provisions for annual leave, hours of rest, and maximum hours of work. It also enshrined in legislation and the industrial relations mechanism the principle of equal treatment. Though collective bargaining agreements are not legally binding, the harmonisation legislation ensures that existing agreements take on board new provisions.

**Table 1: Macroeconomic Indicators<sup>a</sup>**

	Per Capita GDP in Euro	Real GDP Growth	Inflation	Unemployment <sup>b</sup>	Productivity Increase	Real Earnings Growth	Fiscal Deficit/GDP	Euro Exchange Rate <sup>c</sup>
1997	11209	2.5	3.6	3.4	2.4	2.9	-5.3	1.72
1998	11894	5.0	2.2	3.3	4.0	2.7	-5.5	1.72
1999	12636	4.8	1.7	3.6	2.7	3.0	-4.0	1.72
2000	13819	5.2	4.1	3.4	2.7	2.8	-2.7	1.74
2001	14516	4.1	2.0	3.0	2.1	2.7	-2.8	1.73
2002	15189	2.2	2.8	3.2	1.1	2.4	-3.5	1.73
2003 <sup>p</sup>	16095	2.3	4.6	3.5	1.5	0.9	-5.3	1.72
2004 <sup>p</sup>	17058	4.0	1.8	3.4	3.1	3.3	-3.7	n/a

a) In % except for per capita GDP and the exchange rate.

b) Based on registrations at District Labour Offices.

c) Euro per CYP. For 1997 and 1998 it is the ECU exchange rate.

p) Provisional/Projected.

Source: Planning Bureau, *Main Economic Indicators of the Cyprus Economy 1997-2004*.

<sup>1</sup> Unless otherwise indicated, the unemployment rate will be based on registrations rather than the Labour Force Survey (LFS).

The Industrial Relations Code prescribes time limits within which mediation must occur and describes the mechanism to do so. The Code is typically adhered to, suggesting that this voluntary system is effective. It should be noted (Samuel (2002)) that the harmonisation process has required the introduction of legislation where previously the “gentlemen’s agreement”, implicit in the Industrial Relations Code, was considered sufficient.

These are some examples of EU harmonisation. Indeed, fifty-six new legal documents or laws have now been implemented (Samuel (2002)). The production of these entailed extensive discussions with the social partners and the creation of new tripartite bodies.

### **Labour market trends**

In this section, demographic trends, labour force participation and its constituent parts (employment and unemployment) are reviewed in turn.

#### **Labour force participation**

The labour force is defined by the working-age population (individuals aged between 15 and 65). Figures for the population, working age population, and the gainfully employed by age and sex are not totally consistent in official sources. The estimates below use official sources consistently but assume that the ratio of the population between 15 and 65 to the total (known by year) is the same for men and women.

#### **Demographic trends**

The total and working-age population has been increasing in Cyprus. At the end of 1995, the total population was about 656,300 and it increased to about 687,500 by the end of 2000. The working-age population increased from about 422,000 at the end of 1995 to 463,100 at the end of 2000. The annual rate of growth of the total population decreased from 1.52% in 1996 to 1.15% in 2001 while that of the working-age population decreased from 2% in 1996 to 1.62% in 2001. The gender composition of these populations favours women by the usual narrow margin. The age composition of the working age population has shifted in favour of those aged 25-54 and away from those under and over this age bracket.

#### **Labour force participation by gender**

The labour force participation rate (the labour force divided by the working age population) decreased from 71.2% in 1995 to 70.1% in 2000. This decrease is due to the large decline in the participation rate for men (which fell from 89.2% in 1995 to 85.3% in 2000) and the smaller increase in the participation rate for women (which increased from 54.1% to 55.4% over the same period). The decrease and increase in the participation rates for men and women, respectively, have continued in recent years.

#### **Labour force participation by age**

During the 1990s (Christofides *et al*, 2000, pp. 45-46), the labour force participation rate of the 15-24 year old group declined significantly for both men and women. This may be due to a greater tendency to continue in education. Men in the age group 55-64 show increasing labour force participation, whereas this is less true of women.

## **Employment**

### **Structural and sectoral changes in employment**

The economy of Cyprus has changed substantially since 1960. At that time, the primary sector was quite large, employing about 45% of the economically active population and being responsible for about 25% of GDP. By 2000, the primary sector had shrunk substantially, its share of employment and GDP being about 10% and 4.5% respectively. Conversely, the share of the tertiary sector (mostly tourism) in employment and GDP has been increasing from 31% and 52% respectively in 1961 to 67% and 74%, respectively, by 2000. The manufacturing sector (chemicals, clothing, food, furniture, metals, printing, etc.) grew strongly with independence in 1960. Its share of employment grew until the early 1990s. Its share of GDP was approximately 20% in 1980. However, the lowering of tariff protection and the emergence of low-cost countries took its toll; manufacturing now accounts for approximately 10% of GDP. The construction sector has supported these changes and has benefited from them. Data on the occupational structure of employment are in line with these sectoral changes.

The share of employment in the broad public sector (government and semi-government organisations and local authorities) increased by about one percentage point to approximately 17% during the 1990s.

### **Hours of work per week, fullpart-time work**

Normal hours of work per week (see Labour Statistics, Department of Statistics and Research, various years) have declined from 39.7 in 1990 to 38.6 in 1997. This is due to a legislated reduction in working time for workers (e.g. for sales workers) or to collective agreements in almost all sectors of the economy. The National Action Plan (NAP) for 2003 reports results from the 2002 LFS which show that: (i) in the case of full-time work, men worked longer hours than women, while the opposite is true for part-timers, and (ii) the average hours actually worked per week were 38.3, with 39.7 hours for full-time workers and 20.0 hours for part-time workers.

Part-time employment in Cyprus is not widespread. Based on information about part-time workers drawn from the 1996/97 Family Expenditure Survey (Christofides *et al* 2000, p. 47), only 5.1% of employees were working part-time. The percentage of part-time workers is reported in the 2003 NAP to be 8.4 for 2001 and 7.2 for 2002.

### **Employment by gender**

Over the last two decades to 2000, the percentage of women in the employed population increased by about two percentage points to approximately 39.6%. The LFS data for 2002 show the overall share for women to be 43.9%, with the heaviest concentration of women in the category “Clerks, Typists and Salespersons” (74.7%) and the lowest in “Production Technicians” (5.3%).

### **Regional distribution of employment**

The best information on the regional distribution of employment is drawn from the 1995 Census. The majority of the employed population works in the district of Lefkosia. Its large share of employment (42.7%) reflects the fact that this is the most populous district in the island. The district of Lemesos has the next highest share (27.6%), followed by the districts of Larnaka (15%), Pafos (8.8%) and Ammochostos (5.9%).

### Employment of foreign workers

Legislation permitting the use of foreign workers was put into effect in 1991 in order to alleviate shortages of unskilled labour. Their number has grown and, if the estimated number of the illegal foreign workers (30,000) is also taken into account, their ratio to the gainfully employed exceeds 22%. Most foreign workers are employed by offering domestic help. Hotels, restaurants, wholesale and retail trade, agriculture and construction also employ a large number of foreign workers.

### Unemployment

#### General trends in unemployment

For Cyprus, unemployment is not currently a major concern. At 3% in 2001, the unemployment rate was considerably lower than the 2001 EU-15 average (7.4%). Table 2 summarises the European Employment Strategy (EES) employment targets and the performance of Cyprus. Cyprus has performed better than the EU-15 for all targets and has already achieved the 2005 Stockholm targets. The 2003 NAP indicates that, in 2001, the long-term unemployment rate was 0.9% (compared to 3.3% for the EU-15) and the unemployment rate for the young was 8.4% (compared to 14.9% for the EU-15). The figures for 2002 were, at 0.7% and 7.7%, better still.

The average length of unemployment is two weeks to three months and less than one third of the unemployed remain so for more than six months. During the first ten months of 2003 (Ministry of Labour and Social Insurance, 2003), the long-term unemployed were 7% of the unemployed; 80% of the unemployed found work within six months. More women than men are long-term unemployed. Noteworthy trends are the decrease in the share in unemployment of new entrants and the increase in the share in unemployment of workers in the tertiary sector.

#### Unemployment by age and gender

Table 3 provides the unemployment trends (1980-1997) by age and gender. A gradual increase in the unemployment rates is evident. This is not the case for the youngest group of individuals under 20 but it holds for men and women over 40. Until the age of 60, unemployment tends to be higher among women than men. Above 60, the picture is reversed and the unemployment rate is higher for men than women. Also noteworthy is the large increase in unemployment among women over 50 in the most recent years.

In the first ten months of 2003, the unemployment rate for men was 2.7% and that for women 4.5%. This recent experience is consistent with the trends above for the age distribution of unemployment. The unemployment rates for those aged 50-59 and 60-64 were 4.1% and 8.2% respectively.

**Table 2:** Employment Targets (2002), Cyprus and the EES

	Cyprus 2001; 2002	EU-15 2001	EES	Target
Employment Rate (15-64 years of age)	67.9; 68.5	63.9	67%	By 2005 (Stockholm)
			70%	By 2010 (Lisbon)
Employment Rate (55-64 years of age)	49.1; 49.2	38.5	50%	By 2010 (Stockholm)
Female Employment Rate (55-64 years of age)	57.1; 59.0	54.9	57%	By 2005 (Stockholm)
			60%	By 2010 (Lisbon)

Source: Cyprus National Action Plan, 2003

**Table 3:** Historical data on the unemployment rate by age and gender

Age group	1980	1987	1989	1991	1997
Under 20 Total	2.9	2.9	1.5	2.1	1.7
Men	1.5	0.9	0.3	0.5	0.5
Women	6.0	6.9	4.0	6.1	4.0
20-24 Total	3.8	5.5	3.2	3.6	4.1
Men	2.7	3.8	2.0	2.5	2.9
Women	5.4	7.9	4.9	4.6	5.7
25-29 Total	2.5	4.7	3.2	4.0	3.9
Men	2.3	3.6	2.2	2.6	3.3
Women	3.1	6.6	4.7	6.6	4.5
30-39 Total	1.2	3.0	2.0	2.8	2.9
Men	1.2	2.5	1.6	2.0	2.3
Women	1.3	3.8	2.7	4.0	3.9
40-49 Total	0.9	2.1	1.5	2.1	2.9
Men	0.8	1.7	1.1	1.4	2.1
Women	1.2	2.8	2.0	3.1	3.9
50-59 Total	1.3	2.9	2.2	2.9	4.1
Men	1.4	2.5	1.8	2.4	3.2
Women	1.3	3.6	2.8	3.8	6.1
60-64 Total	3.2	6.1	5.8	7.3	8.5
Men	4.0	6.8	6.0	7.7	7.8
Women	1.4	4.7	5.4	6.4	10.6
Over 65 Total	1.0	0.6	0.6	0.7	0.3
Men	1.3	0.6	0.5	0.8	0.3

Source: Christofides et al 2000

#### Unemployment by educational attainment

Over the period 1980-1997, the highest share of unemployment fell among men and women who have up to secondary education, followed by men and women who have up to elementary education. The latter may be lower because these individuals are likely to be self-employed farmers and salesmen. The third largest share of unemployment is among men and women with university education. The lowest share of unemployment is among men and women with technical secondary education. The share of unemployment among university graduates was particularly high (30.7%) in 1990 but it has since declined to well under 20%. By contrast, the share of those with elementary education has increased over time, both because they are more likely to be strongly represented among older workers but also because of the structural changes outlined earlier, which favour employment in services.

Data from the first ten months of 2003 indicate that these patterns continue in the sense that the lowest unemployment rate is found among those with technical secondary education followed by university graduates, while the high unemployment rate (30-40%) for university graduates aged 20-29 is alarming.

### *Unemployment by region and ethnicity*

During the first ten months of 2003, the lowest unemployment rate was in the tourism-dominated Pafos (2.5%) and the highest was in Larnaka/Ammochostos (3.8%). In the largest district of Nicosia, the unemployment rate was 3.3%.

Ethnic communities in Cyprus are small and no official information is available on their unemployment experience.

### *Unemployment registration versus Labour Force*

#### *Survey sampling*

Historically, unemployment data are based on registrations at unemployment offices and not the LFS. The first method results in lower figures because unemployed individuals do not necessarily register. Thus, for the years 2001 and 2002, the unemployment rates in Table 1 are 3% and 3.2% respectively, while those from the LFS, reported in the 2003 NAP for the same years, are 4% and 3.3% respectively.

#### *Wage rate developments*

Wages are fully protected against inflation through biannual, and essentially full, inflation adjustments. This is supported by trade unions as a non-negotiable employee right and criticised by employers as undermining flexibility and competitiveness. Indexation has made long-term (two to three year) collective bargaining agreements more palatable and the long duration of collective bargaining agreements has, in turn, reduced the cost of negotiations and contributed to the relatively good industrial relations climate prevailing in Cyprus.

The automatic protection of real wages against inflation has meant that negotiations revolve around productivity-based real wage growth. As shown in Table 1, real wage growth has exceeded productivity growth in recent years.

### *Labour market policies*

The European Employment Strategy (EES) stresses Full Employment, Quality and Productivity, Social Cohesion and Inclusiveness and, in light of the March 2000 Lisbon European Council's OMC, Governance with the Involvement of the Social Partners and Effective Implementation.

Measures responding to the 10 EES guidelines are presented in this section. Attention is then paid to passive measures and the issue of governance, while later sections examine the financial resources and administrative capacity for employment policies.

#### *Employability and Adaptability*

##### *Active labour market policies*

The three EES *guidelines* that relate to active policies (training, the promotion of adaptability and mobility, lifelong learning and active ageing) are discussed here. The main provider of training programmes is the Human Resources Development Agency

(HRDA), financed through a 0.5% levy on the payroll of all private enterprises and semi-public organisations. Its training activities can be divided into initial and continuing training activities. Initial training activities include: (i) enterprise and institution-based initial training, (ii) training courses for supervisors, (iii) training for unemployed university graduates, (iv) offering postgraduate management diplomas, and (v) providing apprenticeship programmes. Continuing training activities include: (i) in-company training programmes offered in Cyprus or abroad, and (ii) continuing training programmes at training institutions in Cyprus or abroad.

Other active labour market programmes are offered by the Department of Labour and Social Insurance. These include vocational guidance at various levels, the Scheme for the Self-employment of Tertiary Education Graduates, the Supported-Employment and Self-Employment Scheme for Persons with Disabilities, the Self-employment Scheme for Repatriates and the Scheme for the Encouragement of Labour Force Participation by Older Persons.

Training programmes are also offered by the Cyprus Productivity Centre, the Cyprus Academy of Public Administration, the State Institutes of Further Education and Adult Education, and the Evening Technical Schools.

#### *Measures to increase labour supply*

The measures responding to the fourth EES *guideline* "to increase labour supply" include:

- a new programme which encourages and subsidises self-employment among individuals over 63 years of age;
- a programme targeting women aged 18-55, aiming to encourage their self-employment and to encourage the adoption of new technologies in their areas of activity;
- a new law, put into effect in January 2003, aims to correct the low percentage of individuals in part-time work. The intent is to provide to part-time employees, on a pro-rata basis, the same benefits enjoyed by full-time employees, thereby enhancing the attractiveness of part-time work.

#### *Entrepreneurship*

This section addresses the EES *guidelines* that deal with job creation and entrepreneurship, making work pay, and transforming undeclared into regular work.

In Cyprus, most firms are small-to-medium sized and are run by their owners. The 2003 NAP reports the proportion of the self-employed (who work without employees) in total employment to equal 14.2%, higher for men (18.7%) than women (8.5%).

The taxation policy for companies is favourable<sup>2</sup> and, in the recent tax-revision package, there are means by which the large number of offshore companies would find it attractive to remain on the island<sup>3</sup>. Finally, the recent tax reform lowered the maximum marginal tax rate from 40% to 30% (now the lowest in the EU except for Denmark), raising the incentive to work and making work pay more in after-tax terms.

#### *Equal opportunities*

This section deals with the EES *guidelines* that refer to gender equality, integrating the marginalised into the labour market and dealing with regional disparities.

<sup>2</sup> The 2003 NAP states that the effective tax rate on company profits ranges between 19.45% and 23.5% and is the lowest in the EU.

<sup>3</sup> Until the recent tax reform, the profit tax for off-shore companies was 4.5% relative to something roughly four times as high for domestic companies.

Studies for many countries show a gap in the earnings of women relative to men, lower participation rates, higher unemployment rates, and a disproportionate concentration of female employment in low-paying jobs. These facts also hold for Cyprus. The 1989 Act for the Payment of Equal Pay to Men and Women Performing Work of Equal Value dealt with this issue. More recent measures provide for maternity and parental leave, affirmative action, employers having the burden of proof in cases involving discrimination based on gender, and attempts to eliminate sexual harassment in the workplace. Also important are attempts to improve child-care facilities.

Since January 1990, the Service for the Care and Rehabilitation of the Disabled operates within the Department of Labour, in the Ministry of Labour and Social Insurance. It aims to promote equal rights and opportunities for disabled persons and to facilitate their full participation in the economic and social life of the country.

### ***Passive labour market policies***

Unemployment insurance benefits are provided for a period that is long enough to encourage meaningful search and lasting job placement but not so long that it prolongs unemployment.<sup>4</sup> New schemes, detailed in the 2003 NAP, encourage the employment of older persons and reduce the dependence of some groups on welfare – the 2003 NAP notes that the number of individuals on social assistance increased from 6,276 in 1980 to 8,000 in 1990 and 15,386 by the end of 2001. The Social Insurance Scheme provides the following: Maternity allowance, sickness benefit, unemployment benefit, old-age pension, disability pension, widows' pension, orphans' benefit, missing persons' allowance<sup>5</sup>, marriage grant, maternity grant, funeral grant, and benefits for accidents at work (injury benefit, disability benefit and death benefit) and from occupational diseases. Employees are entitled to all these benefits. The self-employed are not entitled to the unemployment benefit or to benefits for accidents at work and occupational diseases. Voluntary contributors are not entitled to maternity allowance, sickness benefit, unemployment benefit, disability pension and benefits for employment accidents for accidents at work. In addition to the above cash benefits, the Scheme provides free medical treatment to victims of employment accidents and occupational diseases, and to persons on disability pensions.

### ***Governance and the social partners***

The 1962 Social Contract between the government, employers and unions set the stage for a tripartite approach that has remained. The 1977 Industrial Relations Code replaced the Social Contract but retained tripartite interaction. Recent changes to the law during the harmonisation process ensure that the tripartite underpinnings in the EES and the OMC are already in place.

### ***Financial resources and administrative capacity for labour market policy***

The 2003 NAP indicates that, in 2002, the HRDA offered 162 programmes of initial training costing 789,000 CYP (1,349,190 euro) and 3074 continuing education programmes costing 3,042,000 CYP (5,201,820 euro). However, the many other ALMPS mentioned above have not been costed.

The civil service needs radical reform since some sections are understaffed, computerisation has not gone far enough, and facilities are sometimes inadequate. EU harmonisation has only been possible because of superhuman efforts by dedicated civil servants. At the same time, some government departments are relatively well off. New lines of organisation and decision-making are needed, human resources should be re-deployed, and regulations should be reconsidered with a view to reducing bureaucracy and facilitating decision making.

## ***Outlook***

### ***Future labour market projections***

The Planning Bureau official projections for 2004 are positive. The unemployment rate is expected to fall from 3.5% in 2003 to 3.4% and productivity growth is expected to more than double from 1.5% in 2003 to 3.4%. The inflation rate is expected to fall from 4.6% in 2003 to 1.8%. Unit labour costs are expected to rise at 2%, half their 2003 growth rate of 4.1%. Other macroeconomic projections, including the budget deficit, are also very positive.

However, these projections are uncertain and may be too optimistic. Unit labour costs will be a critical indicator for they will reflect the outcome of negotiations in a large number of collective agreements. Unions have signalled their resolve to seek gains in real wages and employers are concerned about continuing real wage increases that exceed productivity growth. A difficult industrial relations climate is anticipated for 2004.

### ***Impact of accession***

Wage negotiations will depend on how well the government, through the tripartite process, manages to deflate expectations. It also has a broader role. Accession will affect some groups adversely. Recent work stoppages suggest that some groups will seek government support. The signals the government gives will be critical not only in the particular cases concerned but also to the wage bargaining process more generally.

More important than the accession process itself would be a possible resolution of the political problem. This would entail the reunification of the labour and other markets. If this scenario is realised, the projections above are unlikely to hold.

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<sup>4</sup> Unemployment Insurance is the main passive instrument for the support of the unemployed. The duration of the benefit is 156 working days in the same unemployment spell. The unemployment benefit includes a basic benefit and a complementary benefit. The weekly basic benefit is equal to 60% of the average of weekly insured earnings in the year prior to unemployment and increases to 80% for entitled persons with one dependent, to 90% for two dependants, and to 100% for three, or more, dependants. It is not possible for an unemployed person to receive benefits after the entitlement period (i.e. after 156 days) unless she/he starts working again and completes at least 26 weeks in employment during which contributions to the Social Insurance Fund are made.

<sup>5</sup> This is an allowance paid to the families of missing persons (about 1600 persons) since the 1974 invasion of Northern Cyprus.



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# Estonia

## Introduction

Estonia has established a functioning market economy and stable market institutions. Its economy is based on a currency board system, fiscal balance and liberal foreign trade. Estonia is one of the most liberal economies in the world.<sup>1</sup> There is free movement of capital and there were no barriers to trade until last year when Estonia introduced tariffs on agricultural products from third countries due to EU accession. These conditions have been conducive to rapid economic development.

The Estonian economy has shown strong growth in the last couple of years (GDP growth was on average 5.24% in the last five years – see Table 1). However, Estonian GDP per capita is substantially lower than the EU average, reaching 42% of the EU average in Purchasing Power Standard (PPS). Economic growth is based mainly on export and foreign direct investments.

Transformation from a planned to a market economy is reflected in the rapid privatisation programme and structural changes in the economy. While in 1993 the share of the tertiary sector was 57% of GDP, in 2001 this figure increased to 66%. The share of the primary sector has declined from 11% to 6% (Statistical Office of Estonia) and the structure of economy analysed by firm size, indicates also a significant shift towards a market economy. In 2001 nearly 96% of

Estonian companies were micro and small size companies with less than 50 workers. The same group of enterprises gave work to 49% of people employed in the entrepreneurial sector (Ministry of Economic Affairs and Communications).

The inflow of foreign direct investments (FDI) suggests confidence with the Estonian transition process by foreign investors. In 2001 FDI into Estonia reached 597.8 million euro in total or 438 euro per capita. Foreign investments originate mainly in EU countries, especially Finland and Sweden. (Ministry of Finance 2003)

Growth of the Consumer Price Index (CPI) has dropped from post-Soviet 1076% in 1992 to 3.6% in 2002, almost reaching the price stability criteria set in the Maastricht Treaty. In the near future a slight increase of inflation is expected, mainly due to the convergence process with the EU price levels. (*Ibid*, 2003)

## Labour market trends<sup>2</sup>

### Demographic trends and impact on labour supply<sup>3</sup>

While in 2002 Estonia had a population of 1,336,959 persons, projections show that it will decrease to 1.2 million by 2030 and to around 1 million by 2060. In those same periods, shares of the

**Table 1: Main economic indicators**

	1997	1998	1999	2000	2001	2002
GDP per head in PPS, % of the EU average*	38.0	39.0	38.0	40.0	42.0	–
GDP yearly growth	9.8	4.6	-0.6	7.3	6.5	6.0
Consumer price index (change over previous year, %)	11.2	8.2	3.3	4.0	5.8	3.6
Current account balance (% of GDP)**	-12.1	-9.2	-4.7	-6.0	-6.1	-12.5
Foreign direct investments inflow (% of GDP)	25.7	33.2	49.8	51.0	57.9	–

\* Source: Eurostat, *Statistics in focus, Economy and Finance, Theme 2-59/2002*

\*\* Source: Bank of Estonia

Source: Statistical Office of Estonia

<sup>1</sup> In the index of Economic Freedom, composed by the Wall Street Journal and The Heritage Foundation, it was fourth

<sup>2</sup> The data used in the article comes from the statistical database of the Statistical Office of Estonia, available at <[http://www.stat.ee/index.aw?set\\_lang\\_id=2](http://www.stat.ee/index.aw?set_lang_id=2)>

<sup>3</sup> Projections by PRAXIS Centre for Policy Studies, 2003

**Table 2: Key labour market indicators, population 15-64**

	1992	1995	1996	1997	1998	1999	2000	2001	2002
<b>Labour force participation rate</b>									
Total	75.1	72.6	72.2	72.3	71.7	70.3	70.4	70.1	69.0
Men	82.5	79.2	78.2	78.5	77.4	76.0	76.1	75.2	74.1
Women	68.2	66.5	66.7	66.7	66.5	65.2	65.3	65.4	64.3
<b>Employment rate</b>									
Total	72.3	65.5	64.9	65.2	64.5	61.6	60.7	61.1	61.7
Men	79.3	70.9	69.8	70.4	68.9	65.6	64.8	65.2	66.0
Women	65.8	60.6	60.5	60.5	60.5	57.9	57.0	57.3	57.8
<b>Unemployment rate</b>									
Total	3.7	9.7	10.0	9.8	10.0	12.4	13.8	12.8	10.5
Men	3.9	10.5	10.7	10.3	11.0	13.7	14.9	13.2	11.0
Women	3.6	8.9	9.3	9.3	8.9	11.1	12.8	12.3	10.1

Source: Statistical Office of Estonia, LFS data

working age population (15-64) will decrease 5 percentage points by 2030 and 13 percentage points by 2060. Coupled with a rapidly ageing population, the result is a decreasing labour force and lower number of employed after 2020, even if the participation and employment rates are converging with the levels of the best performing EU countries.

### ***Labour force participation and employment***

Economic transition has led to the profound changes in the labour market in Estonia. As in most of the Central and Eastern European countries (CEEs) participation and employment rates have decreased and unemployment has risen substantially (see Table 2). In the last decade, Estonia's labour force has decreased by 139,000 people as a result of negative net migration and a rise in inactivity.

In 2002 labour force participation rate (15-64) was 69% (75.1% in 1992), which is comparable with the same indicator in the EU (69.2% in 2001). Participation of women was almost 10 percentage points lower in 2002 than male participation (74.1% and 64.3% respectively). By age group, participation rates are low among the young (15-24) and older (60+) age groups. Since 1995 the participation rate of the age groups 15-54 has dropped, while the participation rates of the two older workers groups have increased (by 10.6 percentage points for those aged 55-59 years and by 14.6 percentage points for those aged 60-64 years). Increased participation of older workers can be explained by two factors:

- Rising retirement age: the retirement age rose from 61 in 1995 to 63 for men and from 56 to 58.5 for women. The aim of the government is to set the retirement age gradually for both sexes up to 63 years.
- Since 1996 working pensioners can collect a full pension while working.

Development of employment rates follows the same pattern as the development of participation rates. The number of employed persons has dropped by 180,000 persons approximately during the last decade. The Employment rate (15-64) has decreased by 10.6 percentage points and is currently 61.7%. This is 2.3 percentage points lower than EU average (64.0% in 2001) and 8.3 percentage points below the Lisbon target for 2010 (see Figure 1). In order to reach the Lisbon target for employment 70,000 additional jobs

must be created by 2010 (the number of employed should increase by 11%), which seems to be rather unrealistic.

By analysing employment rates by gender, it is evident that during the last decade male employment rates have decreased, more than that of women. However, the difference in employment rates between males and females was 8.2 percentage points in favour of men in 2002 (66.0% and 57.8%). The male employment rate in 2001 was more than 7 percentage points lower than the EU average, while the female employment rate was two percentage points higher (see Figure 1).

The employment rate of older workers (55-64) increased during 2000-2002. It was 51.4% in 2002 and now exceeds the Lisbon target for older workers (see Figure 1). The employment rate for women has increased more compared to male employment rates (the difference between 2001 and 2002 was 7.3 and 3.6 percentage points respectively). As mentioned above, changes in retirement legislation could be one explanation for that trend.

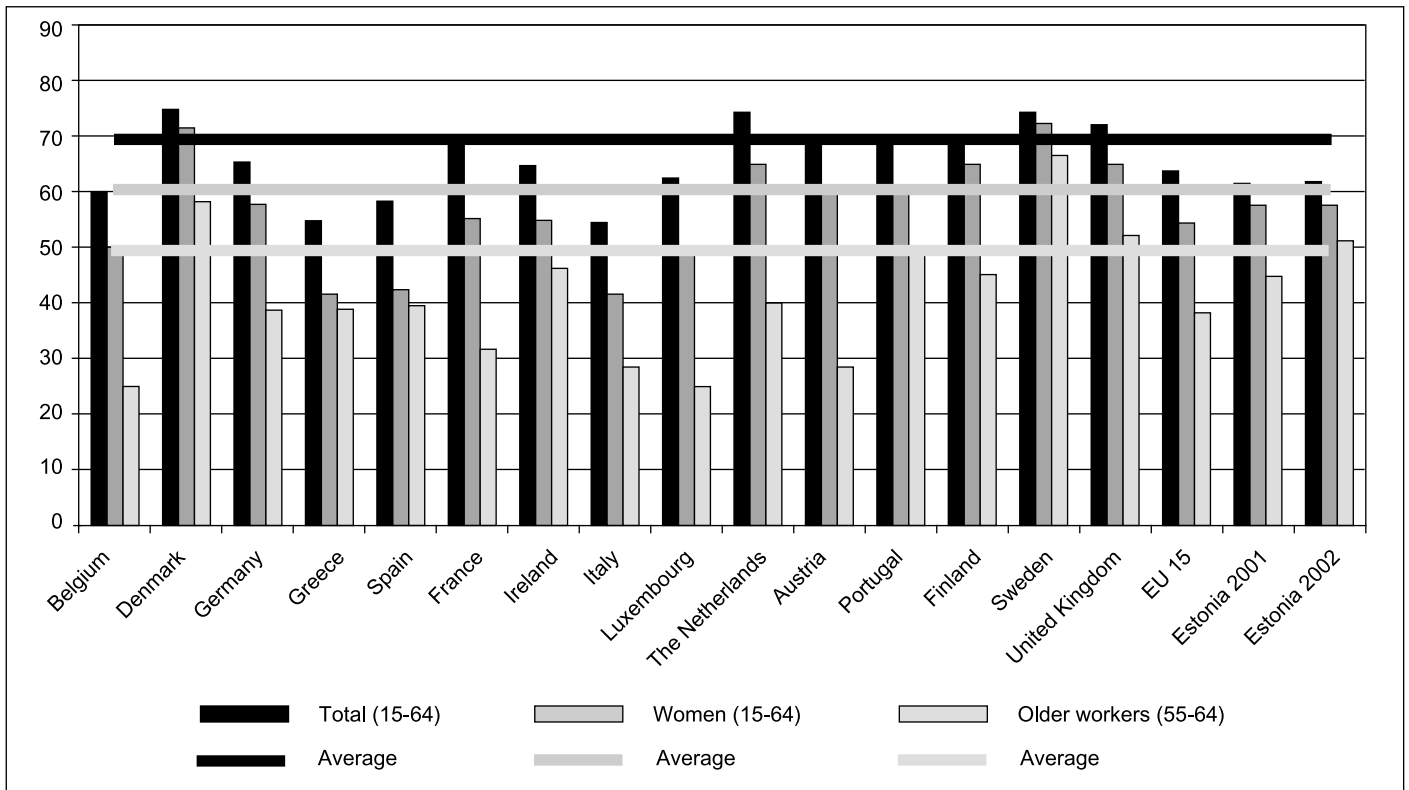
### ***Structural changes in employment***

Employment shifts by sectors have been very rapid in Estonia during the past decade. In 1992, 18.1% of total employment was in the primary sector, 37.6% was in the secondary sector and 46.3% in the tertiary sector. In 2002 this changed to 6.9% in the primary sector, 31.5% in the secondary sector and 61.6% in the tertiary sector. Due to these sectoral shifts, unemployment has increased more in former agricultural and industrial regions, where job creation has been sluggish. Currently the distribution of employment over different sectors is relatively similar to the EU average, although employment in agriculture and industry is slightly higher in Estonia.

### ***Full-time and part-time employment***

The share of employees<sup>4</sup> working part-time has been relatively low in Estonia throughout the last decade, reaching 8.3% of the employed in 2003. Part-time employment is more prevalent among women (12%) than men (5%). This can probably be explained by the fact that women undertake the care responsibilities for children and other family members. Younger (15-24) and older (50-74) workers tend to work more part-time compared to the group aged 25 to 49.

<sup>4</sup> Usual working time per week in main job less than 35 hours, except the cases provided by law

**Figure 1: Progress towards Lisbon and Stockholm employment targets in EU Member States and Estonia**

Source: Eurostat, Statistical Office of Estonia

Among those employed part-time, 2% are underemployed<sup>5</sup>, indicating that there are some demand-side factors hindering full-time employment. Categorising reasons for part-time employment, reasons by the employer and inability to find full-time jobs are the main causes (33.2% and 21.1%). Others are unwillingness to work full-time (28.3%), personal or family reasons (8.5%) and studies (9%).

### Unemployment

Unemployment rose to 10% in Estonia by 1995 and remained relatively stable throughout 1995-1998 (see Table 1). As a result of the Russian crises, it started to rise in 1999 and reached a peak of 13.8% in 2000. Thereafter unemployment has declined steadily and reached the level of 10.5% in 2002. Half of the unemployed are long-term unemployed (longer than 12 months).

Unemployment in Estonia has been traditionally higher for men than for women. One explanation for this is that women tend to move into inactivity rather than into unemployment, while men become unemployed.

Unemployment is highest among young people aged 15-24, while young women are most affected. Unemployment rate among young women (15-24) was 23% in 2002 compared to 14% among men. Unemployment is also high in the age group 25-54, reaching 10% and lowest among the older age group 55-64 (7.5%), where a large share of workers have retired and moved into inactivity. As in most other countries, older workers (55+) are mostly threatened by long-term unemployment, while youth unemployment is mainly short term.

Regional disparities in unemployment are high in Estonia. Unemployment is highest in the former industrial north-eastern part of Estonia, and former agricultural area in the south (Jõgeva

and Põlva counties). The difference between the lowest and highest unemployment rates is more than 10%, with 18.9% in north-eastern Estonia and 8.6% in Harju county. The last region is most developed and includes the capital city of Tallinn, where one third of the population lives and where most jobs are created. The difference in income between the regions is also high. Only the capital region, for example, has an average wage higher than that of the Estonian national average.

### Educational attainment

Thirty per cent of the working age population (25-64) have tertiary education in Estonia. Participation in the labour market and employment is much higher among those that have achieved that level or have upper secondary education, while unemployment is much higher among people below upper secondary education. This conclusion is also supported by the several studies analysing the relationship between personal characteristics and labour market status in Estonia (see for example Rõõm, 2002; Philips, 2002; Eamets, 2001, Leetmaa *et al.*, 2003).

### Key developments in wage rates

Wage rates in Estonia have constantly increased, both in nominal and real terms. Since 1996 the real annual growth rate has been 5-6%. Growth outpaces European average wage growth, thus in the longer term there is expected to be convergence (see Boeri *et al.* 2001) with the EU wage level. The wage rates in different economic sectors differ significantly. The highest wages are in financial intermediation and in public administration, the lowest in agriculture, hunting, and hotels and catering.

The minimum wage in Estonia was 30.1% of the average wage in 2002. According to the Statistical Office of Estonia, 11% of workers

<sup>5</sup> Willing to work additional hours and currently available for work

receive the minimum wage. In August 2001, the social partners agreed to gradually raise the level of the minimum wage up to 41% on the average gross wages by 2008.

## Labour market policies

### Active labour market policies

Active labour market policies are defined in Estonia in the Employment Service Act and termed as employment services. The act defines the following employment services (Employment Service Acts, RT I, 1994, 81, 1381):

- Information, vocational guidance and job mediation;
- Labour market training;
- Employment subsidies to the unemployed to start a business (business start-up grant);
- Employment subsidies to the employer to employ less competitive persons (wage subsidy);
- Community placement (public works).

Unemployed participating in active labour policies are registered as unemployed with the public employment service. New laws on employment services have recently changed, allowing more long-term unemployed to participate in active labour market programmes. However, conditions for claiming unemployment benefit remain more strict.

In general, public expenditure on labour market policies, measured as a percentage of GDP, has been very low in Estonia, ranging from 0.19% to 0.33% of GDP. Most of the resources are dedicated to unemployment benefits: in 2001 73.2% of expenditure on labour market policies was spent on passive income support, while active labour market policies (ALMPs) received only 26.8%. Expenditure on active labour market policies in Estonia accounts for only 0.08% of GDP, which is more than ten times less than the EU average (0.92-2001), and the lowest among acceding countries.

The number of participants in ALMPs dropped during the period 1995-2002 (see Table 2). This has been mainly due to a decline in the number of people participating in community placement. The

number of unemployed participating in training programmes has slightly increased in the past two years. The share of unemployed participating in ALMPs varies from 10.2% to 22.9%, depending on definition of the unemployed.

Out of the active labour market measures, **labour market training** is the most important, both in terms of expenditure and in terms of participants. Training may take the form of vocational training or more general training aimed at providing information on the labour market situation, and psychological preparation for competing in the labour market. The duration of the courses is limited to a maximum of six months. In 2001 the average duration of the training course was 25 days. Participants in training receive a retraining allowance equal to 1.5 times unemployment benefit.

The **business start-up grant** is the second largest measure in terms of expenditure. However, only a small number of unemployed (between 380 and 460 annually since 1995) have participated in the programme. To qualify for start-up subsidy the unemployed person must be at least 18 years of age and have undergone relevant training or demonstrate "sufficient" experience. The upper ceiling of the subsidy amounts to 10,000 EEK (since the beginning of 1998), which is around 640 euro.

**Wage subsidy to the employer** for recruiting less competitive persons has been the least important active measure both in terms of expenditure and participants (only between 120 and 350 unemployed annually since 1995). Persons qualifying as less competitive are disabled persons, pregnant women and women who are raising children under six years of age, young people aged 16-24, persons who will be retiring within five years and persons who have been released from prison. The level of the wage subsidy is 100% of the minimum wage during the first six months and 50% of the minimum wage during the next six months of his/her employment period.

Until 2001 **community placements** were the second largest active labour market measure in terms of participants. Community placements are temporary low paid jobs, which do not require any specific skills. From 2001 onwards, the central government decided to no longer finance the community placements from the state budget, giving as a reason that it would cause fiscal displacement<sup>6</sup>.

**Table 2:** Participants in active labour market policies in Estonia

Programme	1995	1996	1997	1998	1999	2000	2001	2002
Labour market training	9809	9454	8241	7956	7095	8156	10233	10021
Wage subsidy	121	246	216	136	265	189	332	215
Business start-up grant	459	456	434	380	433	441	425	374
Community placements	5741	4089	4661	3771	3667	4177	125	453
Total	16130	14228	13552	12243	11366	12929	11134	10806
% of unemployed who were registered in PES during the year	20.9	15.2	15.8	15.0	10.8	10.7	8.1	10.2
% registered unemployed*	46.2	37.6	39.8	38.3	26.1	28.0	20.5	22.9
% of unemployed according to LFS**	23.9	21.0	20.6	18.6	14.3	14.5	13.6	16.5

\* Registered unemployed in PES (up to 1.10.2000 unemployed job seekers), annual average

\*\* Unemployed aged 15-64, in 2002 age group 15-69

Source: National Labour Market Board, Statistical Office of Estonia, authors calculations

The task to organise and finance the community placements was given to the local municipalities, but without relocating additional resources. The result is a declining interest in organising placement programmes, while the number of participants has declined considerably. While in 2000, 4177 persons participated in the programme, in 2001 this was only 125 and in 2002 was 453.

The National Labour Market Board is responsible for administering the employment services through a network of 16 public employment services (PES). However, the administrative capacity of the PES is somewhat questionable. The average PES is understaffed (with an average ratio of 220 unemployed per employee and 319 unemployed per consultant) and those employed with the PES are among the lowest paid in Estonia's public sector. (Ministry of Finance, 2002). As EU structural assistance will increase the attention given to ALMPs, this could become even more of a problem (Ministry of Finance, 2003).

The effectiveness of active labour market policies in Estonia was evaluated by Leetmaa *et al* in 2003. The study analysed the effectiveness of labour market training and business start-up grants using the micro-level datasets containing both administrative records and data from a retrospective survey conducted in 2002 and covering the period 2000-2002. The results suggest that participation in ALMPs increase the probability of future employment. One year after completing the training, participants are approximately 7% more likely to be employed compared to non-participants and in two years this percentage increases up to 15%. However, the analysis shows that participation in active measures does not have an effect on future wages. (Leetmaa *et al*, 2003)

### *Passive labour market policies*

Until 2003 the main passive labour market policy measure in Estonia was flat-rate unemployment assistance benefit, which was launched in 1991 and is financed from the state budget. Since January 2003, the unemployed have also been entitled to unemployment insurance benefits. The Unemployment Insurance Act came into force in January 2002 and the payments out of the Insurance Fund started in 2003. This means that currently there are two complementary unemployment compensation systems, unemployment insurance and unemployment assistance. The last one is paid to those who fail to fulfil the insurance criteria (e.g. students) or when unemployment insurance benefits runs out.

**Unemployment insurance** operates as a compulsory insurance. According to the Unemployment Insurance Act (Unemployment Insurance Act, RT I 2001, 59, 359) the contribution rate for the employee is 0.5-2.0% of the wages and the rate for the employer is 0.25-1% from the total wage bill paid out to all employees. The levels of the contribution rates are decided annually. Self-employed persons are not covered by the unemployment insurance scheme.

Someone can only receive unemployment insurance benefit when he or she has made contributions for at least 12 months during the previous 24 months. Unemployment insurance benefits are not paid to those who leave their job or service voluntarily or who lose their job because they do not perform as agreed, lose confidence in their employers or behave in an indecent manner. These persons still receive unemployment assistance benefits.

The duration of the unemployment insurance benefit ranges from 180 days up to 360 days, depending on the length of contribution payments. During the first five years of the system, the insurance

benefits are paid up to 180 days, since the contribution period cannot exceed the necessary five years. After expiry of the insurance benefit, the unemployed can apply for assistance benefits for the remaining 90 days and for social assistance thereafter. Insurance benefit covers 50% of the average daily income and assistance benefits covers 40% thereafter.

According to recent statistics of the Unemployment Insurance Fund, only 17% of the newly-registered unemployed are eligible for insurance benefits. On the basis of these figures, a discussion has begun on the question of whether the eligibility criteria should be changed or whether contribution rates should be lowered.

In order to get flat-rate **unemployment assistance**, persons have to be registered as unemployed in the public employment service and have been employed for six months during the previous year. Unemployment assistance is paid up to 270 calendar days in the amount of 400 EEK<sup>7</sup> (26 euro) per month.

According to the statistics of the National Labour Market Board in 2002, an average 49% of the registered unemployed receive unemployment assistance benefits. The assistance benefit relative to average net wage has been constantly low and the real value of the benefit in 2002 was only 44% of its original value in 2001 (Kuddo *et al*, 2002). While in 1992 the assistance benefit relative to average net wage was 33% in Estonia, it has decreased to 6% in 2002.

Since the level of unemployment assistance is very low in Estonia, the unemployed are often entitled to **subsistence benefits** at the same time. Subsistence benefits are means-tested and depend on the income of all family members living in the same household. Persons whose income after payment for housing expenses is below the subsistence level are entitled to these benefits. Currently the subsistence level is 500 EEK (32 euro) for the first member of the household and 400 EEK for each following one. (Kuddo, *et al* 2002). The subsistence level has been unchanged since 1997.

Taking into account the subsistence benefits and family benefits, the total benefits relative to average net wages<sup>8</sup> for different family types in 2000 were 33% for a single person<sup>9</sup>, 27% for a couple, 39% for a couple with two children and 48% for a single parent with one child. These numbers do not decrease over time. When calculating them relative to minimum wage instead of to average net wages, it turns out that these are 100% for the single parent with one child and 85% for the couple with two children. This shows that the incentive to take up a minimum wage job is low for these family types. (Kuddo *et al*, 2002)

There is no **early retirement** option in the framework of labour market policies in Estonia. However, in the framework of the state pension insurance system, there is a possibility to take early retirement, which can also be classified as a passive labour market policy measure. The option of retiring three years before statutory retirement age has been available since 2001. If a person retires early, pension payments are reduced by 0.4% for each month between the actual date of retirement and statutory retirement date. In 2002 2.1% of all pensioners were receiving early retirement pensions. Around 80% of people who retired early were previously unemployed or inactive. (Kallaste, *et al* 2003)

### *Social dialogue and worker involvement*

Social dialogue in Estonia is poorly developed, as in many other Central and Eastern European countries. It exists in a virtual way on the national level and is missing on any other levels. Trade union

<sup>7</sup> 1 euro=15.6 EEK

<sup>8</sup> Relative to 66.7% of the average wage of the production worker

<sup>9</sup> The ratio of the unemployment benefit relative to the 66.7% of the wage of the average production worker was 16%

membership is small, around 14%-17% (2002) of employment, depending on the data source used<sup>10</sup> and is declining (almost 100% in the end of the 1980s, 21% in 1996). Union membership is higher in the public sector and among non-Estonians. The low level of membership is accompanied by a low level of collective agreements coverage for which there is no adequate estimate. The available estimates range from 18-24% depending again on the data source used. Union membership and collective agreement coverage is low in Estonia compared to EU and Central and Eastern European countries, and the bargaining power of the trade unions is weak.

## Outlook

With 12 years of independence, Estonia has established quite a strong macroeconomic framework. As a result of solid economic growth, the labour market situation has improved: unemployment decreased during the past three quarters of 2003 and employment has increased. However, reducing unemployment, especially youth and long-term unemployment and increasing employment remain the main challenges for Estonia. Regarding the EU employment targets, Estonia needs to make considerable progress to reach the employment rate of 70% by 2010 (an increase of 8.3 percentage points). However, the employment rate for older workers in Estonia exceeds the EU target level for 2010 and the female employment rate is only slightly below the target level.

As a result of accession to the EU, labour market issues are likely to gain more importance on the national level. Investing in human resources and addressing skill gaps, developing employment friendly tax and benefit systems and promoting active labour market policies are key issues to be tackled. The same goes for enhancing the administrative capacity of the PES, promoting job creation and strengthening the role of social partners. The ability to use the EU financial support in accordance with the priorities of employment policy is an important challenge for Estonia.

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<sup>10</sup> There is no reliable estimate on membership available. The lower estimate comes from Labour Force Surveys and higher estimate is from unions' central organisations. The true indicator of membership is probably between these two.

# Hungary

## Introduction

During the 1990s Hungary successfully passed through the most painful period of its economic transformation and today has developed into a vigorous market economy. Average GDP growth has been 4.25% annually since 1997, steadily exceeding the EU average. This excellent performance of the economy was mainly due to the dynamism of the export-oriented manufacturing sector which is dominated by foreign-owned companies. In its 2003 Regular Report, the Commission concluded that Hungary “*is a functioning market economy and the continuation of its current reform path should enable it to cope with competitive pressure and market forces of the Union*”<sup>1</sup>.

## Recent macro-economic tendencies

In 2001, the favourable position of the economy somewhat deteriorated. The export-driven growth of the previous years was replaced by a development stimulated by internal demand. Strong fiscal expansion, such as the pre and post-election wage increase in the public sector and state financed infrastructural developments prevented the economy from slowing down but the cost was high: the overall macro-economic balance of the Hungarian economy has deteriorated. Hungary’s export growth has slowed considerably since 2001. Export growth was almost stagnated in the first part of

2003. Inflow of Foreign Direct Investment (FDI) decreased substantially in 2002 and again in the first six months of 2003. The labour market reflected these negative tendencies. The employment ratio which had been showing a steady increase from 1997 took a reverse direction. The economic and labour market performance of the most backward regions deteriorated to such an extent that regional differences have deepened further.

The recovery, which was expected for the second half of 2003, seems to have been delayed. According to the latest forecasts made by GKI Economic Research Co., and by the National Bank of Hungary<sup>2</sup>, the Hungarian economy probably reached the bottom of the slowdown in the summer of 2003 and growth was expected to slightly accelerate in the remaining part of 2003. This figure is the lowest since 1996 but is still higher than the EU average by more than 2 percentage points and more or less is equal to the performance of other Central European countries. The inflow of foreign direct investment will be substantially higher than last year, mainly due to higher privatisation revenues. Nevertheless, it will not suffice to cover the current account deficit. Consequently, the net indebtedness of the country will grow. Employment is increasing in trade, real estate and non-business service sectors, while it is decreasing in the business sector as a whole. The external balance will significantly deteriorate and the rate of inflation will rise. Real earnings will grow by approximately 10% this year.

**Table 1: Economic Indicators**

	2002 actual*	2003 January-September**	2003 forecast
1. Volume of GDP (%)	103.3	102.5	102.8
2. Industrial production (constant prices, %)	102.6	104.6	105
3. Investment in the national economy (constant prices, %)	105.8	100.6	103
4. Construction (constant prices, %)	120.1	98.2	100
5. Retail trade (without motor vehicles and oil)	108.6	108.4	108
6. Exports (current prices in euro, %)	107.4	99.3	101
7. Imports (current prices in euro)	106.4	104.5	105
8. Trade deficit (EUR, billion)	3.4	3.6	4.8
9. Current account deficit (EUR, billion)	2.8	3.5	4.5
10. Period average exchange rate of the euro (in HUF)	242.9	251.4	253
11. Deficit of the general government (HUF, billion)	1580	878.5	980
12. Index of average gross earnings	118.3	113.5	111.5
13. Consumer price index	105.3	104.5	104.6
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	104.9	105.2
15. Rate of unemployment (at the end of the period, %)	5.9	5.7	5.9

\*The baseline=100, refers to 2001

\*\* The baseline=100, refers to January-September 2002

Source: Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2003. <http://www.gki.hu/frame.php>

<sup>1</sup> CMR (2003) Comprehensive monitoring report on Hungary’s preparation for membership. Released on 5 November 2003. [http://europa.eu.int/comm/enlargement/report\\_2003/pdf/cmr\\_hu\\_final.pdf](http://europa.eu.int/comm/enlargement/report_2003/pdf/cmr_hu_final.pdf)

<sup>2</sup> GKI (2003): Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2003. <http://www.gki.hu/frame.php>; MNB (2003): Quarterly Report on Inflation. National Bank of Hungary, Budapest, November, 2003, 11, 25. <http://english.mnb.hu/modulei.asp?id=2&did=2346>

### Recent trends in the labour market

From the mid-Nineties until the second half of 2001, the performance of the Hungarian labour market was good. By the first quarter of 2001, the ILO unemployment rate fell to 5.6% which was the lowest figure for the last eight years and significantly less than the EU average (7.8%). Employment started to increase after 1997 for the first time in the decade since the transition.

After the second quarter of 2001, however, some unsettling new tendencies emerged. The employment ratio started to decrease while the unemployment and the inactivity ratio once again started to grow with a pronounced negative effect for backward regions. The declining performance of the labour market can be explained both by external and internal factors: a general slump in the world economy and the deteriorating competitiveness of the Hungarian economy.

Hungary's manufacturing export growth slowed down considerably following the downturn of the world economy. This obviously had a negative effect on employment which was aggravated by rapid wage inflation within the country.

The second half of this year brought about improvements in the economy. Output and investments in manufacturing industries and services started to grow, unit labour costs went down somewhat and the level of employment slightly increased while unemployment started to decrease. We can regard the developments on the labour market as a return to the longer term trend which was interrupted one and a half years ago.

### Employment policy and preparation for accession

According to the Commission's Comprehensive Monitoring Report on Hungary's preparation for EU membership (CMR)<sup>3</sup> "Hungary has reached a high level of alignment with the *acquis* in most policy areas". As far as employment policy is concerned, efforts are still needed to effectively implement priorities identified in the Joint Assessment of the Employment priorities. In particular, it is important to increase the employment rate, especially among older workers and women, the unskilled and the disadvantaged and to reduce regional imbalances. Acceding countries will present their first National Action Plans in October 2004.

Hungary's preparation for utilisation of the Structural Funds is advancing well in terms of necessary administrative structures – however, it argues that there is a need for stronger decision-making capacity in addition to increased inter-ministerial co-ordination. Furthermore, since September 2003, the EQUAL community initiative programme has been in place in Hungary, and aims to redress inequalities and discrimination in the labour market through developing, testing and disseminating innovative approaches and methods and through transnational co-operation.

## Characteristics of the Hungarian labour market

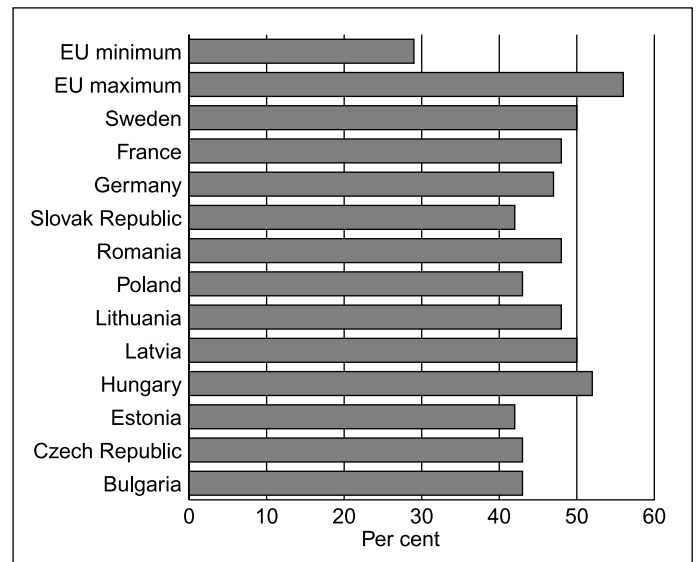
### Employment, unemployment, inactivity

*Labour market participation:* Despite all of the Government's efforts, the participation ratio has been declining since the late 90s. In 2002 the Hungarian participation rate was 59.8% which does not compare favourably with the figures for the OECD and EU nations. Among the determinants that cause the low participation rate, four strongly interrelated factors seem to be crucial: (a) weaknesses in labour demand for low-skilled/low-paid jobs, (b) generous social transfer systems in terms of their coverage, (c) the existence of

serious regional backwardness on the labour market, (d) the presence of a large-scale informal economy.

One of the important causes of low demand for the low-skilled/low-paid jobs and the large extension of the informal economy is the high tax wedge in Hungary. Despite a decrease in social security contribution rates since the early 90s, total taxes and contributions on labour remain the highest in Europe.

**Chart 1: The Hungarian tax wedge in international comparison**



**Note:** The tax wedge (for an average production worker) represents personal income tax plus employer's and employee's social contributions as a percentage of total labour cost (including employer's contribution).

Source: "Labour market and social policies in the Baltic States", OECD, 2003 data  
2000. Bulgaria, Romania: JAP

Demand for low skilled/low paid jobs was largely reduced by the large increases in the statutory minimum wage since 2000. While in 2000, 10% of business employment was at the minimum wage, this share had risen to 18% in 2002. The increase in labour costs hit small domestically owned firms and local labour markets in the less-developed regions especially hard. (Kertesi and Köllő 2003)

Social transfers also appear to dissuade people from taking up employment. The problem is that a large share of the working age population is covered by social benefits, which, unlike unemployment benefits, do not encourage people to return to the labour market.

The existence of a large informal economy tends to distort the figures. It is estimated that as much as 40% of employment is engaged in the informal sector. Unreliable figures and statistics make it difficult to develop well-targeted measures to switch them to the formal economy.

The low participation rate is influenced also by regional differences at the level of local labour markets. Alleviation of regional disparities was seriously hindered by obstacles of internal migration and commuting.

*Employment:* Unlike in most EU countries, prime age male population is also characterised by a relatively low employment rate. In 2002, 79.7% of men aged 25-54 were employed, contrasting with

<sup>3</sup> CMR (2003) Released on 5 November 2003. [http://europa.eu.int/comm/enlargement/report\\_2003/pdf/cmr\\_hu\\_final.pdf](http://europa.eu.int/comm/enlargement/report_2003/pdf/cmr_hu_final.pdf)



EU countries where the rate was 86.7%. Non-employed prime aged men are predominantly low-skilled and live in the economically depressed areas. The division by gender of the employed population has been stagnant for years: around 45% of the employed are women. The male employment rate exceeds the employment rates of women in all age groups. The average employment rate of prime working age (25-54) female population was 66.5% in 2002. The subsequent figure for EU Member States was 67.3% in the same year.

In the last decade the sectoral structure of employment has changed considerably. The number of employees in the private sector has stagnated while that in public administration has increased. The low employment rate reflects mismatches in the levels and structure of skills. The prime age population has one of the lowest percentages of tertiary education attainment in the OECD countries. Therefore, policies centred on education and training have to play a crucial role in improving the employability of all working age cohorts.

**Unemployment:** The unemployment rate reached its peak (12.5%) in 1993 and decreased continuously up to 2001. Recently, the decrease in the unemployment rate has been partly due to the shortening of the period of eligibility for unemployment benefit, and the narrowing of the group of people eligible for such a benefit; 44.9% of those unemployed searched for jobs for more than one year. The ratio of long-term unemployed has not changed over the last 12 months. The average length of job search was 16.3 months, almost the same as one year ago.

**Inactivity:** 43.8% of the 15-64 year old population was not present on the labour market in 2002. (EU = 35.7%) Besides skill and regional mismatches, an important reason for the high inactivity ratio is the relatively low retirement age. The dynamic expansion of secondary and tertiary education also contributed to the increase of inactivity.

### Major challenges on the labour market

Low employment and high inactivity rates are determined by two sets of interrelated factors, (a) extremely low employment probabilities of certain disadvantageous groups and (b) cumulative regional backwardness on the labour market.

### Disadvantaged groups on the labour market

**The Roma population:** The employment rate of the Roma, the biggest ethnic minority in Hungary, is roughly half, and their unemployment rate is three to five times higher. Family allowance and social benefits are the only source of living for many Roma families.

**Disadvantaged young persons:** The year-on-year employment rate of the 15-19 age group decreased from 7.7 to 5.4% in 2002, while the corresponding rate of the 20-24 age group fell from 51.1% to 49.3%. A large proportion of young people enter the labour market either without any skill or with a skill or qualification that does not match the requirement of the employers. This is particularly true for those socially disadvantaged young persons who either come from Roma families or from state child care institutions.

**Older workers:** Early retirement or retirement on disability pension used to be the most important way of escaping unemployment for older people. Conditions of retirement were gradually tightened in recent years, nevertheless, as a result of previous mass early retirement schemes; only a small minority (26.4%) of the over 55 population is on the labour market at present. (EU=43.2%). The Hungarian Joint Employment Report (JER) states that the increasing participation and employment of older people is crucial to the country's ability to finance pension and healthcare systems in the context of its fast ageing population.

The skill composition of the older people is very unfavourable, therefore training, re-training and well-targeted employment promotion are important tools to improve their position on the labour market.

**People with disabilities:** According to the latest survey conducted by the Central Statistical Office in 2002, less than 15% of the population with long-term health problems were present on the labour market. One of the main reasons of the low employment probability of disabled people is the inadequate availability of integrated education and the lack of disabled access to buildings.

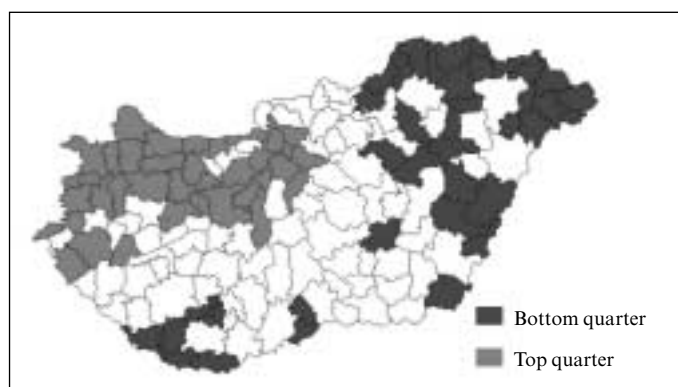
**People with low levels of qualification:** The participation rate of those with low levels of education is well below the EU average and the level of unemployment is the highest within this group.

### Regional disadvantages on the labour market

The decline in economic performance and employment during transition has been much more severe in disadvantaged rural regions of the east and south-west than in the more urbanised central and north-western territories. Due to the relatively high travel costs of commuting and the underdeveloped transport infrastructure, local labour markets are closed and fragmented. The size of local labour markets (LLMs) fits more into the category of "micro-regions".

Grouping micro-regions into quartiles according to employment rates gives a simple but clearly defined picture of winners and losers of transition at the level of LLMs. Social and economic indicators of the four quartiles indicate that employment rates are quite good proxies of the successes and failures of local economies and local societies. Map 1 shows the geographical distribution of winners and losers (top and bottom quartiles of micro-regions). One can see a clear east-west, core-periphery division before and after the transition. Regional employment rate differences are determined by the region's proximity to the capital and to western portals.

**Map 1:** Spatial distribution of micro-regions in the top and bottom quartiles of employment rates 2001



Source: IE-HAS Regional Data Base

On the supply side of the labour market, regional labour market differences could be alleviated: by *commuting*, by *internal migration* from high unemployment regions towards low unemployment areas and by *external migration and commuting* towards foreign countries. On the demand side of the labour market, increasing job creation and reallocation of existing jobs towards high unemployment regions could be a means of mitigating regional differences.

**Commuting:** Enormous differences between the unemployment rates of urban and rural settlements indicate that daily commuting of the rural population to surrounding towns could be an equalising mechanism easing employment tensions. Köllö (1997) and Kertesi (2000b) estimated the impact of transport costs on the openness of local labour markets. They found that the equalisation of regional unemployment rate differences is strongly limited by the high costs of commuting and the resulting segregation of the local labour markets. Education raises the chances of employment by commuting considerably: travel cost-induced job finding differentials are very large for unskilled workers, whereas similar travel costs have only trivial consequences for the job finding chances of people with higher education.

**Internal migration:** Regions with high unemployment rates have suffered substantial migration losses while those with a low level of unemployment had migration gains. The magnitude of this effect, however, is quite modest and likely to remain so in the near future. Nevertheless, there are several sets of factors (tight housing market, scarcity of rented flats, and serious regional mismatch of skill) that explain the low level of internal migration in Hungary and in other CEE countries.

**External migration:** Despite concerns to the contrary, labour flows from Hungary's backward regions to EU countries will be small even after accession, as has been made clear by empirical studies. The migration potential of the Hungarians is low compared to that in the other East European countries and did not change much over the 90s. Hungary's labour market has been, and will be, more affected by inward migration from neighbouring countries, such as Romania.

**Local job creation:** The location preferences of investors have dramatically changed since the pre-transition era. Available data on firm creation, small business start ups, physical capital formation, and foreign direct investment suggest increasing rather than decreasing regional differentials in the density of firms and capital endowments. Despite considerable regional wage cost differences, investors have not been motivated to move to the depressed regions. As far as the labour market impact of FDI is concerned, in the case of Hungary foreign firms' employment was the expanding part of the corporate segment of the labour market while domestic firms' employment continuously decreased over the 90s. Analyses on the impact of FDI inflows on local labour markets share the view that regions with a higher ratio of foreign firms' employment perform more successfully. (Schoors van der Tol 2002; Sgard, J. 2001)

Fazekas (2002) showed that micro-regions with a more educated labour force and a closer location to the western trade portals attracted more foreign capital and had higher foreign firms' employment than other regions. Urban centres with a high concentration of skilled labour and proximity to the western border are in the best position. Hungary's only one large agglomeration – Budapest and its conurbation – together with a large skilled labour pool, can offer a wide selection of externalities such as direct links to the political and financial decision makers, a rich cultural life and spillover effects due to high firm density and co-operation networks with a number of universities and scientific institutions.

## *Labour market policies*

### *Financial resources and administrative capacity for employment and labour market policy*

In Hungary, the Labour Market Fund (LMF) is the main financial instrument through which both active and passive labour market measures and the Public Employment Services (PES) are financed. LMF is supported by the contribution of employers and employees and is under the control of a tripartite body, the Governing Board of the Labour Market Fund (GBLF). According to the budget of the LMF, the financial sources for active and passive measures will increase by 10% in 2003. These policy expenditures are moderate in Hungary compared with other CEE countries. Taking into account the size of the state budget deficit and the extremely high Hungarian tax wedge, however, there is no room to raise either expenditures or employers'/employees' contributions any further. The effective usage of the available domestic sources and EU contributions seems to be the crucial factor of employment policy in the near future.

The Hungarian Public Employment Service (PES) set up in 1990 passed through a continuous reform and modernisation process during the last decade. Since the last election in 2002 the new Government has changed the whole institutional set-up. In October 2002 the recently created Ministry of Employment and Labour (the MEL) issued a regulation on the duty and competence of different institutions of the PES<sup>4</sup>. Recent reforms aim at giving the PES a stronger role in implementing active labour market policies. According to a new proposal, the Government will introduce a Job Register to be based on the compulsory system of immediate registration of the initiation or the termination of employment after 1 May 2004. The aim of the new register is to decrease the room for informal employment. If this proves to be successful, 100 billion HUF (385 million euro) will be added to the GDP and 20 billion HUF (77 million euro) to the revenue of the social security budget. Taking into account the additional tasks of employment services in relation to the EU accession, the average cutback in public sector personnel was smaller in the PES organisation. Undoubtedly, the PES needs a far more aggressive strategy. According to the latest update of the Commission's JAP Progress Report, the administrative capacity of the PES has been improved but stronger efforts are still needed.

### *Active and passive labour market policies*

Modifications of the unemployment benefit system in 2000-2001 made it much less accessible and generous than it was in the past. In the "workfare reform package" the conditions for eligibility have been tightened and the maximum duration of the benefit was reduced from 12 to 9 months and the replacement rate was significantly lowered. Responses and implications of the tightening of entitlement conditions and the financing and impact of public work schemes were thoroughly studied by a set of recent empirical studies (Fazekas 2002, Köllö 2002, Galasi-Nagy 2002). Results indicate little positive effects of the changes in terms of success in directing the long-term unemployed and hard hit disadvantaged groups into the non-supported jobs of the labour market. The workfare reform has reduced the number of benefit claimants significantly but failed to raise non-subsidised private-sector employment (Csongor et al, 2003).

<sup>4</sup> National Employment Office, 20 County Labour Centres, 134 Local Labour Offices and 20 Human Resource Development and Training Centres constitute the institutional framework of labour market administration in Hungary.

In 2003 several measures were taken to counterbalance the negative effects of the former restrictions on the most disadvantaged groups of the population. The most important changes could be summarised as follows:

**Lifelong learning:** After January 2003 participants of training programmes under a certain level of income receive special cash benefits. Higher cash benefits increase the motivation of the clients to participate in training.

**Equal opportunity:** Among the priorities of the newly established Ministry of Employment Policy and Labour was the implementation of principles of equal opportunity. On the organisation side it involved the establishment of a new Government Office and a new ministerial post to promote equal opportunities in Hungary.

**Employability of disadvantaged people:** In May 2003 the Government introduced two new schemes called “job search incentive” and “job finding incentive”. Both initiatives imply a positive discrimination in favour of older workers. Those who are above the age of 45 are entitled to a wage subsidy after three months of being registered as unemployed, the sum of the wage subsidy is 70-100% of the wage, and the maximum entitlement period is two years. The respective figures for those under 45 are six months, 50-100% and 1 year.

Local authorities are required to organise public works for the unemployed. Public works are co-financed by the local authorities and the Employment Office. For those above the age of 45 as much as 90% of the total costs of the public work schemes could be financed by the Employment Office. In the case of public works in the field of healthcare, cultural services, education and environment protection, the maximum length of the entitlement period is 1.5 years.

In the past the various measures of active labour market policy were strictly separated according to the Employment Act. Since February 2002 the law has been more flexible. When the target group is selected from the unemployed in the most disadvantaged position, it is possible to combine various employment policy measures within the framework of one labour market programme. Compared to the individual schemes, the complex programmes can offer more generous benefits to those involved.

The shares of different active measures have markedly changed during the last year. In our opinion these changes were mostly due to the short-term adjustment to the changing financial conditions, i.e. they reflect neither the adjustment to the long-term priorities of employment policy nor the outcome of the evaluation of the effectiveness of different measures. Also, the aim of some of the changes was to guarantee EU conformity of employment subsidies. The rapid increase of the statutory minimum wage in 2001 and 2002 decreased the employment probability in the low skilled/low wage segment of the labour market. Since unskilled/low paid workers were concentrated in high unemployment regions, the job-destruction effect of the minimum wage increase was the most obvious in backward regions. (Kertesi-Köllő 2003). In order to avoid further deterioration of the LM position of disadvantaged regions and workers, the Government decided that a substantial part of the Labour Market Fund should be re-arranged to finance a new scheme (*minimum wage increase compensation subsidy*) aimed at preventing the unemployment-generating effects of the increase in the minimum wage. The Labour Market Fund provided support via tendering to the companies acting in “high labour-participation” and “low-wage-level” areas where the decrease of the contribution could counterbalance a part of cost-driving effects of the minimum

wage increase. According to the estimation of MEL, this support granted primarily to SMEs contributed to retaining the jobs of 355,000 employees in 2002. The minimum wage increase compensation subsidy involved significant resources and limited the funds available for traditional active policies. In 2002 that part of the decentralised part of the Labour Market Fund which is the source of finance for active measures was reduced by 18%. The number of those participating in training and of those affected by wage subsidies has decreased by a few percentage points, while the number of those helped by community works and travel cost subsidies has increased. All in all, it is the public works which have become the most preferred active policy measure of the county level labour centres in 2002.

The effectiveness of the most important active labour market programmes has been assessed annually by follow-up surveys since 1994. The latest survey monitored 93,000 clients who completed active programmes in the first half of 2002. The results of these surveys give plenty of information on the composition of the participants, the costs of the programmes and the employment probabilities of those who completed the programmes. Nevertheless, the database and the methodology of the analysis are not suitable for the control of the effects of the changing composition of clients and of the different characteristics of local labour markets. It is of crucial importance that both the central and the county level decision-making bodies have more accurate information on the outcome and the effectiveness of the labour market programmes.

## Outlook

The short-term outlook of the economy is positive. This however, does not necessarily imply the expansion of employment or a further reduction in unemployment rates. Despite massive dismissals reported to the Employment Office, the high ratio of companies making constant employment expansion points to a significant restructuring taking place in the manufacturing sector. The unemployment rate is projected to increase slightly and remain around 6% throughout the next two years.

The mid-term expectations are that the number of the working age population will increase until 2006, after which it will sharply decrease. The expansion of educational attainment will continue but the structural discrepancies between the demand and supply will be accelerated. Despite the lack of reliable prognoses on the development of future labour demand in Hungary, certain immediate effects could be estimated. Direct job creation effects of accession are estimated to be around 8,000-10,000 jobs. Demand for a highly educated workforce will increase while in certain occupations (customs officials, carriers, etc.) a large element of jobs will be diminished. There is no doubt, however, that the rapid structural changes of employment by sectors and by branches will continue. The share of agriculture and industry will decrease while the expansion of employment in the service sector will continue. Despite decreasing labour demand in manufacturing, scarcity of (skilled) labour will accelerate and concentrate in the most developed regions. Structural changes within the manufacturing industry will continue.

Based on the information available, the most important challenges of employment policy in the next five years are summarised as follows:

- Insufficient demand for low-skilled labour, decreasing employment probabilities of school leavers and highly educated job seekers

- Increasing structural regional discrepancies between demand and supply on the labour market, increasing scarcity of labour in certain segments of the labour market;
- Insufficient supply of highly motivated workforce with special skills required by high-technology, competitive industries;
- Low employability of a large pool of long-term unemployed, inactive population, disadvantageous groups concentrated in local labour markets in the less developed regions of the country.

In order to find satisfactory solutions, the Ministry of Employment Policy and Labour elaborated an Action Plan for 2004. Most of the projects in the Action Plan are important parts of preparations for the National Employment Strategy to be elaborated and delivered to the Commission prior to October 2004. Developments in the next months will answer the key question: Is the Hungarian Government capable of developing and fulfilling a comprehensive economic policy which should be a prerequisite for sustainable employment development in the coming years?

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# Latvia

## **Introduction; general economic and labour market trends and preparations for accession**

### **Economic and labour market trends**

Latvia's general economic performance continues to be very positive. Real GDP has been growing in excess of 6% per annum in every year since the slowdown induced by the Russian crisis in 1998-99. Growth has been driven by domestic demand with both consumption and investment advancing strongly. Consumption has been boosted by the increased availability and affordability of consumer credit. The ratio of gross-fixed capital formation to GDP has been notably high – in excess of 25% in every year since 1998.

Latvia's very strong GDP performance of recent years has been reflected in the labour market, with only some lags. Thus, although the decline in employment experienced in the early part of the 1990s has been reversed, steady and even declining, real unit labour costs have had a positive but limited impact on employment. The employment rate hovered a point or two below 60% in the period 1999-2001, some 5% points below the EU average, before climbing to 60.5% in 2002. Similarly, both unemployment and real wages responded somewhat sluggishly to the buoyant economy. After a

sharp decline from 20.7% in 1996 to 14.2% in 1998, unemployment, as measured by the Labour Force Survey (LFS), remained at just over 14% for the next three years, thereafter declining by about one percentage point in each of the subsequent years to 2002. The latest LFS data suggest a tightening of the labour market with LFS unemployment rates of 10.7% and 10.6% in the first and second quarters of 2003 respectively. By contrast, registered unemployment actually increased from 1996 (and earlier), and has been rather steady recently. Thus, the gap between LFS and registered rates has narrowed considerably as compared with the mid-1990s. The rise in the registered unemployment rate can be explained by increased incentives to register.

The view that the labour market tightened in late 2002 and 2003 is also supported by developments in real wages, with real wages higher by between 6% and 10% in every one of the last eleven months as compared with the same month a year before.

Overall, Latvian policy makers have reason to be pleased with the performance of the economy. However, the trade deficit is running at around 20% of GDP and the current account deficit, although declining to 7.8% of GDP in 2002, is expected by the European Commission (Autumn 2003 Economic Forecasts) to rise again as

the trade deficit worsens. The budget deficit is also proving hard to keep within the benchmark 3% of GDP but tough expenditure measures and buoyant tax revenues are expected to keep the deficit below 3% of GDP in 2004.

There is also some long-term concern that Latvia's exports remain specialised in a few resource-based and unskilled labour-intensive products such as wood products and textiles.

In summary, the Latvian economy in recent years has reaped the rewards of the painful reform and restructuring carried out in the 1990s. However, there is no room for complacency – Latvia will enter the EU in May 2004 as the poorest country in the Union with a GDP per capita at purchasing power parity (in 2002) at 35% of the EU average.

### Preparations for accession

Much of Latvia's legislative activity in recent years has been aimed at EU accession – either directly in the form of transposing the *acquis communautaire* into national legislation, or indirectly by adapting or introducing new legislation in areas not directly defined by the *acquis*, e.g. the new Labour Law that came into force in 2002.

In the legislative areas concerning labour law, employment policy, social dialogue, equal treatment of men and women, social inclusion and social protection, Latvia is regarded as “essentially meeting the requirements arising from the negotiations .... and expected to be in a position to implement this *acquis* as from accession” (EC Monitoring Report November 2003). However, there are concerns about Latvia's capacity to create institutions that adequately implement and enforce the new legislation and the Monitoring Report mentions employment policy as an area where more needs to be done to ensure “full participation in the European Employment Strategy” and also the European Social Fund as an area where there is a need to “strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level”.

The effective administration of all the Structural Funds will represent a major challenge for Latvia.

## Labour market trends

### Employment and wages

As a former Soviet republic, Latvia faced especially severe dislocation and structural adjustment problems in the early 1990s, in both the economy in general and in the labour market in particular. These adjustment pressures resulted in dramatic shifts in employment between sectors and a massive fall in aggregate employment. The changes in the structure of employment in Latvia for selected years for the period from 1990 (just before the break-up of the Soviet Union) to 2002 are illustrated in Table 1 below.

**Table 1:** Employment structure in Latvia: % shares by sector for selected years

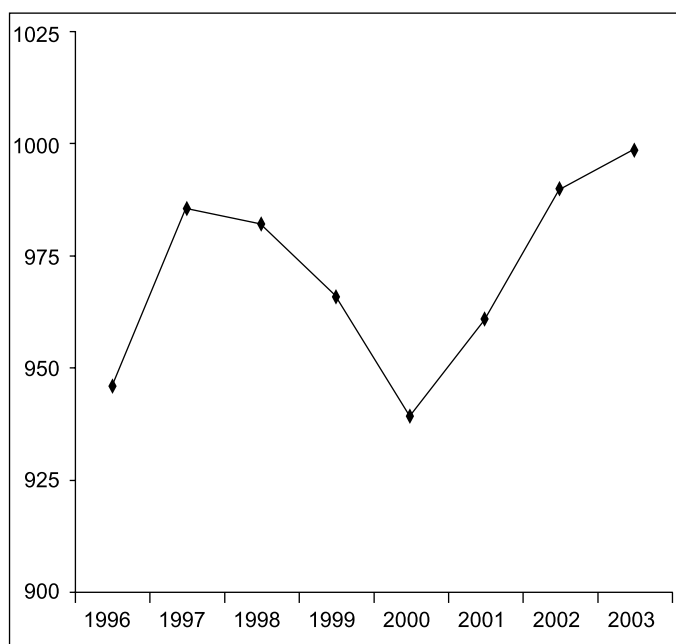
	1990	1995	1999	2000	2001	2002
Agriculture	17	18	17	15	15	15
Industry	28	20	18	20	18	19
Construction	10	6	6	6	7	6
Services	45	56	59	59	60	60

Source: OECD 2003; CSB

There are several comments worth making. Firstly, the table clearly shows the expected decline in industrial employment as well as the rapid expansion of services. Construction also declined in the early part of the 1990s but has recently picked up. Secondly, the greatest part of the observed changes had worked themselves out by 1996, the year that marked the resumption of positive GDP growth. Growth was set back by the Russian crisis in 1998-99 but the associated shakeout in product and labour markets in many ways signalled the normalisation of the Latvian economy.

Thirdly, it is clear that employment in agriculture has shown only a modest decline in employment share, in contrast to, say, Estonia, where the share of agriculture in employment dropped from 20% in 1990 to just under 7% in 2002. Here it is worth noting that productivity in Latvian agriculture is both low and has fallen – the sector produced just under 5% of GDP in 2002 which is less than half of its share of GDP in 1995 when employment was just a few

**Figure 1:** Employment 1996–2003 (thousands)



Note: the figure for 2003 is the average of the first two quarters of 2003

Source: CSB

points higher. This suggests that in Latvia subsistence farming has provided a residual social safety net for people unable or unwilling to compete in the new market economy.

The early transition in Latvia saw massive declines in employment. Between 1991 and 1994 employment declined by about 20% and over the whole period between 1990 and 2002 the decline was 30%. Figure 1 below shows developments in aggregate employment since 1996.

Figure 1 shows a rather normal market economy cyclical development in employment. In 1997 employment grew strongly in response to 8% GDP growth. The subsequent decline can be attributed to the Russian crisis and the pickup from 2001 reflects the recent surge in the growth rate.

The share of part-time workers in employment has declined from nearly 13% in 1998 to just under 10% in 2002. This is very low by EU standards, but a large proportion of part-time employment is involuntary with more than 40% of part-time workers claiming that they work part-time because they are unable to find a full-time job.

Regional employment rates for 2001 and 2002 are shown in Table 2 below.

**Table 2: Employment rates by region**

	2001	2002
Overall	58.8	60.5
By region:		
Riga	62.0	64.0
Vidzeme	59.8	62.1
Kurzeme	56.5	57.7
Zemgale	59.9	61.0
Latgale	50.4	52.0

Note: the ratios in the table are for the 15-64 age group

Source: National Employment Plan 2003

It is evident that significant regional disparities in employment persist, with the Riga region close to the EU average. The bottom region remains Latgale, which borders on Russia and Belarus, and has a majority of Russian-speaking inhabitants. Interestingly, all five regions have shared in the overall increase in the employment rate.

Although employment rates have improved they are still some way off the targets set by the Lisbon agenda (except for the employment rate of women). Table 3 shows where Latvia stood in 2002.

**Table 3: Latvia's position vs EU targets**

	Latvia 2002	EU target 2005	EU target 2010
Overall employment rate	60.5%	over 67%	over 70%
Women	57%	over 57%	over 60%
Older workers	37%		over 50%

Source: CSB; Eurostat Structural Indicators

Figure 2 shows recent developments in GDP and real wages.

It is noteworthy that after lagging behind GDP growth, real wages now seem to be growing at the same pace and perhaps even faster, with real wages growing at 8.1% and 7.5% in the second and third quarters of 2003. However, for the moment real wage growth remains “employment friendly” – according to figures in the National Employment Plan 2003, between 2000 and 2002 wages grew by 19.2%, but labour productivity by 19.8%.

There is also considerable regional disparity in wages. According to the World Bank (2003) wages in all regions are lower than in the Riga region and in Latgale by as much as 40% less.

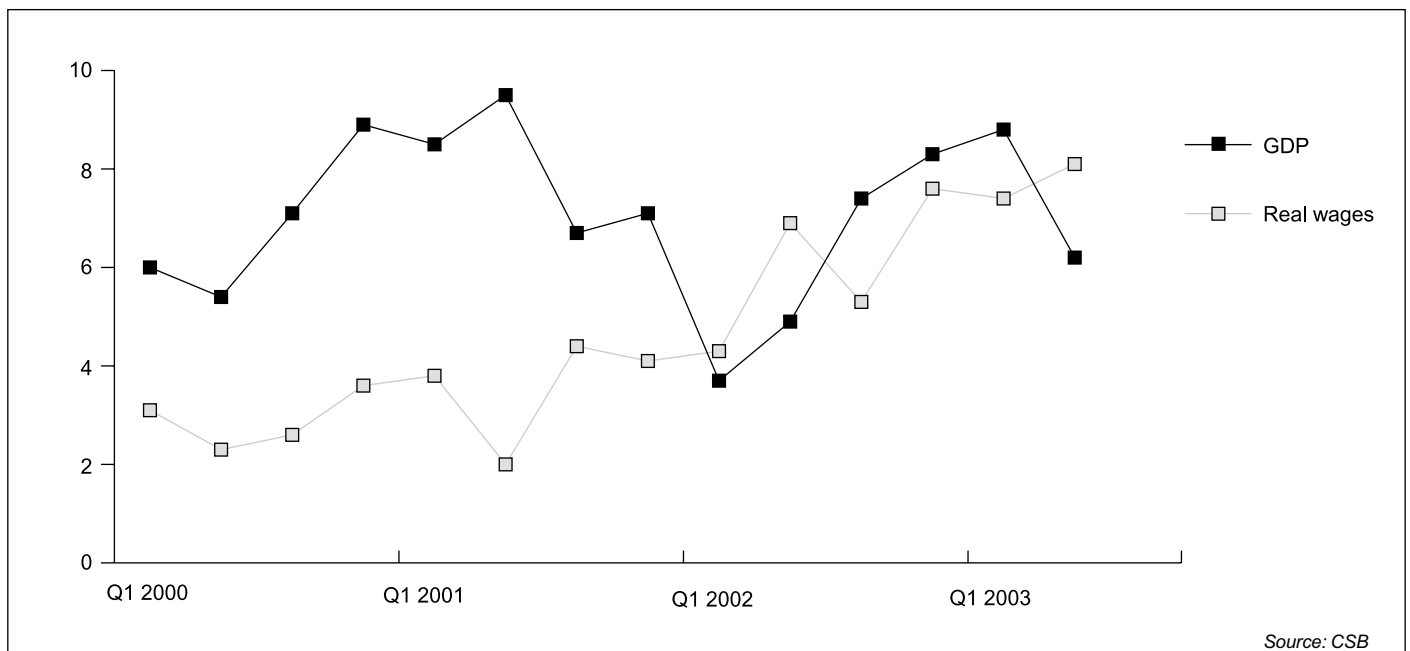
No discussion of wages in Latvia is complete without mention of the phenomenon of “envelope wages” i.e. the practice of paying low official wages and supplementing official wages by undeclared cash payments. Envelope wages are clearly aimed at evading the rather large tax wedge and the system involves collusion of employers and employees. The extent of the practice is obviously rather hard to determine but research reported in OECD (2003) suggests that in Latvia as many as 30% of private sector workers earn more than is officially reported.

### Demographics and labour force participation

Latvia has experienced a continuous decline in population in every year since independence. In 1990 the population was 2.67 million and at the end of 2002 it was 2.33 million, representing a decline of just over 12% and of this about one third has been a natural decrease and two thirds due to net migration. Net migration has slowed down in recent years to about 20% of the numbers in 1996. However, it remains to be seen what happens after accession when new opportunities will emerge in the rest of the EU, but evidence in Hazans (2003) suggests a quite high latent demand to migrate after accession.

The 2002 participation rate of the 15-64 age group was 69%. This is much the same as in recent years but down from nearly 72% in 1996. The participation rate has been consistently higher for men (74% in 2002) than for women (64% in 2002). The gap has

**Figure 2: Growth rates of GDP and real wages**



narrowed slightly since the mid 1990s, but this is largely because of a fall in the activity rate of men.

### **Unemployment**

As noted in the introduction, aggregate unemployment as measured by the LFS has declined from a peak of more than 20% in 1996 to less than 11% in the first half of 2003. Historically, the unemployment rate of men has exceeded that of women (in contrast to incumbent EU countries) but in early 2003 there was some convergence and in the second quarter the normal position was reversed with 10.8% of women seeking work as compared with only 10.5% of men. However, within registered unemployment the share of women is 59% and the share of men is about 41%.

Regional disparities in unemployment remain very persistent. Thus Riga and the Riga region continue to have the lowest unemployment rates, regardless of the measurement used, and the eastern part of the country the highest. Thus in Riga registered unemployment is just over 4% and LFS unemployment is about 9%, but the worst areas in Latgale have unemployment rates in excess of 20% and up to 30% under either measure.

The incidence of unemployment continues to be higher among non-Latvians than Latvians. According to the World Bank (2003) the unemployment rates for people from ethnic minorities (Russian speakers) have until recently been 1.7 to 1.8 times higher than for Latvians. Since 2001 this ratio has fallen to 1.6 in 2002 and 1.5 for the age group 15-64. This outcome has been the result of lower unemployment among non-Latvians. The World Bank analysis suggests that the ethnic unemployment gap is partly the result of language requirements for many jobs. There is also a regional dimension – Latgale is both the region with the highest unemployment and also the region with the highest share of non-Latvian residents.

## **Labour market policies**

### **Active labour market policies**

Latvia's active labour market policies are set out in the new National Employment Plan (NEP) for 2003 approved by the Cabinet of Ministers in July 2003. This document is based on EU policy aims as set out in the Lisbon and Stockholm European Council summits, on the new EU Employment Guidelines, on the Joint Assessment of Employment Priorities in Latvia paper and on Latvia's Single Programming Document. Basically, much care has been devoted to ensuring the NEP corresponds to what is expected by the EU.

Thus the NEP has four pillars:

- Improving employability;
- Development of entrepreneurship and job creation;
- Promoting the adaptability of enterprises and workers;
- Ensuring equal opportunity between men and women.

For each pillar the NEP consists of a series of guidelines and measures. Much the biggest number of measures are under pillar I, which correspond largely to the usual active labour market policies (ALMPs), in particular the programmes run by the State Employment Agency (SEA) such as the professional training programme. Pillar II includes such measures as reducing the rate of corporate income tax to 15% by 1 January, 2004 or implementation of the Rural Development Programme, while pillar III includes a current Phare project on the promotion of bi-partite social dialogue. Pillar IV is the thinnest with just one explicit measure: to deliver

lectures to raise awareness of equal opportunities, but there is no budget. Otherwise equal opportunities are to be promoted within each measure under the other pillars.

It is stated that an innovation of the new NEP is the introduction of multi-period programmes, and while it is true that some measures have a time span of more than one year, the meaningful implementation of multi-period programmes remains hampered by Latvia's annual budgetary process.

There has been no deep evaluation of ALMPs in Latvia. The SEA provides a variety of indicators of effectiveness of their main measures. For example Table 4 below indicates the effectiveness of the training programme.

**Table 4: The effectiveness of the occupational training and retraining programme**

	1998	1999	2000	2001	2002
Numbers finishing training	11208	13088	8338	9194	5680
Numbers finding a job	4237	6627	5528	6235	4528
Proportion finding a job	37.8	50.6	66.3	67.8	79.7

Source: NEP (2003)

On the face of it, there is an improvement in effectiveness but, in order to make a proper appraisal, a deeper investigation would be needed.

In addition to occupational training, the SEA has programmes of temporary public jobs and job clubs, now renamed "measures to promote competitiveness". Additionally, the SEA has introduced a number of new measures in the form of pilot projects involving subsidised work places for unemployed young people, disabled people, unemployed pre-retirement people, and placement of long-term unemployed in social enterprises.

### **Passive labour market measures**

The most important passive measures are the new Labour Law, unemployment insurance, minimum wage rules, other social benefits, the pension system, and the tax wedge.

#### *The new Labour Law*

The new Labour Law came into force in the middle of 2002 and aims to create an employment environment that is in line with EU practices and the conventions of organisations such as the ILO. Specific changes introduced by the new law include the following:

- Eliminates ambiguity on what should be included in job contract;
- Reduces the term of fixed term contracts from 5 to 2 years;
- Ensures equality for all employees – the law prohibits discrimination based on gender, ethnicity, age, religion, political opinions, national and social origin, etc.;
- Allows more overtime hours – now employees can work up to 200 h (previously 120 h) per year overtime;
- Defines minimal rest hours per day;
- Specifies circumstances when an employee can temporarily be off the job – for expectant mothers to visit doctors and for all employees if there is an accident at home or involving their relatives;
- Specifies minimum vacation length – two weeks in a year taken as a block;
- More elasticity on both sides when there is a need to end contract;

- No more “work books”;
- Stimulates better social dialogue through more detailed general agreement;
- Introduces “employees’ representatives” to manage social, economic and professional interests of employees.

There is also a provision that any collective agreement that involves employers who represent over 60% of employment in a given sector should be binding for all employers and workers in that sector.

Generally the view of both the OECD (2003) and the World Bank (2003) is that the law manages to combine good industrial relations practice with flexibility. The World Bank in particular notes that lack of work (i.e. redundancy) is a valid reason for termination of employment and that in this eventuality priority may be given to the economic interests of the enterprise by allowing it to retain workers with better performance or qualifications. The social situation of workers can only be taken into account when the performance or qualifications of two employees are essentially the same. Where there is a trade union, the union has certain rights to approve or disapprove dismissals and also there are exceptions to the general rules regarding dismissals for the disabled and for pregnant women.

Enforcement of the provisions of the Labour Law is the province of the Labour Inspectorate (which also deals with health and safety). In Latvia in 2000 the Inspectorate had 142 staff, of whom 100 were inspectors. These are rather limited resources but according to the OECD (2003) there is evidence that larger firms have been visited by inspectors and fined if breaking the rules. However, the vast number of smaller enterprises represent a problem in terms of the resource constraint.

### *Unemployment insurance and other social benefits*

Latvia introduced unemployment benefit based on contributions quite early on. Benefits were rather generous at first, but the 1999 law has reduced them. The maximum benefit period is now nine months and the benefits have a maximum replacement rate of 50% to 65% (depending on years in the job). The replacement rate falls to within the range of 30% to 39% in the ninth month, depending how many years were spent in the job. The system is thus regarded as creating quite good incentives to seek new work. Unemployment insurance benefit is not received by the majority of LFS defined unemployed or even the majority of registered unemployed. About 4% of the workforce receive unemployment insurance benefit, and the payments represent about 0.5% of GDP.

When not eligible for unemployment benefit, those without work may obtain social benefits administered by local authorities. In the past these have been the exclusive domain of the local governments and generosity has varied. A scheme is currently under way to introduce a uniform means-tested “guaranteed minimum income” (GMI). This would be a per capita payment of 21 LVL (32 euro) per month exclusive of housing costs.

### *Minimum wage*

Currently, the minimum wage is 70 LVL (nearly 108 euro) which was increased this year from 60 LVL (about 92 euro). In July the government confirmed that from 1 January 2004 the minimum monthly wage in Latvia will be increased to LVL 80 (approximately 123 euro). The current policy envisages a seven year transition period during which the minimum wage will converge towards 50% of the expected average gross wage in the economy at the end of that period, i.e. the minimum wage is expected to reach LVL 139 (213 euro) by 1 January 2010.

This policy is in a sense notional since (a) it is explicitly subject to financial feasibility and (b) future governments are in any case not necessarily committed.

Such a policy has a number of potential problems. Firstly, no-one has any real idea how increasing the minimum wage by so much will affect employment and, secondly, perhaps there is a case for regional differentiation. However, one possible motivation perhaps not found in Western Europe is that a higher minimum wage will reduce the incentive to pay envelope wages.

### *Pensions*

Expenditure on pensions is very high in Latvia – some 10% of GDP. However, Latvia is regarded as something of a model for transition country pension reform. It has introduced a three tier system in stages. In 1995 a notional defined contribution scheme (NDC) replaced the former PAYG scheme and in 2001 the mandatory second tier was introduced. There is a voluntary regulated third tier.

The pension scheme is seen again as reinforcing incentives to work *and* to pay full taxes.

### *The tax wedge*

Despite intentions to the contrary, the tax wedge has remained unchanged after a reduction some years ago. Income tax is 25% and social taxes are 33%, of which the employee pays 9%.

### *Social dialogue*

Tripartite social dialogue has been established in Latvia since 1999 with the creation of the National Tripartite Concertation Council (NTCC), and is regarded as a key instrument in regulating the relationships between employers, employees and the government. A notable achievement was in the negotiation of the 2002 Labour Law. The Free Trade Union Federation of Latvia (LBAS) is the social partner on the employees’ side and on the employers’ side it is the Confederation of Latvian Employers (LDDK).

However, the level of bipartite social concertation, or social dialogue, defined as the process of co-operation and negotiation between employer and trade union representatives, both at the intersectoral and the sectoral levels in Latvia is low. Collective agreements, where they exist, tend to be at the enterprise level. Basically, the problem is the low level of union membership. About 25% of employees in Latvia belong to unions and most of these are in the public sector.

### *Financial and administrative resources*

The financial resources devoted to ALMPs in Latvia in recent years are given in Table 5.

The key point to note is the reduced budget for training in 2002 – it was more than halved. This reduction has continued in 2003. The technical reason is a law that came into effect at the beginning of 2002 limiting the resources that could be spent on ALMPs from the special budget to 10%. However, there is a suspicion that the reduction has been made to “make room” for the money coming in from the ESF.

In 2002 the human resources of the SEA were quite limited – namely just over 550 workers for 28 branches and 34 sub-branches. This was slightly less than the 600 allowed for. Moreover, the average pay was 150 LVL (231 euro) per month which is less than the national average.



**Table 5:** Expenditure on ALMPs in millions of LVL (euro)

	Training	Measures to increase competitiveness	Temporary public jobs	Stipend to unemployed	Career advice centres	Aggregate	As share of GDP (%)
2002	1.74	0.29	2.36	0.8	0.22	4.61 (7.1)	0.09
2001	3.98	0.30	2.37	0.41	0.22	6.86 (10.6)	0.14
2000	3.99	0.29	2.15	0.45	0.22	7.33 (11.3)	0.17

Source: SEA

## Outlook

There are at present no projections of future labour market conditions although the Welfare Ministry together with the SEA are receiving technical assistance in this area. The most immediate concern, and indeed the main concern from accession, is the prospect of increased net emigration following the expansion of the EU. At a macro level, the tightening of the labour market and the increase in the inflation rate in recent months has also given rise to concerns that the economy may be “overheating”.

*Alf Vanags*

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# Lithuania

## Introduction

The transition to a market economy in Lithuania was accompanied by rapid changes in the structure of the economy. In turn, this had an impact on employment trends. However, the decline in total employment was not as great as the decline in GDP. The number of employed people fell by 200,000 between 1990 and 1995 (by slightly more than 11%), while GDP fell by 40%.

The number of employed people fell rapidly between 1993 and 1995, though more slowly between 1991 and 1992. A period of relative stability in employment started in 1996 and lasted until 2000. Compared to 2001, in 2002 the number of employed people increased by 54,000 and amounted to 1,405,900.

Economic growth recommenced in 1995 (with a drop in GDP in 1999). During the last two years, annual GDP growth was 5.9%. Growth in GDP in 2002 was related to increased domestic consumption and the development of almost all sectors of the economy.

Due to a strict fiscal and monetary policy pursued in Lithuania from 1995 as well as to a rather limited effective demand of domestic market in the country, the level of inflation has fallen considerably (from 35% in 1995 to -1% in 2002, the first annual rate of deflation in 12 years of independence).

Lithuania envisages meeting all the requirements set by the European Union for the budget deficit in candidate countries. The budget deficit amounted to 2.1% of GDP in 2002.

In preparation for accession to the EU, Lithuania intends to maintain the fixed exchange rate. In order to promote further integration into the EU, the anchor currency was changed from the US dollar to the euro on 2 February 2002. The system linking litas to the euro will create the conditions for the country's participation in the current Exchange Rate Mechanism following Lithuania's accession to the EU. Eventual Eurozone membership is envisaged. Currently, the exchange rate is €1 to 3.452 litas (LTL).

Regardless of rather positive macro-economic indices in the country, Lithuania is still experiencing high unemployment and relatively low levels of wages and salaries as well as social benefits.

## Labour market trends

### Employment

#### Structural changes in employment

In 2002, the Lithuanian labour market was influenced by a positive economic situation. GDP, production sales, domestic consumption and direct foreign investments were growing – as was employment.

Despite a falling rate of employment, an opposite trend was noticed in the private sector due to the privatisation process. Here the number of employed people increased from 412,500 in 1990 to

1,045,500 in 1995 (ca. by 2.5 times). The private sector accounted for 69% of the overall structure of employment in 2002.

In Lithuania, hired people account for 80% of all employed people; self-employed people account for 17% and unpaid family members account for 3%. Self-employed people in agriculture account for the greatest number, amounting to 58.1%, self-employed people in industry amount to 2.0%, in civil engineering to 4.8%, and in the service sector to 5.2%.

### Employment sectors

The transitional period was marked by major changes in employment by sector. In 1991-1994, employment in agriculture increased from 18% to 23%; in industry it dropped from 40% to 28%. In the service sector, it increased from 43% to 48%. As for agriculture, employment here was growing in 1992-1993 because part of the population lost jobs in other sectors, failed to find jobs in cities and towns and consequently moved to rural areas to engage in farming-related activities.

From 1995, changes in employment by sector were not so rapid – and the agricultural sector fell in importance. As a result, in 2002 agriculture accounted for 17.8% of employment, industry for 20.8% and services for 61.4%. In 2002, the service sector accounted for the most significant increase in employment among the basic types of economic activities – from 836,800 of people in employment in 2001 to 862,000. Yet, compared to the average in EU countries, employment in the service sector remains quite low.

Industry remains an important sector of economy. Though the share of this sector in gross added value fell from one third to one fifth in the 1990s, this sector employs about 20% of all people in employment.

### Full-time and part-time employment

The number of people in employment fell by 137,000 or 8.6% in 1998-2001. The number of men in employment dropped by 98,100, or 11.9%, and the number of women in employment fell by 38,900. Compared to employment for women, the fall in employment for men was more rapid both for those in full-time and part-time employment. The fall in part-time employment for men was extremely steep – by 26,800, or 31.4%. The downward trend changed in 2002, when the number of men and women in employment increased slightly.

In 1998-2002, the proportion of people in part-time employment fell by 1.8% – from 11.6% to 9.8%. In 2002, the share of people in part-time employment increased by one percentage point to 10.8%. The relative share of men and women employed on a part-time basis has barely changed. In 2002, 43.8% of people in part-time employment were men and 56.2% women.

### Regional distribution

In 1998-2001, the employment rate of people aged 15-64 fell from 62 to 58%. It fell in all regions of the country. Yet this process was not very even, being most rapid in Marijampolė County, where employment fell by 17% during the same period. The slowest decline in employment was seen in Panevėžys County (3%). In 2001, the employment rate was highest in Klaipėda County.

In 2002, the situation started to change. The employment rate started to increase rapidly in nearly all counties of Lithuania (with the exception of Alytus County, where the employment rate fell slightly). The highest employment rate (64.3%) was recorded in Tauragė County.

### Key developments in wage rates

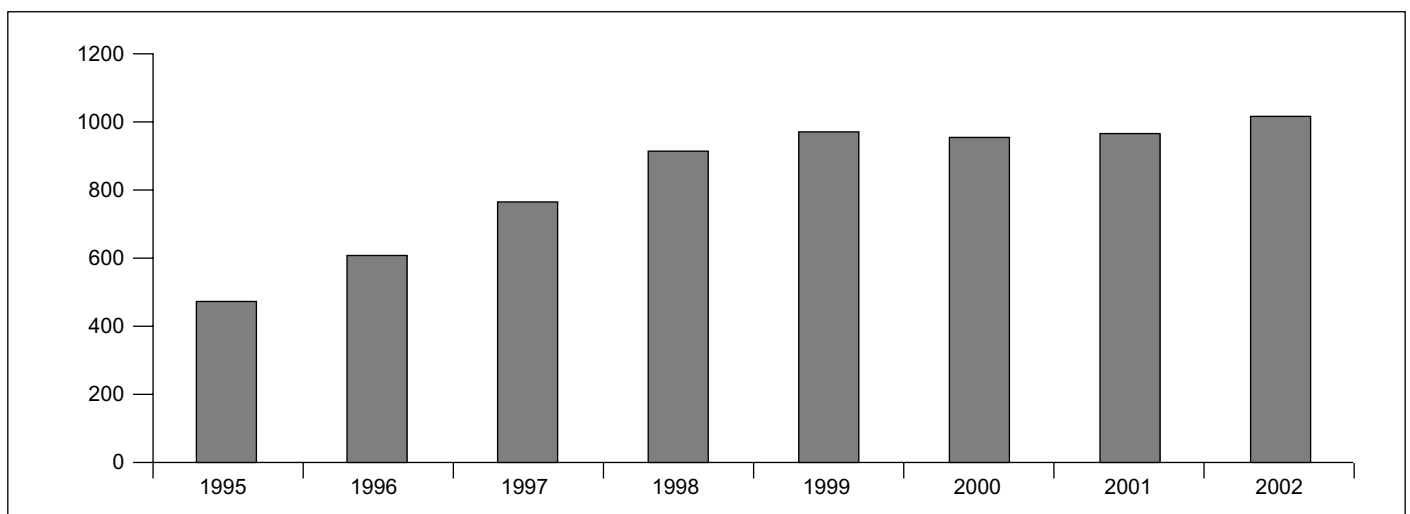
Changes in average monthly gross earnings in Lithuania are shown in the figure below.

Gross average monthly wages in 2002 were 1034 litas (c.€300), net wages and salaries 741 litas (c.€215). Compared to 2001, the nominal gross average monthly wage increased by 5.2%. The net increase was 6%. The real growth of average wages during this period was more than 7%. This was influenced by the growth in nominal wages, increases in the non-taxable income threshold and changes in consumer prices.

Highest earnings in Lithuania by sector are in financial intermediation, public administration and defence; the lowest earnings are in fishing, hotels and restaurants, and agriculture, hunting and forestry.

Currently, the minimum monthly wage in Lithuania is 430 litas (c.€125), the minimum hourly wage is 2.53 litas (c.€0.73). The minimum monthly and hourly wages were last increased in 1998.

**Figure 1:** Average monthly gross earnings in Lithuania in 1995-2002 (in litas)



## Labour force participation

### Demographic trends

Lithuanian's population fell during the 1990s. It decreased by 218,000 between 1990 and 2002 and amounted to 3,475,600 in 2002. The population is also ageing. The number of sexagenarians and elderly people increased from 16% of the population in 1990 to 20% in 2002. This trend was brought about by a declining birth rate and rising life expectancy.

Internal migration fell between 1990 and 2002. The fall in internal mobility of the population reduced opportunities to look for jobs in other parts of the country. People have generally migrated from the country to towns and cities. To prevent the emergence of too much excess labour in rural areas, it is necessary to facilitate the territorial and vocational mobility of the rural population.

### Participation by sex

Changes in employment and in economic activity by gender have been uneven in Lithuania. LFS data show an overall decline in employment (activity) of the population. In 1998-2002, this trend was brought about by decreased economic activity for men. Yet among women the number of economically inactive people is quite large, particularly for older women. Accordingly, the total rate of employment (economic activity) of women is lower than that of men.

The total rate of economic activity of the Lithuanian population did not change much. Between 1998 and 2002, it was between 58 and 62%. This overall rate masks considerable variation between different groups of the population. Economic activity fell rapidly for people under 25 and increased for older population groups. Many older people stay in work to avoid relying on low pensions.

The gap between rate of employment by gender narrowed between 1998 and 2001 (the women's rate of employment is getting closer to that of men). The employment rate for men fell from 59.6 to 52.6%, while the employment rate for women fell from 48.2 to 45.8%. From 2002, the employment rate for men rose to 55%, while the employment rate for women fell to 45.6%.

### Labour market participation by age

In Lithuania in 2002, there were 1,406,000 people in employment, compared to 1,352,000 in 2001. Employment for young and middle-aged people grew in 2001-2002. The number of employed people between the ages of 15 and 49 increased from 1,048,000 to 1,093,000 during this period. Employment for people aged 55-59 increased. In 2002, 104,000 (or 58%) of people in this age group were in employment. In 2002, 68,000 (or 57%) of people in this age group were employed in cities and towns, while 36,000 (or 61%) were employed in rural areas.

Employment for elderly people (60 and over) fell. In 2002, 23% of people aged 60-64 were employed, 35% of men and 14% of women. Only 6% of people over 65 were employed, men accounting for 9% and women for 5%.

### Participation by educational attainment

In 2002, more than a quarter of employed people had university or college degrees. In Lithuania, people with special educational attainments, such as post-school education and vocational education, accounted for the major share of people in employment (405,400). However, the highest rate of employment was among people with university and college degrees. Here, the rate of employment exceeded the national rate of employment by nearly 27% and accounted to 76.6% in 2002.

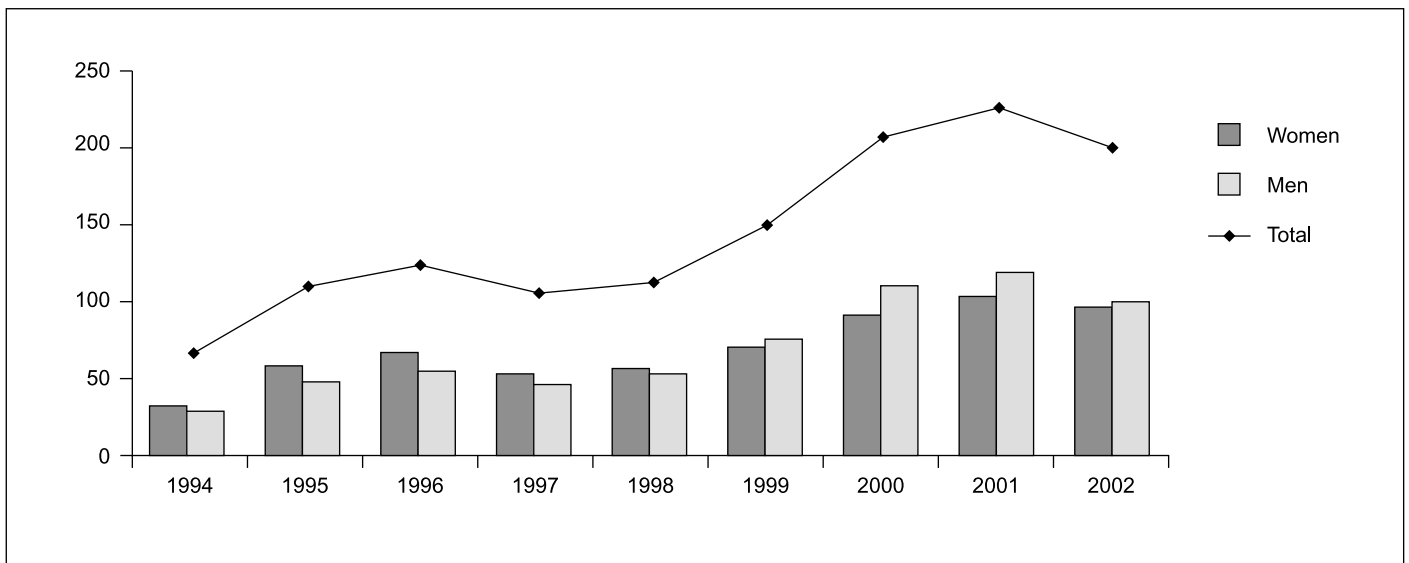
Over the last three years, a slight decrease of employment of university and college graduates can be observed. On the other hand, a slow but stable fall in employment for unskilled people is also apparent.

## Unemployment

### Unemployment by sex

In 1994-1998 the number of unemployed women was higher than the number of unemployed men. From 1999, the number of unemployed men exceeded the number of unemployed women. In 2002, the numbers of unemployed men and women were roughly even. To some extent, this phenomenon can be linked to the increase in employment in civil engineering and industry, where the proportion of male employees is relatively large.

**Figure 2:** Unemployment by gender, as registered with the labour exchange (annual indices on the average, in thousands)



### Unemployment by age

In 1994–2002, unemployment underwent major changes. Comparing 2002 and the end of 1994, the number of unemployed people from 19 to 24 increased 1.4 times, the number of middle-aged (from 30 to 49) and older (from 50 to 54) unemployed people increased by 3.2 and 4.8 respectively, while unemployment in the oldest group of people (55 and over) increased 10 times over.

The proportion of middle-aged and older unemployed people kept growing over the entire period. Comparing 2002 and the end of 1993, the specific number of unemployed people from the age group 16 to 24 fell from 23.4% to 11.4%, the number of middle-aged unemployed people (30–49) increased from 49.8% to 54.5%, and the number of older unemployed people (50–54 and 55–59 years old) increased from 9.1% to 15% and from 2.7 to 9.1% respectively.

### Unemployment by educational attainment

In 2002, 52,100 (or 21.4%) of unemployed people with university or college (post-secondary specialisation) degrees approached territorial labour exchanges. The registered number of unemployed people without vocational skills equalled 87,400 (17.2%).

The number of labour exchange applicants without any occupation increased. Here, secondary school graduates without vocational skills accounted for the major share (17–24%).

There were no important changes in the structure of people available for the labour market. More than one third had university or college degrees, one in five had a basic education and an occupation, and nearly one in two had a secondary education and an occupation.

### Unemployment by region

According to LFS data, in 1998–2001 unemployment grew in all counties of the country and rapidly dropped in 2002, reaching 13.8% in a very short period of time.

Unemployment does not differ greatly from county to county. Alytus County accounted for the highest rate of unemployment

(21.8%) and Panevėžys County for the lowest (14.3%). Despite major differences in economic development in the surveyed regions (e.g. GDP per capita in Klaipėda County is nearly double that in Tauragė County), a proportion of people considering themselves unemployed was roughly equal in 2001. This shows that according to the LFS data there is no necessary and predictable link between economic performance and the unemployment rate in a region. In 2002, there was greater variation in unemployment rates. In 2002, the lowest rate was in Tauragė County (only 8.6%) and was highest in Alytus County (16.2%), despite a rapid decline in unemployment in recent years.

## Labour market policies

### Active labour market policies (ALMPs)

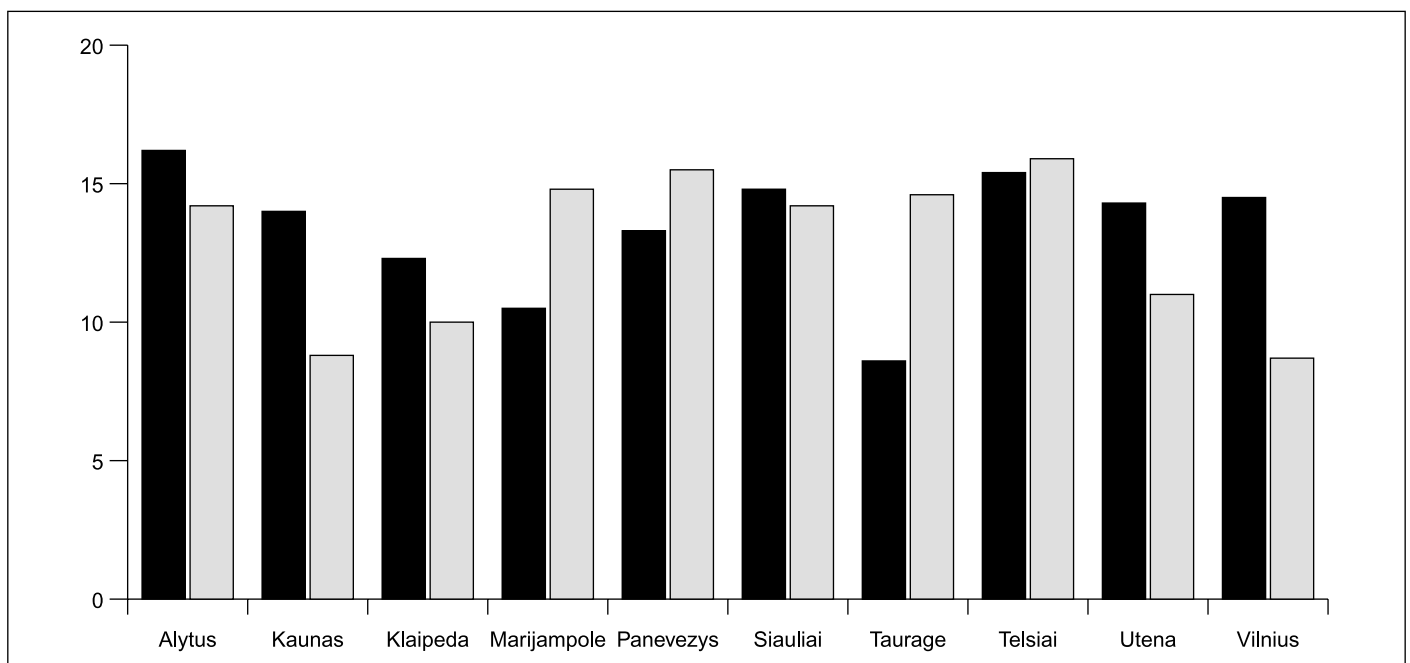
In 2002, the Lithuanian Labour Exchange was concerned with the transition from passive support to active support of the unemployed. In 2002, more than 125,000 people looking for a job were involved in programmes. Compared to 2001, the number increased by a quarter. Active labour market policy expanded in all territorial labour exchanges. In 2002, expenditure on active labour market policies amounted to LTL 74.6 million (€21.6 million), or 39.4% of the total budget of the Employment Fund.

In Lithuania, a number of active labour market policies are available. The basic ones are vocational training, job clubs, employment support and other targeted labour market policy measures.

### Vocational training

In 2002, 23,400 people were involved in a vocational training programme, this figure being one fifth higher than in 2001. It is the highest figure yet recorded by the Lithuanian Labour Exchange. The vocational training programme was oriented in three directions: unemployment prevention, improvement of employment skills in the context of labour market demands, and improvement of entrepreneurship skills.

**Figure 3:** Unemployment rate in Lithuania in 2002 by county (%)



**Figure 4:** Involvement of people registered with territorial labour exchanges in active labour market policy measures (in thousands)



### Activities of job clubs

In 2002, this programme involved 46,900 people looking for a job – that is, one in six people registered with the labour exchange.

### Employment support

#### • Organisation of public work

In 2002, 48,100 people were involved in public works, this being by one third higher than in 2001. Certain groups, like long-term unemployed people, are given priority in temporary public works. Among those engaged in temporary public works, one in two was a long-term or rural unemployed person and one in three was a person receiving labour market support. On average, unemployed people were in public works for 2.3 months.

#### • Subsidised job opportunities

2,600 subsidised job opportunities were created for unemployed people supported in the labour market. Compared to 2001, 50% more job opportunities were created through this programme.

#### • Jobs supported by the Employment Fund

4,800 unemployed people participated in the programme of supported jobs, which is one quarter higher than in 2001. Priority was given to the employment of college graduates and graduates of vocational training in the labour market. It is the third year during which 70% of unemployed people involved in the programme of supported jobs have remained in the jobs.

#### • Organisation of own business

There were 15,700 unemployed people assisted through business start-ups who were issued with interest-free loans and helped to acquire patents at reduced prices. The above figure is 1,600 higher than in 2001.

We can mention several problems related to the application of active labour market policies. Despite increasing funding of active labour market policies, expenditure on the programmes is not great and covers quite a small proportion of unemployed people – particularly when considering the unemployment rate. Demand for a place in programmes – particularly in the field of vocational training – significantly exceeds supply. Furthermore, the programmes are too oriented towards temporary work that takes up one third of expenditure and still more programme participants.

### Passive labour market policies

Unemployed people who have had at least 24 months with state social insurance in the last three years before registering with the Lithuanian Labour Exchange are entitled to unemployment benefits. Unemployment benefit is paid for a period of six months. The amount paid varies from LTL 135 to LTL 250 (€39-€72), depending on the duration of employment during which the person was paying social insurance contributions. Out of 243,800 unemployed people registered in 2002, as few as 20% received unemployment benefit.

Pre-retirement unemployment benefit came into force in 2002. Payment of unemployment benefit is extended or assigned (if not paid before) for unemployed people having less than two years until retirement and 15 years or more of having paid state social pension insurance. When pre-retirement unemployment benefit is paid, the beneficiaries are not assigned to active labour market policies. In 2002, benefit was paid to about 6% of registered unemployed people.

A review of active and passive support given to unemployed people shows that the year 2002 was the first time in which more funds were assigned for active support of unemployed people than to passive labour market policies.

### Financial resources and administrative capacity for employment and labour market policy

The main institution dealing with employment policy matters at a national level is the Ministry of Social Security and Labour (MSSL). However, it is recognised that the programmes and policies of other ministries have a major influence on employment. These include most notably the Ministry of Education and Science, the Ministry of Economy, and the Ministry of Finance. In order to co-ordinate the policies of these ministries in the sphere of employment, an Economic Development and Employment Committee (EDEC) was established by a resolution of the government in July 2000.

Implementation of labour market policies is financed by the Employment Fund. In 2002, the Lithuanian Labour Exchange was assigned LTL 189.3 million (€54.84 million) by the Employment Fund to finance implementation of labour market policies.

The main implementing bodies for labour market policies and programmes are the Lithuanian Labour Exchange (LLE,

**Figure 5:** Participation of the unemployed in active LMP measures in 2002 (LLE data)

Active support										Passive support	
Employed	Assistance to obtain patents at reduced prices	Involved in active labour market policy programmes								Assigned unemployment benefits	Assigned pre-retirement unemployment benefits
		Total	Including:					Employment support programmes			
			Vocational training	Refreshing of professional knowledge and practical skills of the long-term unemployed	Job club	Public work	Supported jobs	Subsidised job opportunities	Organisation of own business		
133,667	15,686	127,398	23,334	1,549	46,892	48,131	4,792	2,564	36	50,522	14,410

**Table 1:** Budget of the Employment Fund in 2002 (€ million, %)

	€ million	Percentage
<b>Received funds</b>	<b>54.84</b>	<b>100.0</b>
Used for passive support	18.13	33.1
Used for active support	21.61	39.4
Used for funding of the labour exchange activities	15.10	27.5

established in 1991) and the Lithuanian Labour Market Training Authority (LLMTA, established in 1992).

The Labour Exchange (LLE) has 46 district labour exchange offices situated throughout Lithuania, with 26 additional sub-district offices in a number of major settlements. Last year, the LLE had an overall staff of 1,465, of whom 56% were frontline staff. Women made up 81% of the personnel.

The Lithuanian Labour Market Training Authority is responsible for organising labour market vocational education and training, vocational guidance and counselling as well as for supervising the implementation and ensuring the quality of labour market vocational training. It has six subordinate regional services dealing with the organisation of training and counselling and providing vocational advice and guidance services to adults and youngsters.

## Outlook

### Future labour market projections

The Republic of Lithuania's Parliament, the Seimas, has approved a National Strategy for Long-term Development to help the implementation of strategic objectives specified in the government's

programme for increasing employment, 2001-2004. It provides for further efforts to create employment, minimise unemployment, and improve the quality of job opportunities. To achieve these basic goals, the Strategy states that the following factors will have an impact on employment and help meet the EU requirements of the European Employment Strategy:

- Improvement of employment capacity (activation of labour market policies, improvement of vocational training and development of enduring education and training system);
- Encouraging creation of new job opportunities (provision of favourable conditions for creation of new job opportunities, facilitation of local employment initiatives);
- Improvement of capacity to adapt to changes (development of flexible forms of work organisation and payment, improvement of employees' qualifications, mitigation of consequences of structural changes);
- Building equal opportunities policy for men and women;
- Improvement of employment policy integration;
- Creation of safe and healthy work environment at work, minimisation and prevention of accidents at work and work-related diseases;
- Improvement of employment relations and social partnership.

### Impact of accession

The enlargement of the European Union (EU) creates favourable conditions for the population of new Member States to move freely and find jobs in other countries of the EU. Better working conditions and higher wages are the main stimuli inducing people to move from one country to another. The new Member States are generally poorer than the existing EU Member States, with considerably different levels of economic development and higher wage differences.

The free migration of labour will have an impact on Lithuania and, in the short term, one can expect more negative consequences than

positive ones. This is attributable to the social-demographic characteristics of the people who are likely to migrate. For example, more people in work are likely to emigrate than unemployed people. For this reason, the volume of production, savings and current financing of the national budget as well as the social insurance budget are all likely to decrease. According to the data of Survey of Living Conditions conducted in 2002, three-quarters of likely migrants will have jobs.

The emigration of skilled labour will have more negative consequences than that of unskilled labour. In the longer term, the negative consequences will be less important, since the “brain-drain” will be compensated for by the “brain-return”; the relative surplus of unskilled labour will in part be absorbed by foreign capital investment into labour-intensive sectors; the decrease in household expenditure and savings will be compensated for by increased numbers of returnees and greater economic development.

The only way to avoid a “brain-drain” in the longer term will be to strengthen the economy, raise general living standards, and create jobs that correspond to employees’ qualifications. Therefore, the “brain-drain” would be more serious for Lithuania if it were not to become a member of the EU and if the pace of economic development were to slow.

People who migrate to other countries to work but not to live usually stay in that country for a shorter period – mostly for one year, seldom for between one and three years and very rarely for a period longer than five years. Returnees might bring back valuable work experience and income, thereby increasing household expenditure and savings. This would benefit the economy in the longer term.

## Conclusions

The growth of the Lithuanian economy has been accompanied by an improving situation in the labour market: unemployment is falling, employment and wages are rising. The number of people employed in the service sector is also increasing, while the number of

people employed in agriculture is falling. Active labour market policies are becoming more important in Lithuania. The newly-adopted Employment Code has created conditions for more flexible forms of employment. It also provides greater opportunities to apply collective agreements and develop social dialogue.

Despite these positive developments, the situation in the labour market remains quite complicated. Unemployment is still high. The employment rate for men is quite low, unemployment among young people is high, long-term unemployment is widespread and regional differences in unemployment rates are significant.

The European Commission’s Joint Assessment Paper identified the following issues requiring monitoring and improvement in Lithuania:

- Efficiency of education and vocational training services to fit with market needs;
- Wage changes to support collective agreements;
- Social assistance to the unemployed in order to facilitate employment and participation in labour market policies;
- Active labour market policies to improve the involvement of long-term unemployed people and orientation towards permanent employment;
- Use of the European Social Fund to help achieve the objectives of employment policy.

Positive changes in the Lithuanian labour market should not detract from the need to look at employment policy. On the one hand, Lithuania still lags behind the EU average according to a number of labour market indices; on the other hand, the free movement of labour upon entry to the EU might make the situation in the labour market even more complicated, since skilled labour shortages already exist in some regions of Lithuania (e.g., South Lithuania). Therefore, future economic growth will increasingly depend on effective employment and vocational training policies.

*Boguslavas Gruzevskis and Julija Moskvina*

# Malta

## Introduction

Malta is the smallest of the new EU Member States and one of the most open economies, as its imports and exports are each close to 100% of gross domestic product (GDP). It has strong trade ties with the EU, which account for around 60% of Malta’s imports and exports and virtually all of its incoming foreign direct investment. Malta has a population of around 400,000 and a labour force of just under 160,000. Its GDP per capita currently stands close to 69% of the EU average on a purchasing power parity basis, making Malta an Objective 1 country for the purposes of EU funds.

During the first half of the 1990s, rapid growth in Malta’s GDP – averaging 6% per annum – was partly stimulated by fiscal expansion. However, the Maltese economy currently faces the twin problems of an excessively large fiscal deficit and a slowdown in economic growth. At an average of 0.7% per annum over the past two years,

economic growth is insufficient for a country in Malta’s state of development. If these two trends persist, they could jeopardise the process of economic convergence with the EU.

The fiscal deficit reached a peak of 12% of GDP in 1995. It was reined in to around 5% by 2001, mainly through higher taxation. The Government plans to bring the fiscal deficit down to 3% of GDP by 2006 in anticipation of adopting the euro. But the economy can hardly withstand further increases in taxes, in part because of the slowdown in economic growth rates. It is thus envisaged that the further reduction in the fiscal deficit is to be achieved mainly through efficiency gains within the public sector, covering among other things the collection of tax dues and the administration of social and health expenditure.

The labour market will be affected by an envisaged reform of the social security system. The reform is being drafted by a National

Commission in which the various social partners will be represented. The system of social protection in Malta is considered to be well developed and offers a wide range of services. Its cost, estimated at around one-eighth of GDP, is being questioned in relation to the genuine needs of the population, the creation of disincentives to work and its sustainability in the face of an ageing population. In the same spirit, a reform of the healthcare system, which currently offers top-class health services on a universal basis at no cost to the user, is also being contemplated.

The macro-economic restructuring necessary to improve the long-term sustainability of Malta's economy and to assist in the EU membership process is being accompanied by micro-economic reform intended to improve the country's competitiveness. This involves privatisation, industrial restructuring and the removal of protectionist mechanisms. Domestic producers will therefore be more exposed to international competition. This process could place pressures on labour-market policies in Malta through temporary increases in unemployment and the need for retraining and ancillary measures. Another important phenomenon is women's low, but increasing, participation rate in the Maltese labour force, which is giving rise to important work-life balance and care issues.

The macro- and micro-economic influences on the labour market in Malta are succinctly summarised in the Report of the Employment Taskforce of the EU Commission, issued in November 2003.<sup>1</sup> The report observes that the employment rate of the working-age population in Malta is particularly low. This is mainly a reflection of the low female employment rate in Malta: at one-third of the female working-age population, it is one of the lowest rates in the EU (including the accession countries). The employment rate of older workers is also particularly low. In addition, the report notes the low levels of education among the workforce and skill mismatches, along with high rates of early school leavers, illiteracy and workers with few or no skills.

One key challenge facing the labour market in Malta is economic restructuring, particularly in redeploying underemployed workers in the public sector towards productive and sustainable employment opportunities. Privatisation is an important element of this programme.

The EU Commission report calls for a reduction in administrative costs and tax burdens on labour, and a widening of the gap between the minimum wage and benefit levels, in order to provide sufficient incentives to take up a job and to discourage irregular employment. Furthermore, to create new jobs the report calls for the exploitation of the revised Business Promotion Act and also for an increase in female participation in the formal economy, by improving childcare facilities. There is in addition a strong need to raise general educational levels by reducing the number of drop-outs from school and raising participation in training, particularly for low-skilled workers. The report also recommends the inclusion of the social partners in developing a more systematic approach to education and training.

Regarding this last point, an important development announced in the fiscal budget speech on 24 November 2003 relates to the creation of a "New Social Pact" between the social partners. An initial attempt at a social pact took place 12 years ago, but dissolved into an arrangement which calculates wage adjustments in relation to the cost of living. A new pact aimed at improving the competitiveness of the economy, not least through the operation of the labour market, is now being envisaged.

## ***Labour-market trends***

### ***Employment***

#### ***Labour-market developments***

The results of the Labour Force Surveys (LFS) published by the National Statistics Office (NSO) indicate that in June 2003,<sup>2</sup> the number of people in the labour force in Malta was 160,863 – around 4.5% higher than the 2000 level. The gainfully occupied population expanded by 5,361 (3.74%) during the same period. These results indicate a certain degree of resilience by the Maltese labour market, since – despite the global economic slowdown which followed the September 11 terrorist attacks – employment rates increased until June 2002, after which a small decrease was registered. In fact, employment grew by 3.9% between May 2000 and June 2002, and fell by 0.1% during the following 12-month period. The number of employed men and women grew at approximately the same rate, 3.7%.

#### ***Structural changes in employment: sectoral trends***

The shift towards private services, which characterised the 1990s, spilled over into the first three years of the 2000s. Between May 2000 and June 2003, employment in services and industry increased by 2.1% and 4.2% respectively, while agricultural employment fell by 5.4%. In June 2003, the share of agricultural employment was 1.9%, that of industry 38.2% and that of services 59.5%.

An examination of employment by economic activity shows that during the period May 2000 to June 2003, a large drop in manufacturing employment was registered. This reflected the effects both of the global economic slowdown on exporting firms and of restructuring programmes in domestically oriented companies. Following the September 11 attacks, which negatively affected the tourism industry worldwide, employment in tourism-dependent sectors (hotels and restaurants) was 7.1% lower in June 2003 than it was in June 2001, though this figure was still above the 2000 level. This is another illustration that, although clearly affected by the global slowdown, the Maltese economy nevertheless exhibited a degree of resilience. The construction industry and real-estate sector continued to add to their existing workforce.

#### ***Public/private distribution***

In June 2003, 66% of employed people worked in the private sector and 34% worked in government ministries, departments and government-controlled companies, of which 7.4% worked in independent statutory bodies. Rates of employment in the public sector were similar for both genders, at 34.4% and 33.2% of all employed men and women respectively. Employment in government-controlled companies declined substantially following early retirement schemes in the shipyards during the first half of 2002 and the privatisation of state-owned enterprises.

#### ***Self-employment***

There has been a slight increase in self-employment over the past three years, bringing it to 14% of the labour force in June 2003, compared with 12.1% in 2000. At the end of June 2003, the proportion of male self-employment was 81.5%, compared with 86% in 2000; this implies an increasing trend towards self-employment by women. At 8.5% and 16.4% respectively, both female and male self-employment rates are higher than the figures recorded in 2000.

<sup>1</sup> EU Commission (2003), *Jobs, Jobs, Jobs. Creating More Employment in Europe*, Report of the Employment Taskforce chaired by Wim Kok, November.

<sup>2</sup> Latest quarter for which such data are available.



### *Full-time and part-time employment*

An increasing trend in part-time employment was observed between May 2000 and June 2003, with an average annual growth rate of 13.3% during this period. At the end of June 2003, the number of people working on a part-time basis amounted to 13,857. This is equivalent to 10.3% of the number of full-time employees. Of these, 68.5% were women. Since May 2000, there has been a 45% increase in the numbers of people working part-time as their primary job.

### *Key developments in wage rates*

In terms of average gross salary levels, the LFS results show an increase of 12.5% during the three-year period 2000 to 2003. This increase was spread across all categories, but was mainly attributable to the wages of legislators, senior officials and managers. Whereas this sector experienced a wage increase of 25.1%, the wages of plant and machine operators and assemblers increased by only 8%.

## **Participation**

### *Employment rates*

The employment rate fluctuated between 2000 and 2003. The latest statistics show that at the end of June 2003 it was 54.6%, 0.3 percentage points lower than the 2000 figure. The gap between male and female employment rates is very large: in June 2003, the employment rate for men was 75.6%, compared with 33.4% for women. During the three-year period reviewed, these gender employment rates remained stable and no signs of convergence were noted.

Increases in the numbers of young people in tertiary education led to a drop in the proportion of workers aged under 25. This decrease was wholly attributable to female employees, the proportion of which fell from 33.7% in May 2000 to 29.8% in June 2003. Meanwhile, the proportion of gainfully occupied people in the 55-64 age bracket increased from 7.4% to 8.8% during the same period.

### *Activity rates*

Activity rates increased marginally between 2000 and 2003. In June 2003, the figure stood at 59.1%. The increase was totally attributable to a rise in female participation. With a 0.9% increase, this completely offset the 0.6% drop in the male activity rate. At the end of June 2003, the activity rate for men stood at 80.8%, whereas that for women was 37.1%.

A survey carried out in June 2002 indicated that 8.4% of the total working-age population had a long-standing health problem or disability. Most of these employees had a primary level of education and were working in the service sector.

### *Gender wage differentials and female representation*

Wage differentials between men and women declined significantly between 2000 and 2003. Whereas in May 2000 the pay gap was approximately equal to 32.7%, by June 2003 this difference had dropped to 17.4%. Large differences occurred in low-skilled jobs, such as shop workers and agricultural workers. Conversely, the pay gap in the wages of legislators, senior officials and managers was only 3.6%.

Traditionally, women have taken up low-skilled employment, such as shop workers and machine operators. The latest LFS results indicate an increased number of female professionals and clerks.

### *Training and further education*

Data from the December 2002 issue of the LFS show that at the end of 2002, only 6.1% of the gainfully occupied population were engaged in some form of training or education programme. Participation in training and education courses was more popular among women, who made up 60% of those engaged in such studies. Younger workers were more likely to be pursuing training opportunities than older workers; 7.6% of those in the 15-39 age bracket were undertaking training, whereas only 4.1% of those aged over 40 were doing so.

Employees in the public sector are almost twice as likely to participate in training than their private-sector counterparts. Workers with a minimum primary and secondary education background are less likely to engage in training activities compared with employees with a post-secondary or higher education background.

### *Accidents at work*

Claims for injury benefits indicate that occupational accidents primarily affect employees in low-skilled occupations, and craft and related workers. Accidents tend to involve men rather than women and are spread across all age groups.

### *Social dialogue and worker involvement*

Trade union membership increased by 3.4% during the period June 1995 to June 2002, to 62.8% of the total gainfully occupied population. The number of working days lost per 1,000 people because of strike action was 3,244. This figure is lower than that for five EU Member States and two acceding countries.

## **Unemployment**

At the end of June 2003, the unemployment rate was 7.5%, 0.7 percentage points higher than the rate recorded in 2002. The economic dependency ratio increased from 0.07 in May 2000 to 0.08 in June 2003. The increase in unemployment was almost entirely due to an increase in the number of unemployed women. During this period, the female unemployment rate rose from 7.3% to 9.9%, while the male unemployment rate declined by 0.2%, to 6.4%. Unemployment growth was registered in those aged under 34 and among short-term unemployed people, while unemployment among those aged over 35 and long-term unemployed people fell. These relationships held for both genders.

## **Active labour market policies**

Among the priorities outlined in Malta's Joint Assessment of Employment Policies (JAP) Report (2001) was the need to increase the overall level of employment. This issue is particularly important given the underlying challenges faced by the Maltese economy in the light of an ageing population. Indeed, over the next 25 years the number of workers supporting one pensioner is expected to fall from four to two. A generous welfare system, coupled with the ageing population, has resulted in excessive spending and is imposing a burden on government finances.

### *Lowering the unemployment rate*

One direct way of tackling this issue is by trying to lower the unemployment rate. The Employment Training Corporation (ETC) is undertaking this task by offering various programmes and schemes to assist in the transition from unemployment to employment. One programme currently run by the ETC gives unemployed people the opportunity to upgrade their skills or

acquire new ones which may be in demand in the labour market. This programme not only tries to tackle the problem of skill mismatches, but also actively aims to upskill older workers. At present, more than half of those over the age of 40 registering as unemployed have very low levels of education.<sup>3</sup> The ETC programme is particularly useful as it gives this age group the opportunity to learn new skills or enhance existing ones. Another initiative pursued by the ETC is to publish an employment barometer, which looks at labour from the demand side and seeks to identify skills gaps.

The ETC recently attempted to tackle long-term unemployment by inviting dialogue between employers, unemployed people and bodies such as the Chamber of Commerce and the Federation of Industry. The outcome of the seminar was somewhat positive, as all parties had the opportunity to air and share their concerns.

### *Attracting inactive workers*

Another way of increasing the overall employment level in Malta is by attracting inactive workers into the labour force. Malta has one of the lowest female participation rates among the accession countries, though from a recent study<sup>4</sup> it appears that the actual female participation rate exceeds official data. According to this study, one of the main reasons why women do not participate in the labour market is because of caring responsibilities. Increasing women's participation would require a cultural change within Maltese society but, in addition, the issue of more supportive structures for working mothers needs to be addressed. The ETC has put forward a European Social Fund (ESF) project which aims to encourage and support employers and local councils to open childcare centres. The Government also offers means-tested subsidies to families who use childcare centres, for children under a specific age.

The creation of flexible working hours is another initiative which needs to be addressed in order to attract potential workers into the labour force. The ETC will be using interest in home-based work to initiate a related ESF project. The possibility of allowing employees to work at home in their own time, along with job-sharing where feasible, is also being sought as a potential policy for improving flexibility. Furthermore, the ETC is also working on the creation of a part-time register for those who want alternative working hours to the standard 40-hour week. This policy is expected to lead to a higher female participation rate.

Various campaigns have also been launched to encourage students to further their education. Further to this, female students are being encouraged to further their education in areas such as engineering and science.

### *Gender equality and discrimination*

A White Paper to promote gender equality was issued in 2002. It incorporates the requirements of several EU Directives. As soon as the resulting Act is implemented, it is expected that the gender pay gap will fall at a faster pace than it has in the last few years.

Another area currently being given its due importance is discrimination, especially in relation to disabled people. The National Commission for Disabled Persons will launch a paper in honour of the European Year for Disabled People, where proposals for supportive employment will be launched.

### *Transferring undeclared work to regular employment*

There is considerable non-reporting of economic activity, by both men and women. This issue was highlighted in the JAP Report and was to some extent tackled in the 2002 budget presented by the Government. The 2002 budget widened income tax brackets both for married couples and for those opting for a separate declaration. Separate declaration was used as a way to encourage a higher female participation rate. In addition, a structure for improved law enforcement has been adopted, with a Tax Compliance Unit and a Benefit Fraud Unit being set up for this purpose.

### *Vocational education and training*

Illiteracy is another important issue that needs to be tackled in Malta. The vocational education and training system needs modernising, and this requires improving the quality and efficiency of the education and training system.

Since its inception in 2001, the Malta College of Arts, Science and Technology (MCAST) has attracted students to further their education by offering vocational studies as an alternative to post-secondary education. The Government increased the expenditure fund for MCAST by over 300% from 2001 to 2002, and the estimated figure for 2004 is expected to increase by a further 86%.

The ETC also offers apprenticeship schemes – 284 apprentices have recently graduated from these schemes. The ETC offers training grant schemes as a financial incentive to manufacturing companies to train their new recruits and/or retrain their own staff.

The various programmes tackling education appear to be paying off. For example, Microsoft decided to invest in Malta by opening up an office. An agreement was made with the Government whereby several Microsoft educational programmes were distributed to students. Another deal was concluded with the company whereby a Microsoft Regional Academy will be set up in Malta. This will establish Malta as a hub for information and communications technology (ICT), thus creating further employment opportunities.

### *Entrepreneurship*

Other initiatives have also been set up to create jobs through entrepreneurship. The Institute for the Promotion of Small Enterprise has continued its programmes of assistance, offering grants and subsidies as well as advice. Moreover, start-ups are also being encouraged through programmes offered by the Kordin Business Incubation Centre.

### *Governance and partnership*

Despite privatisation and early retirement schemes offered by the Government, the number of public-sector employees in Malta is still high. This issue has been given priority as it is seen as a burden on public finances, as well as eroding competitiveness.

A new programme called "Public-Private Partnerships" has recently been launched. Emphasis has been placed on developing a scheme in which under-utilised public-sector staff will work on government projects and on projects managed by the private sector. It is hoped that government services will be improved by drawing on the best competencies of both the private and public sectors. However, restructuring is neither painless nor cost-neutral. In early 2004, the dry docks underwent a restructuring process with a number of employees laid off and others offered more productive jobs.

<sup>3</sup> www.etc.org.mt

<sup>4</sup> Godfrey Baldacchino (2003).

The need for reform has been highlighted in the White Paper on public services, the aim of which is to promote efficiency in the public sector. But this will not be possible unless extensive social dialogue is undertaken by all partners. In its latest budget, the Government pointed out the important role of the Malta Council for Economic and Social Development in this process. The Council is responsible for influencing competitiveness as well as for developing a social pact that will speed up progress.

### *Health and safety*

Malta tends to lag behind in this labour quality indicator, but successive measures have been adopted to tackle this issue. An Occupational Health and Safety Authority was set up in 2000 and this, together with the Department of Industrial and Employment Relations, ensures that all workers are well protected at their place of work.

Inevitably, all of these active labour-market policies come at a cost. The ETC receives approximately €3,425,100 annually from the Ministry of Social Policy, with the estimate for 2004 expected to increase by 2.7%.<sup>5</sup> In addition, approved estimates for 2004 for training and employment programmes are expected to increase by approximately 33%. This emphasises the Government's commitment to introducing active labour-market policies. However, as indicated above, the benefits of these policies are paying off.

### *Passive policies*

The gap between the minimum wage and benefit levels in Malta remains small, hence there is insufficient incentive to take up work. Social security reform has become a top priority as the shortfall between income and expenditure has increased significantly over time. Most of this increase has arisen as a result of retirement pensions (as mentioned above) and social assistance, which includes unemployment assistance and unemployment benefits. In the latest budget speech, the Minister announced that 5,395 beneficiaries are currently making use of unemployment assistance, amounting to an expenditure of €400,711 per week; in addition, 3,044 beneficiaries are making use of unemployment income supplements, amounting to an expenditure of €19,442 per week. The Minister also emphasised the importance of exercising vigilance in the distribution of social security benefits.

Various measures have been adopted to make sure that the system is designed in a way that gives individuals incentives to seek employment. Single unemployed people living with their parents can only receive unemployment benefits for an initial period of six months, after which no benefit is granted. In addition, unemployment benefits are means-tested on the income of the household for people who remain on the unemployment register for long periods of time and who find difficulties when seeking employment. These policies are expected to encourage unemployed people to look for work rather than rely purely on state handouts.

The ETC carried out a survey which showed that there is some abuse taking place in job registration. This phenomenon consists of people who are not available for work even though they are registering as unemployed. The majority of such people would either be living comfortably on the social assistance they are receiving or are engaged in informal economic activity. Based on these findings, the Corporation issued a statement indicating that it will take action and strike off the unemployment register anyone who refuses to accept job training without a valid reason. Moreover,

the ETC's law-enforcement activities will be stepped up to identify those who are abusing the system.

Data published by the National Statistical Office<sup>6</sup> indicate that unemployment benefits and special unemployment benefits dropped in 2000 from the levels registered in 1999, only to pick up again in 2001 and 2002. Moreover, social assistance – part of which is related to unemployment – also followed a similar pattern.

In order to increase the tax base, the Government has over the years opted to introduce VAT on certain products, and to increase VAT from 15% to 18% as from January 2004. However, this decision was not taken without considering its impact on workers. The Government has made sure that the higher cost of living from this policy will be absorbed by the Cost of Living Adjustment next year, whereby €91 will be awarded to all people in employment and to all pensioners.

### *Outlook*

Ensuring the competitiveness of the Maltese economy is essential in order to achieve its long-term development aspirations. The economy's competitiveness hinges on competitive firms, which in turn are strongly dependent on a highly qualified and flexible labour force. The extent to which companies in Malta will adapt to changing market circumstances is largely conditional on the availability of qualified and skilled human resources, prevailing work organisation, low frequency of strikes, labour regulations and a competitive overall labour cost structure. Practical ways should be found to increase women's participation in the labour market without increasing burdens on businesses.

Increasing productivity and improving the quality of work is even more imperative since Malta will become a member of the European Union in May 2004. Malta has adopted a seven-year transitional period, where Maltese citizens will have the right to seek work in EU Member States while Malta can stop EU citizens from coming to work in Malta. So unless employees with higher education are remunerated competitively, Malta will face the possibility of a "brain drain". Also, since increased access to such a large market will bring about added competition, increased short-term unemployment may be possible in the short run if firms do not restructure.

Social partners should strike an appropriate balance between increased wages, productivity and taxation. Also, the inclusion of flexible mechanisms for any future wage agreements should receive serious consideration, given the changing economic circumstances. It is thus important that the Maltese labour force strives to continuously improve its productivity.

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# Poland

## Introduction

The principal defining feature of the Polish labour market in 2003 is presented in the fact that unemployment has become stable<sup>1</sup> at the high level of 17%. As a point worth noting, the steady level of unemployment was accompanied by an economic upturn, with forecasts speaking of a 3% increase of GDP for the year 2003, a phenomenon known as jobless economic growth. Government strategies are focused on attaining higher rates of economic growth in the coming years, and economic growth is adopted as a priority for economic and social policy. This is a manifestation of the conviction on the part of Polish policy-makers that maintaining GDP in consecutive years will entail an increase of jobs and reduced unemployment. GDP figures serve as the principal point of reference when discussing the Polish economy.

The pursuit of pro-growth economic policy in Poland faces a number of difficulties. The foremost of these is the high budget deficit, described with increasing frequency as nothing short of a crisis of the country's public finances. Many policy-makers take the view that a policy of economic growth will only be possible if accompanied by "rationalisation", understood as scaling back state expenditure – especially in the area of social benefits. The recent strategy papers produced by the Polish Government provide for a broad cost-cutting reform of the social security scheme.

The original swelling of the ranks of unemployed persons in Poland in the early 1990s was caused by the country's transition from command to market economy and industrial restructuring. Measures taken to assuage the social trauma of unemployment included a series of incentives encouraging early retirement and a relatively "liberal" system for the awarding and paying out of disability benefits. The most inefficient sectors were heavily subsidised to prevent such problems as defaulting on wage payments. As these policies were implemented, the Polish population displayed decreasing drift with respect to economic activity, and the country's proportion of persons drawing disability payments became one of the highest in Europe. Accordingly, these strategies necessitated a high level of social transfers, covered partly out of proceeds from the privatisation of state-owned enterprises. Now, the looming crisis of public finances and the planned scaling back of expenditures mean that a major shift in labour market policies will be required.

The plans for "rationalising" public expenditures have now been put to the public for debate. The government strategy now being pursued also involves addressing some of the demands of the business community, such as significant decrease (as of 2004) of corporate income tax. Also, the legislature is planning to introduce some regulatory changes geared at creating a more business-friendly environment conducive to the multiplication of jobs; the aim being to reduce red tape and thus encourage entrepreneurs.

The implementation of "socially sensitive" reforms, presented in terms of a do-or-die alternative, will require stable political backing and effective institutions for social dialogue; the current cabinet will have its work cut out in achieving this. Another unknown is

presented in the potential scope of social conflict arising from labour union resistance to the proposed solutions, and also in intractability of the administrative apparatus. It would appear that the attainment of agreement with the unions within the social dialogue structures presently in place, including the central Trilateral Commission, may be difficult indeed.

Poland's accession to the European Union in 2004 entails an acceleration of the harmonisation of the country's laws and administrative structures in line with EU requirements. Membership in the European Union is likely to cause varied economic benefits. However, risks posed to the nascent economic upturn by the ballooning budget deficit have been engendering fears as to Poland's capacity of actually making use of the EU resources placed at its disposal within the Structural Funds. In order to put the EU funds to good use, the state administration must operate to a high standard of effectiveness, and the non-governmental sector must also be involved. Similar requirements apply to labour market policies and to the institutional infrastructure necessary for utilisation of European Social Fund resources.

The co-ordination of labour market policies within the EU requires incorporating the premises of the various European employment strategies (EES, EGLs, BEPGs) into domestic legislation and their appropriate transposition. The process of harmonisation of Polish law, in progress for several years, has been characterised by a marked increase, in numerical terms, of legislative acts and ordinances, as legislation is extended to hitherto unregulated areas. This means that co-ordination of Polish social policy with respect to the labour market to date has been progressing by way of augmenting the extant legal regulations with those required or recommended by pertinent EU documents. As a result, implementation of the *acquis communautaire* in Poland – also as regards labour laws and labour market policy – has been resulting in problems such as an excess number of regulatory instruments, instability, and poor quality of the legislation produced on short order. The legislative Act regarding employment and counteraction of unemployment from 1994, for instance, has been amended no less than 40 times<sup>2</sup>, and the Polish Labour Code has been amended 24 times<sup>3</sup> (this after its extensive revision in 1996). The key question for the Polish labour market is to what extent execution of the EES requires delimiting the scope of regulatory control and to what extent it calls for more effective legislative measures.

## Labour market trends

### *Demographic tendencies, means of support of the Polish population*

As compared with other European countries, the demographic situation of Poland is a relatively favourable one<sup>4</sup>. According to estimates of the Central Statistical Office of Poland (Polish acronym *GUS*), the increase – in real terms – of the population within working age over the period 1996-2000 was approximately 1,000,000 people, expected to reach 1,200,000 by 2005. Over the five-year

<sup>1</sup> Unemployed persons registered in local labour offices.

<sup>2</sup> Nine substantive amendments, others relating to adjustment of other statutory acts.

<sup>3</sup> Eleven substantive amendments, others relating to adjustment of other statutory acts.

<sup>4</sup> GUS forecasts; the working age population refers to males aged 18-64 and females aged 18-59.

period beginning in 2005, the working-age population increase will slow down, but an actual decrease in the absolute number of people in this age category is not expected until the year 2010.

The demographic forecasts prepared by GUS suggest that the coming years will be very difficult for the labour market in Poland. On the one hand, it would be highly desirable if new jobs were created in order to absorb the supply of labour brought by the demographic boom. On the other, the Polish economy has in excess of 3,000,000 unemployed people for whom no jobs are available at present. Thus, Poland's large labour pool can be put to constructive use only if economic policies conducive to the creation of new jobs are consistently pursued.

The results of the general census executed in Poland in 2002<sup>5</sup> point to significant changes in the economic circumstances of the Polish population since the year 1988. Between those two years, the absolute number of people earning their living by labour fell by 4,864,000, i.e. by almost 30% (total population: 1988 – 37,879,100; 2002 – 38,230,100). Now, only 32.3% of Poland's population support themselves from work earnings, as compared with 45.4% in 1988. The break-down of principal sources of income for the Polish population in 2002 was as follows:

- Earnings from labour – 32.3%;
- Non-earning sources – 28.0%;
- Supported by others – 38.1%;
- Unidentified sources – 1.6%.

The decrease in the number of people supporting themselves from labour was caused first and foremost by the deep crisis affecting the labour market and the attendant increase of unemployment in the 1990s, combined with the 24.1% increase of the working-age population. Of the persons supporting themselves from sources other than earnings from a job, almost half were drawing retirement benefits (either under the general social insurance scheme or the one for agricultural workers). The number of people living on social aid payments has increased four-fold since the year 1988. And thus, the principal sources of non-earning income for Poles for the year 2002 were as follows:

- Retirement benefit – 49.8%;
- Benefits on account of inability to work (disability insurance) – 23.7%;
- Family benefits – 7.8%;
- Unemployment benefits – 5.7%;
- Social aid – 2.3%.

Between 1988 and 2002 there was a decline in the number of people in gainful employment, which translates into increased social expenditures from the state budget and into progressive pauperisation of the population, first and foremost among those who support themselves out of various benefits.

### *Characteristics of the labour market*

#### *Economic activity trends*

Defining characteristics of the Polish labour market include declining vocational activity in the population and increasing unemployment. During the ten years between 1992 and 2002, the vocational activity rate in Poland dropped from 61.7% to 55%<sup>6</sup>.

Comparative data gleaned from the consecutive censuses carried out in Poland indicates that, between the years of 1988 and 2002, the vocational activity rate for the population as a whole fell from 65.3% to 55%, with the most noticeable decrease among the oldest members of the population, i.e. those aged 55-64 (from 52.3% to 30.4%) and those aged 65 and above (from 24.1% to 6.9%).

Thus, there have been two distinct trends in evidence since 1989. The first, appearing in the early 1990s, comprised departure from the labour market of the most elderly. The second tendency, establishing itself at a somewhat later date, comprised declining vocational activity among the youngest. In other words, the oldest members of the working population retired, the youngest stayed in school. This conclusion is borne out by the net scholarisation data for secondary and higher education.

#### *Employment trends*

The falling vocational activity rates were accompanied by decreasing employment. Over the ten-year period spanning 1992 and 2002, the employment rate in Poland fell from 53.5% to 44.1% and is now one of the lowest in Europe.

The number of employed Poles declined over the years 1992 to 2002 from approximately 15,100,000 to 13,700,000. Analysis of the pertinent education data points to an overall increase of the education level. At the same time, the proportion of the least educated persons among the employed has dropped from 25.7% to 13.2%. Table 1 summarises the education data for working Poles.

The years 1992-2002 witnessed a decline in the vocational involvement of all employee categories, irrespective of the education level. The fall in employment rates was least severe for those who had completed higher education degrees – down from 77.3% to 73.9%. In 1992, the lowest employment rates were noted for persons not holding any vocational qualifications, at the secondary level (45.9%) as well as below secondary (34.5%).

A tendency worth noting is presented in the drop in employment among the youngest persons (15 to 24 years old) from 32.8% in 1992 to 20.4% in 2002, likewise among those aged 55 and above (Table 1). And thus, in the case of the youngest participants in the labour market, there was a higher propensity to continue in education or to remain unemployed and, for the oldest workers – vocational deactivation processes, eligibility for retirement or disability benefits.

Of the Poles remaining in paid employment in the year 2002, most were retained as salaried workers (72.4%)<sup>7</sup>. The self-employed and employers in their own right accounted for 22.5%. The break-down by employment status was as follows:

- Paid employees in the public sector – 32.8%;
- Paid employees in the private sector – 39.6%;
- Self-employed – 18.7%;
- Employers – 3.8%;
- Contributing family members – 5.1%.

With regards to the employment structure in various sectors of the economy, an increase of employment in the services sectors has been in evidence since the 1990s, attaining 50.1% in 2001.<sup>8</sup> Employment in the industrial sector was 30.7%. This notwithstanding, employment in the agricultural sector remained high, at 19.2%. The analogous figures for the European Union were, respectively, 69.4%, 26.4%, and 4.2%.

<sup>5</sup> The National Census of Population and Households was carried out in Poland between 21 May and 8 June, 2002; the previous one was carried out in 1988.

<sup>6</sup> National data, Labour Force Survey (BAEL), Central Statistical Office (GUS), 2003. Eurostat data on economic activity and employment (LFS) based on population aged 15-64, GUS national data (BAEL) based on population aged 15 and above.

<sup>7</sup> GUS BAEL, fourth quarter of 2002.

<sup>8</sup> *Employment in Europe 2002*, Luxembourg: Office for Official Publications of the European Communities, 2002.

**Table 1:** Employment rate by age in the fourth quarter of 1992 and 2002<sup>9</sup>

	Total	By age (%)					
		15-24	25-34	35-44	45-54	55-59/64	60/65 and over
<b>Total</b>							
1992	53.3	<b>32.8</b>	73.0	79.6	69.5	38.6	14.8
2002	44.1	<b>20.4</b>	68.1	73.5	61.2	26.4	6.3
<b>Males</b>							
1992	61.4	<b>36.8</b>	83.9	84.1	74.8	42.5	17.8
2002	50.7	<b>22.5</b>	76.6	78.4	65.3	34.4	9.5
<b>Females</b>							
1992	46.0	<b>28.8</b>	61.7	75.3	64.5	31.8	13.5
2002	38.1	<b>18.4</b>	59.4	68.5	57.3	19.6	4.2

Source: GUS BAEL

### Unemployment trends

Unemployment in Poland continues to be very high, and the phenomenon displays all signs of permanence. The 15% unemployment mark was exceeded in 1999; in 2002, Polish unemployment was estimated at 19.7% (see Table 2). Even this high figure, the census data suggests, does not express the full scale of the problem on account of hidden unemployment in the agricultural sector.

Unemployment figures suggest that between 1992 and 2002, there was a general increase in unemployment across the whole population.

Persons who had completed higher education continue to enjoy the most favourable position in the Polish labour market (Table 2). Those educated to general secondary or grammar school level, or lower, continue to fare most poorly, with persons educated to basic vocational or grammar school level and below accounting for 59.6% of all Poles without work in 2002.<sup>10</sup>

In 1992 as well as in 2002, the most numerous category of unemployed persons was comprised of young people, many of them first-time entrants to the job market without prior work experience

to their credit. Persons aged 24 and below accounted for one third of all unemployed persons in Poland; the incidence of unemployment in this age group was 29.0% in 1992 and 43.6% in 2002, the largest proportion among the fifteen EU Member States as well as among the accession states set to join the EU in 2004.

Unemployment in Poland is characterised by a wide degree of regional differentiation and by a persistently poor labour market situation in the parts of the country most at risk of economic stagnation. The voivodships affected with highest unemployment rates in 2002 included the Lubuskie voivodship (unemployment rate of 26.3%) and those of Lower Silesia (26.1%), Western Pomerania (26.0%), and Warmia and Mazury (25.9%).<sup>12</sup> The lowest unemployment rate, 16.3%, was noted in the Małopolska region (whose principal city is Cracow).

Of all unemployed persons in Poland, a sizeable proportion is accounted for by those who have been without jobs for more than 12 months. In the years 2000-2001, members of this category constituted approximately 40% of all unemployed Poles; by 2002, their percentage had increased to 50.4%.<sup>13</sup>

**Table 2:** Unemployment rate among different education groups in the fourth quarter of 1992 and 2002<sup>11</sup>

	Total	Higher	By educational level (%)			
			Post-secondary, vocational secondary	General secondary	Basic vocational	Grammar-school, primary, incomplete primary
<b>Total</b>						
1992	13.7	<b>5.3</b>	12.9	16.5	16.9	12.7
2002	19.7	<b>7.5</b>	17.4	24.0	23.8	25.4
<b>Males</b>						
1992	12.4	<b>5.5</b>	10.7	13.1	14.6	12.7
2002	19.0	<b>6.4</b>	15.3	23.4	22.2	25.8
<b>Females</b>						
1992	15.2	<b>5.2</b>	14.7	17.7	21.7	12.7
2002	20.6	<b>8.3</b>	19.4	24.3	26.8	24.8

Source: GUS BAEL

<sup>9</sup> See footnote 6.<sup>10</sup> GUS BAEL, fourth quarter of 2002.<sup>11</sup> See footnote 6.<sup>12</sup> Eurostat: *Unemployment in the EU and The Acceding Countries*, 131/2003.<sup>13</sup> GUS BAEL, fourth quarter.

### ***Quality and flexibility in the Polish labour market***

In many European Union countries, a relation prevails between the overall employment rate and job quality. Under conditions of high employment, the job quality – defined by various factors – tends to increase. Jobs of higher quality reduce the risk of unemployment and of social exclusion faced by the individual worker concerned.

One prerequisite for improved job quality is presented in the appropriate structure for the demand for labour – more demand for qualified labour in high-tech and knowledge-intensive fields would be called for. Such economic trends significantly increase the efficacy of the legal framework and the prevalence of high standards of work quality.

Regarded in this way, current Polish labour market conditions do not look good for promoting the quantity/quality synergy. The only successes, so far, have been linked to legislative changes made in accordance with EU requirements.

The attainment of a balance between labour flexibility and job security calls for transformation at the level of individual enterprises; they must be quicker in adapting to changes in the business environment. An average of 18.5% of all employees working in the European Union are retained under various part-time schemes<sup>14</sup>, although this form of employment is more common among women (the average figure for male workers being 6%).

The proportion of Polish employees working in flexible forms of employment is lower than that for most EU countries. The decline in part-time employment is more noticeable among women, with the present figure of 11.2% juxtaposed with 13.5% in 1997. Thus, Poland's labour market is characterised by a comparatively small proportion of women working part-time jobs.

The proportion of Polish employees retained on the basis of fixed-term employment contracts in 2001 was 8.6%, as compared with 4% in 1997. Although lower than the EU average, in Poland this type of contract is often the only alternative for a job seeker.

Research suggests that positions for which workers are hired under flexible schemes tend to attract meagre salaries and to generally comply with the colloquial designation “dead-end job”. In Poland, the prevalence of flexible working systems is less than in the EU, and positions in flexible schemes are more likely to be accepted for lack of more attractive options. The low quality of such jobs typically translates into very poor wages, yet they are taken up under conditions of prevalent unemployment, and provide little by way of safeguards against unemployment several months down the line.

Job quality is often related to an employee's qualifications and level of training. Considerable importance therefore is attached to the quality of the educational system and to the economic policies supporting those sectors which rely on knowledge potential. Polish outlays for the research and development sector, both by individual enterprises and state resources, are appreciably lower than in the European Union.

However, some favourable changes in the educational structure of the Polish labour force are manifesting themselves, as is a distinct increase in the proportion of persons with higher education. Recent years have brought a multiplication of educational institutions in Poland, enabling more people to pursue courses of study. This growth occurred after 1990, under conditions of the newly-

established market economy; it was fuelled by a dramatic increase in demand for education and for additional skills.

Financing of the training services sector is derived principally from tuition payments by the individual participants, and also from business enterprises. Even with the recent boom in the market for training courses and continuous education factored in, however, the scope of continuous education in Poland continues to be significantly lower than in most EU countries. The average participation index for various adult/continued education programmes for EU residents aged 25-64 was 8.5% in 2002, as compared with 4.3% in Poland.<sup>15</sup> Polish enterprises spend less on employee training, and the continued education sector in Poland is weak.

Apart from legislative solutions and the macro-economic determinants discussed above, an improvement of job quality in the Polish economy will also rely on wider implementation of modern management methods. Under conditions of economic growth, the propagation of modern human resource management and organisational culture may contribute to the instilling of higher standards in Poland's job market.

### ***Labour market policies***

#### ***The Labour Fund – passive and active labour market policy***

The basic economic instrument for assuaging the problems brought by unemployment and for vocational activation of the jobless in Poland is the Labour Fund, administered by the minister responsible for the labour market. Labour Fund revenues for the year 2002 were broken down as follows:<sup>16</sup>

- Obligatory contributions by employers – 58.1%;
- Grant from the State budget – 28%;
- Other revenues – 13.9%.

The contribution from the State budget was associated with the generally poor financial standing of the Labour Fund. In comparison with the figure for 2002, the state's contribution to the Labour Fund for 2003 will probably increase to where it accounts for 40.6% of all the Labour Fund's revenue; contributions from employers are expected to make up 56.1% of the Labour Fund's revenues, and other sources – 3.3%.

Labour Fund expenditures are divided into passive and active means of counteracting unemployment. The predominant item among Labour Fund outlays comprises benefits paid out to the unemployed (including dole payments and pre-retirement benefits). As the situation on Poland's labour market deteriorated, the share of spending on passive forms of unemployment counteraction in overall Labour Fund expenditures increased. This was the result of an increase – both in the number of recipients as well as in the average amounts disbursed to each one – of unemployment and pre-retirement payments. As the restructuring of the Polish economy ran its course, the Labour Fund was tapped for funds needed to extend some measure of social protection to workers losing their jobs in sectors such as the mining industry.

The employment situation worsened, however, and at the same time, some people were losing their unemployment insurance on account of having claimed unemployment benefits for the maximum period

<sup>14</sup> The remainder of this section cites Eurostat data taken from *Employment in Europe 2002*, Luxembourg: Office for Official Publications of the European Communities, 2002.

<sup>15</sup> Eurostat: *Lifelong learning – total*, General Statistics.

<sup>16</sup> Ministry of the Economy, Labour, and Social Policy.

of time allowed, and the year 1997 brought the introduction of more exacting criteria governing eligibility. These difficulties faced by the Labour Fund translated into a radical curtailing of expenditures on active forms of unemployment counteraction. The year 1998 brought the beginning of a general break-down of all state intervention in the labour market. The number of workers retained for public works and intervention projects declined, as did that of participants in various training workshops – this in spite of the continued increase in unemployment figures. In 1999, the proportion of unemployed Poles covered by active labour market programmes was 2.2%, in 2000 – 1.5%, in 2001 – 0.7%.

### ***European Structural Funds and active labour market policies***

Over the years 2004 to 2006, Poland is set to receive €1,270,400,000 towards two priorities pursued under the Human Resource Development Sector Operating Programme:

- Active policies for the labour market and for vocational and social integration;
- Development of a knowledge-based society.

Under the first of these priorities, measures are envisaged for the strengthening of active forms of unemployment counteraction, such as:

- Development and modernisation of labour market instruments and institutions;
- Perspectives for youth;
- Prevention and counteraction of long-term unemployment;
- Vocational and social integration of disabled persons;
- Fostering the vocational and social integration of at-risk groups;
- Integration and re-integration of women.

This choice of priorities was informed by the tendencies prevailing in Polish unemployment and by the social effects of this phenomenon. The funds earmarked for active counteraction of unemployment at the European as well as at the national level will exceed those budgeted within the Labour Fund several times over. The budgeted funds present a real opportunity for effective activation measures for the labour market. Problems may arise, however, when it comes to their utilisation. Over recent years, the public employment services, the local self-government bodies, and non-governmental organisations alike were loathe to undertake active measures due to the endemic lack of funds. Despite the best intentions, their resulting lack of practical experience may pose a barrier to the preparation of projects as well as to their execution.

### ***Outlook***

Poland's accession will increase economic stability and contribution which, in turn, may possibly lead to greater foreign investment in Poland. EU membership will also bring access to the financing needed for economic modernisation. In the long term, accession will be conducive to economic growth, and it may bring improvements in the labour market.

In the shorter term, however, the situation in Poland's labour market will be shaped by internal circumstances and by the macroeconomic climate, with the public spending reforms discussed above likely to play a key part in its exposure to risk.

Upon Poland's accession to the European Union on 1 May, 2004, Poles will not gain full access to the European labour market. Most of the fifteen current Member States implemented transitional

periods with respect to opening their labour markets to nationals of the newest members to protect their own labour markets and social security nets. Therefore, particularly in the short term, the scope of economic migration out of Poland will not necessarily be large; initially, it will most probably be limited to the young and well-educated.

With respect to Poland's labour market, an indubitable challenge will be posed by utilisation of the European Social Fund resources earmarked for active labour market policies. For many years, financing of this area in Poland has been all but negligible, with the result that the infrastructure, experience and know-how in this regard are very modest indeed.

The slight decrease of the unemployment rate observed in 2003 may be sustained through the creation of new jobs and through the development of entrepreneurship. The various EU documents drawn up while monitoring the accession preparation process point to a continued need for measures encouraging the creation of new jobs. At the same time, employer organisations are lobbying for greater employment flexibility and for simplification of the labour law. While public discourse has been dwelling on such negative aspects of the employee situation as delays in wage payments, employer circles maintain that the quality of the Polish labour laws and the high cost of labour are impeding the growth of enterprises and job creation. The effective support of entrepreneurship will call for intensive dialogue among the social partners so that adapting Polish law to EU norms, does not bring deterioration of its quality.

Integration with the European Union and implementation of its standards requires much effort towards execution of the European Social Model. The implementation of European strategies in the Polish context is proceeding under conditions of transformation and of creating – almost out of nothing – a national model for social and economic policy. Assessment of employment policy should take into account the national context, and the evidence and indicators referring to work quality should refer to the economic and social determinants of development. By way of an example of such context-sensitive indicators measuring the quality of work and of life in Poland, one might mention the accessibility of housing, the possibilities for young people starting out on the job market and/or establishing their own families for residing in a place of their own. If information of this type is not duly considered, the picture of the situation of Polish employees will remain incomplete. Further analysis would augment the list of indicators with further ones appropriate for the country in question and, more generally, for the realities of post-communist economies.

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# Slovakia

## Introduction

The macroeconomic situation in Slovakia was marked by several distinct factors in 2002 and 2003. The dynamics of reforms, which were slowed down by political constraints within the government coalition during 2001-2002, received fresh incentives with the creation of the new cabinet after the parliamentary elections in September 2002. The reform-oriented coalition made the commitment to launch and/or continue delayed reforms in the social sector, namely reforms of healthcare, the pension system, social welfare and labour market, tax system and public administration.

Despite the vivid societal and political discussion about the nature of the reforms, it is evident that the steps taken thus far have contributed to the overall positive economic development. Measures such as introduction of a 19% flat tax rate for all corporate and individual income, amendment of the Labour Code towards higher flexibility of employment relations, legislation enabling privatisation of remaining stakes in utilities, reform of the social system and labour market based on motivation to active approach and cuts in passive benefits, have all supported the fact that Slovakia is frequently considered the region's reform leader.<sup>1</sup> Most of the reforms came into effect in January 2004.

The factors outlined above have induced increased interest on the part of foreign investors. FDI inflow reached 16.9% of GDP in 2002 and is expected to notch 4.2% in 2003. GDP growth has slightly slowed down in 2003 due to austerity measures, but should remain high in 2004. Energy price deregulation and increase of excise taxes (petrol, tobacco, alcohol) are the main reasons behind the 9.6% CPI inflation (3.3% in 2002). The current account deficit decreased from 8.2% in 2002 to less than 3% of GDP in 2003.<sup>2</sup> Unemployment remained relatively high at 17% in the 3<sup>rd</sup> quarter of 2003, but recorded a clear decreasing trend from 18.2% in 3Q/2002 (Labour Force Survey data).

Another important event was the conclusion of accession negotiations at the European Council in Copenhagen in December 2002, which confirmed the country's readiness to join the European Union on 1 May 2004. In the field of social policy and employment,

legislative adjustment and administrative structures have mostly been accomplished.<sup>3</sup> In its regular reports on Slovakia's progress towards accession, the European Commission repeatedly pointed to shortcomings in the administrative preparation for the future management of Structural Funds. The responsible ministries led by the Deputy Prime Minister for European Integration undertook corrective steps during 2003. Box 1 summarises the assessment and requirements stated by the Commission in the November 2003 Monitoring Report on Slovakia's preparations for membership, in the respective field of social policy and employment (chapter 13). The cited findings concern necessary improvements in several dimensions of quality in work.

## Labour market trends

The most distinct and most discussed trend concerns the high unemployment rate, which has grown gradually from 12% in mid-1998 to reach almost 20% at the beginning of 2001. Since then, a moderate decreasing trend has occurred with a significant fall in unemployment to 17% in the first half of 2003. The demographic ageing of the population has caused the number of economically active to grow by roughly 3% over the last five years; however, the number of employed stagnated at the 1999 level. In an economy with insufficient job creation, the increase of the labour force translates into growing unemployment, a typical feature of the Slovak labour market until 2001. Since then, employment has been on the rise. Amongst other significant labour market trends are growing long-term unemployment, high youth unemployment, and persisting large regional disparities in most indicators.

## Labour force participation

Statistical data from recent years show a 51.4% to 48.6% share of women to men with a moderate trend of increasing women's share. Women prevail as early as in middle age and their prevalence increases to a twofold share in the highest age groups. It is a result of higher mortality among males, which is also reflected in life expectancy.

<sup>1</sup> The 2004 Index of Economic Freedom, released annually by the Heritage Foundation and The Wall Street Journal, shows that in North America and Europe Slovakia has achieved the greatest progress toward greater economic freedom in 2003 (Source: Heritage Foundation)

<sup>2</sup> Data for 2003 are preliminary data or estimates (ING Bank, Statistical Office of the SR).

<sup>3</sup> Ageing index defined as ratio of post-productive population to pre-productive population.

**Box 1 Requirements arising from accession negotiations in the field of employment and social policy (as of November 2003, shortened)**

As regards *labour law*, most of the EC legislation has been correctly transposed into Slovak law, especially after the adoption, in May 2003, of new amendments to the Labour Code. Transposition of legislation is still required in the areas of working time for seafarers and mobile workers in civil aviation. Transposition of legislation of the new *acquis*, i.e. involvement of workers in the European Company, is foreseen after accession.

Slovakia has transposed all the necessary legislation in the field of *equal treatment of women and men*. However, some legal adjustments are necessary to achieve full alignment. The pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Furthermore, some adjustments to the Labour Code will be necessary with regards to access to employment as well as provisions concerning the protection of women in employment. Implementing structures are in place, but further strengthening is needed in order to ensure enforcement of the legislation.

Concerning *anti-discrimination*, the EC legislation is only very partially transposed, especially as regards sexual orientation, disability and race or ethnic origin. Legislation remains to be fully aligned with the *acquis* and the equality body required by the *acquis* needs to be established.

In the area of *health and safety at work*, most of the legislation has been adopted and is expected to be in force as from accession. However, some further adjustments are necessary in order to achieve correct transposition of the *acquis*, in particular concerning the Framework Directive on the introduction of

measures to encourage improvements in the safety and health of workers at work (protective and preventive services, information, training and consultation of workers) as well as concerning the Directive on mobile and/or temporary construction sites. Transposition of legislation should still be completed in the area of work at height (new *acquis*). The use of risk premiums to compensate for hazardous working conditions should be abolished. The authorities responsible for the enforcement of health and safety legislation are in place, but further strengthening, in terms of both staffing and technical facilities, is needed.

As regards *social dialogue*, the administrative framework is in place. However, the system needs to be progressively improved. In particular, autonomous bipartite social dialogue should be promoted in order to increase its coverage in terms of the labour force and enterprises covered by collective agreements. The social partners' administrative capacity, primarily for entering into social dialogue at European level, needs to be reinforced, too.

Concerning *employment policy*, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP) in a much more coherent and effective way. It is important to enhance employment rates, in particular for women and older workers, and to address regional imbalances. The reform of the education and training systems, including the lifelong learning system, needs to be accelerated. There is also a need to promote active and preventive labour market policies and to increase incentives for people to work. Important efforts are needed to improve policy co-ordination and ensure appropriate allocation of resources.

(Source: *Comprehensive monitoring report on Slovakia's preparations for membership. EC, 11/2003*)

With birth rates decreasing and mortality being almost constant, natural population growth came to a halt in 2001. The natural decrease in 2001-2002 was balanced by immigration. With the shrinking population of children and the growing productive and post-productive age populations, the average age and the ageing index are also rapidly increasing. The ageing index<sup>4</sup> reached 94.2 in 2001 (63 men of post-productive age to 100 boys, and 127 post-productive women to 100 girls). The gender-different age structure and mortality patterns are also linked to differences in the population structure by family status. The most marked difference concerns the proportion of widows in the female population, which is seven times higher than that of widowers in the male population. With regard to feminisation of old age and the gender wage and pension gap, this fact suggests a higher risk of poverty and exclusion for elderly women.

The demographic trends have impacted on the constant growth of the economically active population over the past decade. This trend was interrupted in 2002, when a year-on-year decrease of the labour force by 0.9% was registered. Data for the first three quarters of 2003 suggest renewed moderate growth in this indicator. Economic activity rates for both women and men have changed slightly depending on the demographic movement and the number of economically active; the gender gap has a decreasing trend and represents 15.5 percentage points at present.

Educational attainment of the labour force is slowly improving; however, the share of highly qualified labour force remains very low in comparison with the EU and other accession countries. Over half of the Slovak population aged 15 plus has no more than a certificate of apprenticeship (46.6% of those who are economically active). The low proportion of people in post-secondary and tertiary education in the long-term increases the likelihood of future problems in coping with the demands of a knowledge-based economy.

### **Employment**

After a period of dramatic decline in employment during 1997-2000, the number of employed individuals has been on the rise since the end of 2000. The reasons behind this development are associated with overall economic growth, structural reforms, increased FDI inflow, improvements of business environment conditions, improved labour legislation, restrictive measures on the passive side of social and labour policies and extensive public works projects (mainly in 2000-2001). Renewed job creation is concentrated mainly in small and medium-sized enterprises (59.2% of total employment in 2001, 62.0% in 2002).

Employment rates are traditionally higher for men, although gender differences remain substantially lower than the EU average. The proportion of the working labour force continues to lag behind EU

<sup>4</sup> For example, employment rate for age group 15-64 was 64.2% in EU-15 in spring 2002, the corresponding figure for the Slovak Republic was 56.5%.

figures.<sup>5</sup> Particularly low is employment in the 15-24 age group (27% in 3Q/2003). Regional employment rates are highest for the three western regions of Slovakia (Bratislava, Trencin, Trnava), with Bratislava reaching above EU average levels. In three regions, however, only one in two persons aged 15-64 years is in employment (Nitra, Kosice, Banska Bystrica).

Changes in the sectoral structure of employment continue to reflect the overlapping processes that affect restructuring of the economy.<sup>6</sup> There is a long-term tendency of employees shifting from primary and also secondary sectors to the tertiary sector. The situation changed in 2002 when employment in the agricultural and industrial sectors increased, while employment in the sector of services declined. The first three quarters of 2003 saw a more or less balanced development in all three sectors. It is generally assumed that the tertiary sector has the greatest potential to create high quality occupations. Despite the risk of generalising and denying the diversity of job conditions in the individual sectors, it appears true that the fastest progress in the improvement of different aspects of quality in work has been accomplished in the tertiary sector over the past decade. Nevertheless, the task of creating better jobs, with higher value added, is faced by all sectors of the economy.

Data also reveal that construction is the most booming sector in terms of employment, achieving a 13.6% increase during 3Q/1999-3Q/2003. Significant increases in jobs were reported also in the sectors of business services, hotels and restaurants, and private households. The share of self-employed is gradually increasing and, in fact, comprised the entire growth in employment in the reference period. The number of employees in the public sector decreased by 15% in 1999-2002.

In terms of job quality the trends are ambivalent. Despite the increasing educational attainment of the labour force, the number of employed in jobs with lower “value added” remains high. The amount of jobs requiring low qualifications actually increased over the past five years, while jobs in what are considered highly qualified sectors (e.g., education, R&D) went down. The trends not only respond to the quality of labour force, but at the same time reflect ongoing structural changes. In many sectors and occupations which should normally rank high in job quality rankings, privatisation, over-employment and/or low remuneration lead to reduction of the workforce. Certainly, other elements of quality in employment also have to be taken into consideration. The following positive and negative observations suggest the complexity and multidimensional nature of quality in work in Slovakia:

- The number of hazardous workplaces, as well as incidence of occupational diseases and work-related injuries continue to decrease significantly;
- Increased inflow of foreign capital has brought the transfer of new technologies and know-how, but also improvements in corporate culture and informal rules, which are underdeveloped in Slovakia;
- Additional positive effects of FDIs lie in development of a variety of services, including education and training, research, health protection and environmental protection;

- The share of “very long-term” unemployed and unemployable persons, who face the greatest risk of permanent exclusion from the labour market is growing; particularly affected is the Roma minority;
- Opportunities for lifelong education are well-developed, but underestimated by the working-age population;
- Gender inequality in employment has grown over the past years, displayed mainly in the growing gender pay gap (from 23% in 1998 to 28.3% in 2002);
- Childcare facilities and related services, which would facilitate the reconciling of work and family responsibilities, are underdeveloped;
- Flexible work arrangements remain underdeveloped and underestimated (see also paragraph below);
- Labour mobility is declining; current figures are very low (1.5% of the total population migrated in 2001)<sup>7</sup>.

Part-time employment remains very low in Slovakia; the share of employed who worked part-time in the third quarter of 2003 reached 2.4% (1.3% for men, 3.7% for women). These figures place Slovakia clearly behind all EU member and accession countries (EU average for 2000: 6.2% men, 33.3% women). It is worth noting that there is a long-term declining trend in part-time employment. Surveys suggest a very low interest for flexible forms of employment shown by both employees and employers.<sup>8</sup> Flexible employment is not viewed as a convenient form to assert oneself in the labour market.

### Unemployment

Unemployment has evidently been the most sensitive point of socio-economic development in Slovakia over the last years. Although it has never led to major social disturbance, unemployment ranked highly in various opinion polls surveying urgent social problems in Slovakia. Along with insufficient education, exclusion from the labour market is one of the main drivers of poverty.<sup>9</sup>

Apart from overall high unemployment rates, the unemployment issue is marked also by other distinct features: a high proportion of long-term unemployed, significant regional differences, high youth unemployment, extremely high unemployment of the ethnic Roma<sup>10</sup>. Among the main causes of these phenomena are:

- an unbalanced social protection system, with a large extent of redistribution of resources and solidarity, with prevailing passive measures and ineffective active measures;
- unsuitable education structure of the workforce, poor links between the education system and the labour market;
- barriers to business – unstable legislation, weak law enforcement, state bureaucracy, high social contributions burden;
- low labour mobility, missing job-housing balance;
- other factors, e.g., tolerance of shadow labour.

Since 2002, unemployment has been gradually falling. The promising trend is ascribed to favourable economic development, stricter labour market policy and renewed job creation mainly in small and medium-sized enterprises.<sup>11</sup> Reduction of unemployment was reported from all regions and from all but three districts of Slovakia.

<sup>5</sup> e.g., effects of transition, integration, globalisation, ICT development, introduction of sustainable development and knowledge-based strategies, etc.

<sup>6</sup> Source: National Action Plan 2003, Ministry of Labour, Social Affairs and Family of the SR.

<sup>7</sup> For further details see: *Flexible models of working time as a means to employment growth*. Research Institute of Labour, Social Affairs and Family, Bratislava (1999)

<sup>8</sup> In 2003, the risk of poverty in unemployed individuals was five times higher than the average poverty risk. Source: Microcensus, Statistical Office of the SR.

<sup>9</sup> Data on the ethnic structure of unemployment are rarely available. LFS data from 2001 indicate an almost fourfold unemployment rate for Roma compared to the overall rate (Roma 72.6%, SR total 19.2%, data from 1998: Roma 83.2%, total SR 12.5%).

<sup>10</sup> For a more detailed analysis see The European Employment Observatory Quarterly Update for the Slovak Republic, January 2004.

<sup>11</sup> Source: National Labour Office, October 2003.

Despite the aforementioned development, the regional disparities remain high with almost 25 percentage points between the lowest rate in one of the districts of the capital Bratislava (2.7%) and the highest in the district of Rimavska Sobota (28.6%).<sup>12</sup> The regional disparities have a wider context and refer to overlapping differences in poverty rates, average wages, educational attainment, health conditions, dependence on social assistance, engagement in the shadow economy, etc.

Unemployment has no significant gender-related features; it strikes men and women rather evenly. Perhaps the greatest difference concerns long-term unemployment, which consistently affects more women than men. Long-term unemployment is growing steadily even though total unemployment is decreasing (see Chart 1). This fact confirms the existence of a “hard core” of long-term unemployed and unemployable persons, and also the lack of successful strategies for their inclusion. In 2002, more than 62% of the unemployed were out of work for at least one year, while as many as 42% were unemployed for over two years. In the case of Slovakia, long-term unemployment thus means “very long” unemployment, with 7.7% of the labour force out of work for over 24 months. This indicator is almost four times higher than the EU average rate (2% in 2001).

Above average unemployment rates are symptomatic of groups with insufficient educational attainment (ISCED 1-3C). Out of those unemployed for more than 12 months, 71.7% comprised individuals with a maximum educational achievement of ISCED 3C level (2002).

In 2002, the relatively most frequently reported sectors of last employment by the unemployed were public services, construction,

and agriculture. Roughly one in five unemployed persons, men and women equally, has no existing experience with employment.

### Labour market policies

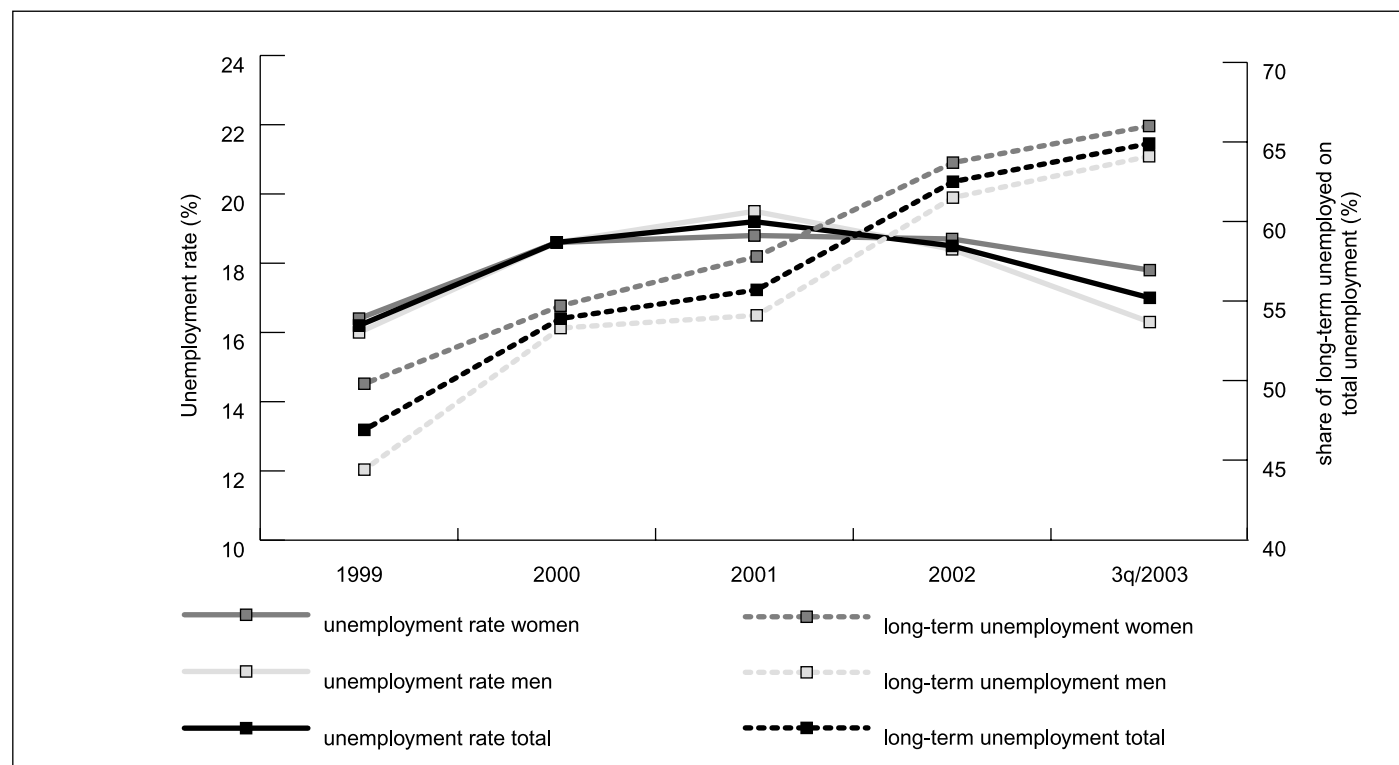
The labour market policies in Slovakia traditionally comprise a passive component (payments of unemployment benefits and social insurance contributions on behalf of unemployed) and programmes of active labour market policy. The ambitious reform of the social system and labour market, launched at the end of 2002, is focused on raising the effectiveness of both components through improved employment legislation, reformed institutions and new motivating policies.

### Active labour market policy

The most important change in this area concerns the change in the philosophy of activation, which is based on the following principles<sup>13</sup>:

- Every meaningful activity is better than inactivity and employment growth is the most effective way of fighting poverty. The new system will thus strengthen the motivation to find and keep jobs;
- Employment support has to be accompanied by measures aimed at improvement of job quality. The highest emphasis is put on education and training;
- The most effective measures are those based on motivation and which look to the future. At the same time, however, measures addressing the misuse of the social system are being implemented;

Chart 1: Unemployment vs. long-term unemployment



Source: Labour force survey.

<sup>12</sup> Adapted from the *Strategy of support to employment growth through reform of the social system and labour market*. Ministry of Labour, Social Affairs and Family of the SR (2002).

<sup>13</sup> Institute of Information and Prognosis in Education (December 2003)

- Only individuals registered with employment offices should be actively looking for jobs;
- Reconciling of work and private life is a key component of the new system;
- The reform acknowledges the Lisbon agenda and the European Employment Strategy.

Among the pillars of the new system are:

- *Act on state administration authorities in the area of social affairs, family and employment services* (effective since 1 January 2004);
- *Act on employment services* (effective since 1 February 2004);
- *Act on social insurance* (effective since 1 January 2004).

The new *Act on state administration authorities in the area of social affairs, family and employment services* is perceived as the first step towards a more efficient state administration in the area of employment services and social affairs. The law initiates the formation of new headquarters and territorial offices of social affairs and employment services. These will run state administration in the areas of state social support, social assistance, registration of unemployed job seekers and job vacancies, mediation of suitable employment, provision of consultancy services, education and training for the labour market, active labour market measures, inclusion of persons with altered working ability and preparation and realisation of projects co-financed from the European Social Fund (ESF). The new scheme should improve the organisation of these services by making them better targeted and accessible.

The *Act on employment services* is a follow-up to the *Act on state administration authorities in the area of social affairs, family and employment services* and the *Act on social insurance*, which regulates rights and responsibilities of participants in employment services. The Act preserves existing active labour market policy tools and introduces new ones.

The new tools have the form of activating benefits/contributions, which can be claimed and are thus independent from the decision of officials. The basic idea is to reward activity and mobility to find and maintain jobs. The schemes include:

- partial compensation of travel costs of the job seeker (related to job interview with potential employer);
- contribution to childcare services;
- support to moving for jobs;
- contribution to self-employment (unemployed who are registered for a minimum of three months, who start and keep business for at least two years);
- contribution to employment of handicapped persons (employer is the recipient);
- contribution to activity of a work assistant (applicable to disabled unemployed);
- one-off bonus for unemployed persons who find a job before termination of unemployment support;
- contribution to activation (recipients are both the institution which provides small works and voluntary services, and the unemployed);
- contribution to graduate training (recipients are both school graduate and employer);
- contribution to creation of protected workshops and workplaces.

The Act creates conditions for provision of employment services by private institutions. The so-called Agencies of Temporary Employment may mediate temporary work by signing contracts with unemployed persons and placing them with other firms.

Agencies of Supported Employment will provide primarily consultancy services.

Changes also concern the obligation of applicants to actively and provably search for jobs. From 1 February 2004, a differentiated periodicity of reporting to the offices will be introduced: a long-term unemployed person, not involved in any activity, will have to present him/herself at the office every seven days; unemployed persons, involved in programmes and activities organised by the office, will have to report monthly; for other applicants the 14 days periodicity remains.

The offices of labour, social affairs and family will prepare individual action plans for the unemployed, which should, based on the assessed skills and experience, determine the type and scope of assistance necessary to facilitate inclusion into the labour market. By the end of 2004, every unemployed job applicant should have an action plan developed.

### ***Passive labour market policy***

The payment of unemployment benefits was transferred to the Social Insurance Agency (SIA). The SIA's territorial distribution of branch offices differs from the network of the original labour offices. A proportion of unemployed people may thus travel greater distances to receive the benefit.

The *Act on social insurance*, the first legal pillar of the pension reform, changes, amongst other things, the regulation of unemployment support provision. Since 1 January 2004, an unemployed person is entitled to receive unemployment support, if he/she has paid social contributions for at least 36 months in the course of the last four years prior to registering with the labour office. The period of granting the benefit was unified at six months, regardless of the number of years worked. The amount paid will represent 50% of the employee's gross wage (assessment base), received during the last three years of employment.

### ***Financing of labour market policies***

The increasing numbers of unemployed, combined with a relatively generous provision of unemployment benefits, led to a dramatic reduction of ALMP programmes towards the end of the 1990s. Since 2000, a redirection of measures in favour of active programmes and a tightening of passive benefits is taking place. However, GDP spending on active measures remains low at less than 0.4%, which is three to five times less than for most EU countries.

The 2003 budget represented SKK 2,500 million (EUR 60.2 million) for active policy measures and SKK 5,577.1 million (EUR 134.4 million) for passive measures. Labour market policies were, until 2004, financed through the National Labour Office (NLO) and the State Budget. The new scheme transposes financing of active policy from NLO to the European Structural Fund and passive policy to the Social Insurance Agency. The substance of the change lies in the transition from financing active labour market policy tools from collected unemployment insurance premium to financing from the State Budget. The 2004 budget for labour market policies envisages:

- SKK 2,000 million (approx. EUR 49 million) for active labour market policy, of which SKK 481.5 million (EUR 12 million) should be covered from the ESF;
- SKK 2,856 million (EUR 70 million) for passive labour market policy (Social Insurance Agency expenditure).

## Outlook

A recent sociological survey revealed that “to have a job” is considered the highest life priority for the young generation in Slovakia, along with “happy family”, and ahead of values such as “material possession and money”, “to have many friends” and “personal freedom”. Unemployment, on the other hand, is of highest concern amongst the young.<sup>14</sup>

Results of this survey underline the importance of employment for the future labour force. At the same time, it reflects the recent developments in the labour market, above all the omnipresent fears of unemployment. With respect to the economic and social reality, it may be concluded that the labour market in Slovakia is in a phase when reduction of high unemployment and restoration of job creation are perceived as the main priorities. The qualitative element of employment remains thus somewhat in the background. As increased labour participation is found to be positively correlated with quality in work and job satisfaction, it may be assumed that emphasis on job quality will grow significantly in the coming years. EU accession and the ongoing adoption of the European Employment Strategy will accelerate this process.

Economic forecasts are optimistic: the Slovak economy is expected to grow at a rate of over 4%, inflation should decrease as deregulation of prices is accomplished, and development of real wages should turn back to positive figures. Most domestic institutions expect a moderate decrease of unemployment rates in the coming years.<sup>15</sup>

EU accession poses a major challenge for the Slovak labour market and its workforce. Opportunities to find jobs will enlarge with the

opening up of foreign markets. Domestic enterprises will find greater access to potential clients from Member States. At the same time, however, they will face increased competition, which may push employers to cost-saving strategies, possibly manifested also in a reduction of employment.<sup>16</sup>

A strategy of improved productivity and quality of employment should facilitate Slovakia's inclusion into the EU labour market. This requires a proper mix of policies and measures to be put in place, covering areas of business environment improvement; investment in education and training, lifelong learning; policies to encourage greater labour mobility, job and housing balance; development of infrastructure and ICT; further strengthening of incentives to work; promotion of equality of opportunities in all aspects (gender, ethnic, etc.). The set of policies must be governed and effectively implemented on the national, regional, and local levels.

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<sup>14</sup> For example, the National Bank of Slovakia estimates the following development of the unemployment rate: 2004: 14.4%, 2005: 13.8%, 2006: 13.0%, 2007: 12.5%.

<sup>15</sup> See, e.g., <http://www.forbes.com>

# Slovenia

## Introduction

In the last decade of the twentieth century, Slovenian society experienced profound changes in many areas. The labour market, as one of these areas, is still strongly affected by the changes. During the transition, at the end of the 1980s and in the beginning of the 1990s, Slovenia's labour market experienced a substantial loss in jobs, a decline in labour force participation, and in employment/population ratios, a particularly steep increase in unemployment rates and a rise in structural unemployment.

Today, Slovenia is facing the challenges of globalisation, liberalisation, adoption of “European” rules and the necessary transition to a modern market economy. The labour market structure is changing in accordance with economic, demographic and social development.

The positive economic growth in Slovenia, which started in 1993, and was averaging around 4% in the second part of the 1990s,

slowed down at the beginning of the new century. In 2002 economic growth was 3.2%, which was slightly higher than in the year 2001. For 2003 recent predictions are slightly weaker, with growth predicted at 2.6%. Major influences on economic growth in Slovenia are the uncertain revival of the international economic environment, oil prices and trade with the major partners in EU.

Recent investments in technology and human resources development are expected to produce effects in the longer term. At the same time, Slovenia is facing the same problem as more developed parts of Europe: an ageing population. This problem does not generate only the problem of financing the existing system of social security, but it also puts more emphasis on the need for lifelong learning. It also requires an improvement in educational system flexibility.

In terms of EU accession, Slovenia successfully closed (provisionally) the negotiations on the social policy and

employment chapter as well as on all other chapters. Slovenia is generally meeting the commitments it made in the accession negotiations in this field<sup>1</sup>. Slovenia has advanced as regards policy development capacities and has strengthened its active labour market policy. The need to reorient activities towards a proactive approach has been recognised, but needs to be further implemented. Efforts have also been made to modernise the Public Employment Service, and they will be continued.

Considering the present situation and critical elements, the strategic goals of labour market development for the period 2000–2006<sup>2</sup> were set to:

- 1) increase the educational level of the labour force;
- 2) reduce frictional unemployment and structural discrepancies by reducing the share of long-term unemployed people (to 40%) and unemployed people without a basic vocational education (to 25%);
- 3) ensure participation of all unemployed people who have not found a new job within a six-month period in active employment policy programmes;
- 4) reduce regional labour market discrepancies;
- 5) increase employment, the growth of which will on average exceed 1% per annum in the period 2000–2006, taking into account a fast rate of growth enabling the unemployment rate to fall to approximately 5%;
- 6) further development of social partnership.

## ***Labour market trends***

### ***Employment***

Circumstances on the labour market, in major part, reflect the situation in the economy, while the growth of employment is closely related to economic growth. Economic trends in Europe, especially in the last two decades, have shown that economic growth is a necessary but not a sufficient condition for employment growth. Factors determining labour market flexibility are becoming important for the growth of employment.

Faster economic growth and better designed employment policies in the second part of the 1990s enabled the completion of structural reforms and a period of employment growth, while the numbers of registered unemployed people remained relatively unchanged.

According to the labour force survey (LFS), the number of people in employment is still increasing (after a pause in 1998) – from 892,000 in 1999 to 922,000 in 2002 – while formal (registered) employment fell slightly from 785,200 in October 2002 to 774,000 in August 2003. The slowdown in employment was the result of a drop in informal employment (i.e. unpaid family workers, people working under work contracts or in the grey economy), which reduced the social costs of transition and, to a certain extent, improved the labour market situation.

Labour productivity growth increased to 3.4% in 2002 from 2.5% in 2001. According to value added per employee for full-time employment (or equivalent), productivity equalled EUR 22,400 per employee (current prices).

The regional distribution of formal employment indicates that most positions in formal employment were found in the following regions: Central Slovenia (29.2%), Podravska (14.9%) and Savinjska (12.9%). In the past three years, the number of jobs rose most quickly in Central Slovenia (by 4.8%), while the most significant drop was seen in Zasavska (by 7.2%). Moreover, Central Slovenia was the only region where the number of jobs exceeded the labour force, while Savinjska and Podravska recorded more jobs than local people in employment. The inflow of daily work-related migration was higher than the outflow only in the aforementioned regions.

Significant changes in the early 1990s, including the loss of markets in the former Yugoslavia, struck sectors differently. Employment growth in the next few years will, to a large extent, depend on the development of the service sector or on increases in the number of new jobs. But the development of the service sector is strongly linked to the development and modernisation of the Slovene processing sectors.

The transition to a market economy triggered a rapid change in the sectoral structure of employment in Slovenia, with the “tertiarisation” of the economy. Between 1992 and 1993, the share of people employed in services for the first time exceeded the share of people employed in industry. The movement of people in employment from industry to services continued, driven by structural changes, while the share of people employed in agriculture remained relatively stable (around 12%) until 1998. It then dropped to 9.65% in 2002. The share of people employed in the service sector increased to 51.3% in 1999 (when, for the first time, it breached the 50% barrier). After that, this share remained relatively constant at around 51% (51.3% in 2002) according to the LFS. A great deal of this change can be explained by the restructuring of the companies in terms of outsourcing and sub-contracting. Companies have made frequent use of outsourcing and sub-contracting in the service sector, particularly in financial services.

Regardless of these trends, the structure of Slovenian employment is still much more industrial than any EU country. Comparisons with EU countries show that the share of people employed in services is lagging by more than 8% behind the next “less tertiary” country in EU.

Services are also relatively less dominated by a female workforce (54.4% of all people employed in services in 2001 and 54.8% in 2002) compared to the more distinctly male-dominated workforce in industry (65.6% of all people employed in industry in 2001 and 66.2% in 2002).

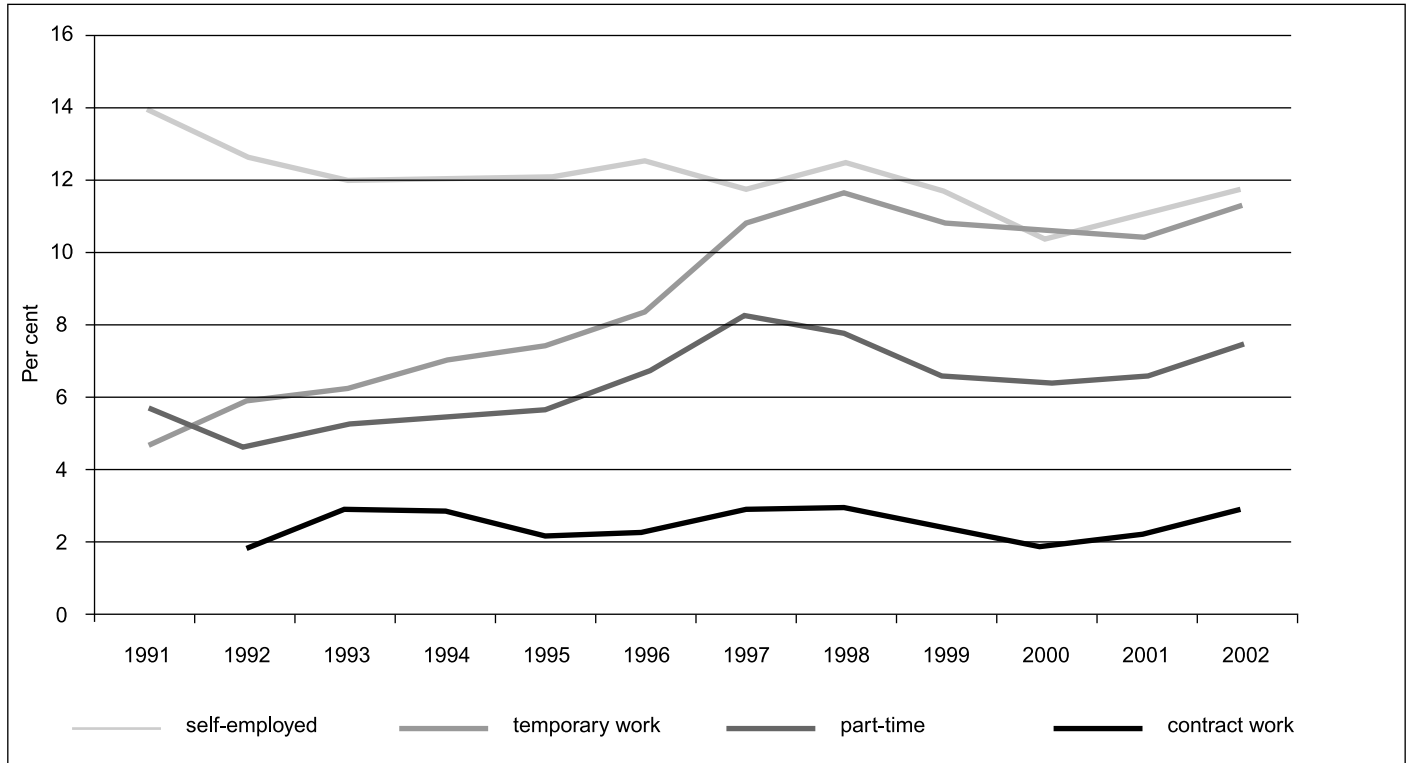
Another problem related to the Slovenian labour market is its lack of flexibility. For many years, as in other parts of Europe, full, almost lifelong, employment was the only existing form of employment. The expectations of the labour force – as well as the majority of policies of the welfare state and benefits related to the employment – are still oriented to this model of employment.

More recent changes in the legal framework<sup>3</sup> of the labour market and in the active employment policies portfolio, prepared by the Slovene Government, are directed towards making the labour market more flexible and to facilitate job creation. At the same time, there are still some policies in place focused on job preservation, which could be, from the standpoint of immediate

<sup>1</sup> Based on the Joint EU employment policy guidelines that were prepared in 1997. They define four basic employment policy pillars: I. Increasing the population's employability; II. Promoting entrepreneurship and entrepreneurial culture; III. Promoting adaptability of enterprises and employees; and IV. Ensuring equal employment opportunities for men, women and other groups of people.

<sup>2</sup> In the National Programme for the Labour Market and Employment up to 2006.

<sup>3</sup> The Government introduced the new Law on Labour Relations on 1 January 2003, which should simplify procedures of hiring and discharging (especially for small employers) and increase the labour relation flexibility. It also limits the multiple use of fixed-term contracts for employment of the same person.

**Figure 1:** Flexible forms of employment in Slovenia in the period 1991-2002

Source: SURS, LFS 1991/2 to 2002/2

social cost and social peace, preferable. The lack of employment opportunities for new entrants, younger workers, people coming out of inactivity, and unemployed people made greater flexibility in the labour market unattractive to employees. Some flexible forms of employment seem to be well accepted and favoured by the labour force (such as self-employment, contract work and cash-in-hand work), but others (such as temporary employment) are more favoured by the employers, who are exposed to ever fiercer competition in the global market.

Chart 1 presents four flexible forms of employment in Slovenia for the years 1991 to 2002. Self-employment is the most common form of flexible employment: following liberalising legislation in the 1980s and the beginning of 1990s, it rose quickly but slowed down to about 12% of all employment in the last 10 years (11.8% in the year 2002).

The percentage (11.4% in the year 2002) of people in temporary employment has constantly increased<sup>4</sup> over the last twelve years. Employers use it on a large scale to protect themselves against potential redundancies, as well as to employ a younger and more flexible labour force.

Part-time employment is on a much lower scale in Slovenia (7.5% in the year 2002) than in more developed EU countries. Besides the fact that the demand for part-time jobs is very low (only 2.5% of unemployed people were seeking or already had part-time jobs and slightly more than 10% of those who were seeking full-time employment would be ready to accept a part-time one if a full-time one was not available), there is also a very small supply of part-time jobs. Part-time employment is used primarily to ease the transition to retirement for older workers and mostly to keep workers with disabilities employed.

In 2002 there was a fall of 22.8% in unemployment among people with disabilities in comparison with 2001; this was due to the transition to registers kept under other laws. On the other hand, it was also partially a consequence of the increased number of employed people in sheltered enterprises. Employment of people with disabilities in sheltered enterprises is becoming the best possibility for them to get a job. These enterprises have adapted themselves to market regulations, making them appropriate for integrating people with disabilities. The reduction in certain categories of people with disabilities is reflected in the share of people with disabilities in overall unemployment. Of 14,420 unemployed people with disabilities at the end of 2002, the highest share was occupied by the occupationally disabled (86.5%). The share of young people classified as disabled was 7.1%, 6.1% were disabled according to the Training and Employment of People with Disabilities Act, and 0.3% were disabled by war. In comparison with the same period in 2001, the share of occupational disabilities fell by 0.7% and the share of people disabled according to the Training and Employment of People with Disabilities Act increased by the same amount. The shares of young people with disabilities and people disabled by war remained the same.

Entrepreneurship is one of the key generators of economic growth and employment. Small and medium sized enterprises (SMEs) employ around 66% of all employed people and contribute around 56% of total income. The number of SMEs in Slovenia has increased since 1990 and was, according to the share in the total number, near the EU average. An important employment policy is the promotion of entrepreneurship and self-employment.

Employment trends should be positively affected by a restrictive wages policy, which helped re-establish the macroeconomic balance

<sup>5</sup> The share of fixed-term jobs among all vacancies exceeds 70%; in August 2003, the share was 75.2%.



between wage and labour productivity growth in 2002 after rapid growth in wages in the mid-1990s. An incomes policy also managed to keep wage growth in the public sector below the rate of wage growth in the private sector. This trend should be sustained in 2003 and therefore help to bring public and private-sector wages into equilibrium after having been severely slanted in the recent years to the benefit of the public sector.

In 2002, gross wages per employee<sup>5</sup> rose in line with the objectives set in the Wages Policy Agreement for 2002-2004, concluded as a separate part of the Social Agreement. The gross wage per employee rose by 2% in real terms and lagged behind the 3.4% labour productivity growth by more than one percentage point.

Furthermore, the objective of keeping public sector wage growth below the rate of private sector wage growth was also achieved. The long-term objective is to establish a balance between wage growth in the two sectors. However, it was necessary to take this measure because wage movements in recent years have strongly favoured the public sector. This was due to the decentralised wage system in the public sector and the lack of effective instruments to restrict general government expenditure on wages. In fact, from 1996 to 2002 gross wages per employee rose by 24.5% in real terms in the public sector and by 18% in the private sector (this gap would be even wider if the period of observation had been longer).

### **Labour force participation**

With economic growth raising the number of vacancies in the second half of the 1990s, the activity rate and the employment/population ratio rose to 60% and 55.4% respectively. After that, with the slower economic growth, a reverse trend was recorded for both measures: in the second quarter of 2003, they dropped to 56.5% and 52.8% respectively.

A comparison of activity rates and employment/population ratios indicates that Slovenia performs relatively well in the European context, mostly because of relatively high activity rates and the favourable employment/population ratio for women<sup>6</sup>. In addition, Slovenian women are employed mainly full-time.

Closer analysis of activity rates shows low activity rates for young people (15-24 years old) – 36.7%<sup>7</sup> in 2002 (falling from 45.3% in 1998) – and for people over 50, for whom activity rates rose from 26.5% in 1998 to 27.9% in 2002.

Slovenia has a problem relating to the educational level of its population, especially regarding competencies needed on the labour market. The educational level of the labour force is slightly more favourably positioned, when compared with the population at large. The educational level of people in employment is improving slowly in Slovenia. Up until 2002, employed people had completed an average of 11.3 years of schooling. The education level of employees improved mostly in public services, whereas industry and predominantly market-oriented services recorded a slow improvement in the educational level of employees. A comparison of the educational level of people in employment and unemployed people favours people in employment. Almost half (47.0% in 2002) of unemployed people were without vocational qualifications. Educational level is one of the key indicators that defines the labour market.

### **Unemployment**

Despite strong economic growth in Slovenia – which started in 1993 and averaged around 4% in the period 1993 to 1998 – registered unemployment remained at a relatively high level. The average registered unemployment rate in 1998 was 14.5%, while the survey unemployment rate reached 7.9%. After 1998, the registered unemployment rate declined gradually to 11.2% in September 2003. The main reasons for the slow fall in registered unemployment were again high structural unemployment and fixed-term employment. On the other hand, one of the main reasons for the fall in registered unemployment could be tighter control at the ESS<sup>8</sup>. The number of people erased from unemployment registers for different reasons continued to be high (almost 40,000 in 2002). Most were erased from the register for failing to report to the ESS or because they opted for it themselves. The inflow of first-time job seekers, which has increased steadily since 1998, dropped slightly in 2002. For the fourth consecutive year, the inflow of people who lost their jobs increased while the outflow of people into employment decreased.

The LFS unemployment rate reached 6.6% in the second quarter of the 2003. The reasons for such a striking difference between the two measurements of unemployment (almost double the registered unemployment rate) are to be found in:

- 1) large amounts of contractual employment, non-paid work for assisting family members, moonlighting and grey economy;
- 2) participants in public works and in on-the-job training were classified as unemployed people in the register until the end of 1998;
- 3) a high share of long-term unemployed people, elderly people and those without vocational education, who are passively waiting to fulfil conditions for retirement.

With the worsening of the labour market (fewer job opportunities and greater competition for the remaining vacancies), registration with the Employment Service of Slovenia (ESS) has provided both a kind of shelter and cash benefits for some of the registered and other important bonuses and privileges, such as access to a number of active employment programmes, health and old-age insurance payments, assistance in preparing CVs and job applications. Since keeping the register up-to-date proved extremely difficult – and monitoring registered unemployed people was for a long time practically non-existent – it is not surprising that the number of registered unemployed people grew much faster than the number of unemployed people according to the LFS, which has stricter and more demanding criteria. Moreover, some people benefited from legislation that allowed them to register with the ESS without being active on the labour market, and employers benefited from the incentives offered to them if they hired registered unemployed people (such as tax deductions, subsidies for work places).

It needs to be emphasised that LFS-defined unemployment, which takes into account three criteria for detecting unemployment, underestimates the range of unemployed people in rural areas, where people may work (for payment in kind or as family workers) regardless of whether they are actively searching for work or not. An important indicator of cyclical trends in the labour market is if people do not search for work, believing that there are no jobs available for them (discouraged workers). Such people are, according to the LFS, classified as inactive.

<sup>5</sup> Average monthly gross earnings per person in paid employment in companies and organisations in 2002 were SIT 235,436 (EUR 1040.8), while net earnings were SIT 147,946 (EUR 654.05).

<sup>6</sup> According to LFS data, 50.2% and 46.7% respectively in the second quarter of 2003.

<sup>7</sup> This could be explained by the greater importance given to education, which means that younger generations are staying in school for longer periods.

<sup>8</sup> Employment Service of Slovenia (ESS)

**Table 1:** Characteristic groups of registered unemployed

Year/month	Average number of registered unemployed people	Average shares of characteristic groups of registered unemployed (per cent)					
		Aged under 26	First job seekers	Women	Unemployed for over one year	Without vocational qualifications	Aged over 40
1995	121,483	32.2	19.7	46.7	61.9	46.6	34.0
1996	119,799	31.4	19.4	48.1	56.1	47.0	36.6
1997	125,189	29.1	18.3	48.8	57.4	47.1	40.8
1998	126,080	26.3	18.1	49.9	61.7	46.9	46.0
1999	118,951	25.8	18.7	50.6	63.7	47.5	48.5
2000	106,601	23.4	17.9	50.7	62.9	47.2	51.7
2001	101,857	24.1	18.8	50.8	58.9	47.0	50.5
2002	102,635	24.0	19.6	51.2	54.4	47.0	49.4
I-X 2003	97,992	25.9	22.7	52.8	49.1	44.5	44.4

Source: <http://www.ess.gov.si/English/elementi-okvirjev/F-UnemplTrends.htm>

Unemployment in Slovenia has a predominantly structural character, although it is also partly a consequence of a changing number of vacancies<sup>9</sup>. The structural character of unemployment is also related to educational, occupational and regional discrepancies as well as to long-term unemployment, especially for those aged 40–55.

The average share of people in long-term unemployment fell from 58.9% in 2001 to 54.5% in 2002 (or 52.2% in December 2002). The average duration of unemployment fell to 2 years, 7 months and 17 days. The share of unemployed people aged over 40 fell to 49.4% (from 50.5% in 2001) and the share of those over 50 to 25.4% (from 27% in 2001). This drop was a result of retirement, removal from the register and active employment policy measures. Other structural problems related to unemployment eased slowly: the share of unskilled unemployed people remained unchanged (47%) as did the average duration of unemployment for unskilled unemployed people aged over 40 (4 years and 2 months). Registered and survey unemployment rates for women are still increasing and are still higher than those for men<sup>10</sup>. Women are under-represented in management and among entrepreneurs.

Youth LFS unemployment (aged between 15 and 24) was relatively high in 2002 – 15%, despite the noticeable decline from 18.2% in 1998. The age structure of unemployed people worsened for the older groups in the 1990s (the share of those over 40 increased from 17% in 1997 to 51.7% in 2000) and eased a little at the beginning of the new century (to 44.4% in the first 10 months of 2003). Among workers made redundant, the majority was older and poorly educated with little possibility of finding work, as employers prefer to employ younger and well-educated people.

Analysing regional unemployment, the worst situation is to be found in north-eastern regions: Podravje, Pomurje and Celje (especially in urban, traditionally industrial, centres that have been most affected by structural change). The problem with Pomurje is its predominantly agricultural character and poor employment prospects in the industrial and service sectors, as they are both too

small to absorb the inflow of labour from agriculture workers in rural areas. Modest regional labour mobility requires the creation of proper solutions at the regional level. The obstacles leading to labour market immobility are to be found in a traditional Slovene attachment to a certain environment (family, friends). The promotion of regional labour force mobility would probably have undesirable consequences on areas already threatened by demographic problems. Employment policy measures, which could efficiently alleviate discrepancies between a supply and demand, are becoming more important.

### *Labour market policies*

Given the persistence of structural unemployment, the Active Employment Policy programme for 2003 was adopted by the Ministry of Labour, Family and Social Affairs in November 2002. The programme is based on the goals<sup>11</sup> set out in the National Programme for the Labour Market and Employment up to 2006. It includes measures aimed at improving the employability of people with low employment prospects, reducing the number of under-skilled unemployed people, reducing regional disparities in unemployment, and providing equal access to the labour market and employment for men and women. This measure will be very important since a further increase in the number of unemployed women is expected due to anticipated redundancies (mostly of women) in the textile, shoemaking and leather industries.

The Ministry of Labour, Family and Social Affairs (MOLFSA) allocated SIT 17,396,791,480 (EUR 74,345,262.7) for measures and active employment policies for the year 2003.

During the execution of the programme, special attention will be given to the regional approach – especially for the promotion and support of the self-employment, public works, subsidised employment for home-help, personal assistance and provision to people with disabilities (“disabled to disabled” programme) and for the programmes for jobs preservation at regional level.

<sup>9</sup> In 2002, an average of 11,586 vacancies were reported to the ESS every month and 9,219 people were hired. The number of vacancies was 2.9% lower than in 2001 and the ratio of unemployed people to vacancies worsened again: 8.9 unemployed people per vacancy, compared to 8.5 in 2001. The occupational structure of vacancies continued to reveal a trend towards fewer elementary occupations and craft workers, while demand for more qualified jobs increased.

<sup>10</sup> Registered (September 2003) and LFS (second quarter 2003) unemployment rates for women are 13.2% and 7.1% respectively, while for men they are 9.5% and 6.1%.

<sup>11</sup> The goals are presented in the introduction to this article.

Special attention will also be given to the building of a new information system to support employment programmes and special projects. Some of the active employment policy programmes (raising the employability and reducing the unemployment in the areas with excessive unemployment rates and for sectors undergoing restructuring) will be carried out in connection with the so-called "donor schemes" in the programmes of the EU pre-accession assistance to the candidate countries.

The Active Employment Policy programme for 2003 is divided into several groups of programmes: programmes designed for people (placement services and vocational guidance, education and training; training on the job without employment; training and employment for people with disabilities and medical services; refunds and repayment of contributions; shared funding of regional projects), public works, programmes designed for employers (support for the self-employed; refunds for sheltered enterprises; refunds for part of the expenses for job preservation in the regions with high unemployment), programmes continuing from 2002, international projects (Phare projects), programme for redundant workers from the textile, shoemaking and leather industries.

The Employment Service of the Republic of Slovenia (ESS) has an important role in implementing Active Employment Policy programmes and passive labour market policies.

The basic aims of the ESS are to increase employment, to enable individuals' successful vocational development, to ensure social security to those entitled, and to ensure equal service quality in Slovenia. The basic law defining the powers and tasks of the ESS is the Employment and Insurance against Unemployment Act (the Act), although there are several other laws closely related to the work of the ESS (Employment of Aliens Act, Training and Employment of People with Disabilities Act, etc.). ESS activities are conditional upon the economic situation, as it affects the labour market. In the 1990s the link between economic growth and unemployment was characterised by sharp increases in the latter during periods of recession or slow economic growth, with reductions in unemployment occurring after a delay of several years, i.e. once stable economic growth had already been achieved. In times of high unemployment, passive labour market measures prevailed (especially payments to the unemployed<sup>12</sup>), while the stable economic situation of recent times has seen active measures in the ascendant.

The ESS was flexible in adapting to changes in the labour market, performing activities aimed at preserving its position as one of the most important players on the labour market. By adjusting to the

regional characteristics of the labour market, the ESS consolidated the role of regional and local offices. By introducing organisational changes, the ESS strengthened areas of work with the unemployed, employers and other users of its services. The ESS also successfully continued with its cost-control activities and the drive for cost-effective use of available resources; considerable attention was given to achieving greater transparency of operations. The application of a quality project, which is helping the ESS to improve its business processes and to adapt them to the expectations and demands of users, made a major contribution to this. During the year, the ESS actively collaborated with the Ministry of Labour, Family and Social Affairs on the drawing-up of an active employment policy for the next year, and its co-operation with partners at the local and national levels can be described as fruitful. In 2002 the ESS continued to intensify its international ties, which are helping it to consolidate its profile among similar institutions in Europe and to prepare it for the new conditions in the labour market once Slovenia joins the EU.

## Outlook

Over the next few years, Slovenia's development will be characterised by a process of convergence to EU standards. In addition to converging to EU standards, the basic macroeconomic objectives of economic policy will also include reducing inflation, faster economic growth to enable active employment policy to increase the employment rate, and reducing the economic gap and increasing general welfare.

Assuming that there will be both positive effects from Slovenia's entry into the EU and an unchanged growth rate in the country's population, there are some optimistic projections about the Slovenian labour force.

It remains to be seen if such an optimistic scenario will prevail. Active employment policy alone (more active employment programmes, including public work programmes) will not be enough to ensure employment growth and a related reduction in the unemployment rate in the next few years. Additional conditions (conducive for the creation and growth of new small and medium-sized enterprises, higher growth in business investments – Slovene and foreign direct, faster technological development and greater investments in human resources) need to be in place.

*Miroљjub Ignjatović*

**Table 2:** Projection of the labour force growth in Slovenia, from 2001 to 2006 (labour force survey, numbers in thousands)

	Active population			People in employment			Unemployed		
	Number	Growth	Rate*	Number	Growth	Ratio*	Number	Growth	Rate
2001	979	1.1	68.3	916	1.7	63.9	63		6.4
2002	987	0.8	68.8	923	0.8	64.2	64	1.3	6.5
2003	993	0.6	69.1	931	0.9	64.7	61	-4.1	6.2
2004	1000	0.8	69.5	941	1.1	65.3	59	-4.1	5.9
2005	1007	0.6	70.0	952	1.1	66.1	55	-6.4	5.5
2006	1013	0.6	70.5	962	1.1	66.9	51	-7.9	5.0

\* Activity rates and employment/population ratios for the population in 15-65 group

Source: Ministrstvo za delo, družino in socialne zadeve. 2002. Program aktivne politike zaposlovanja za leto 2003. Ljubljana

<sup>12</sup> In 2002 payments to unemployed people amounted to SIT 25,514,896,000 (EUR112,797,948).

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# Bulgaria

## Introduction

The performance of the Bulgarian economy throughout 2003 and the economic trends that have been observed are encouraging in terms of its prospects for accession to the European Union (EU).

The macroeconomic stabilisation that was achieved in 1997 is the key factor behind the economic growth. The private sector is responsible for the majority of Bulgaria's GDP<sup>1</sup>. However, the GDP per capita rate is still very low – 5900 in PPS<sup>2</sup> in 2002, and Bulgaria remains one of the poorest countries in Europe.

The GDP rates after 1997 are mainly attributed to gross fixed capital formation<sup>3</sup>. However, the rate of the investments in fixed assets decreases on a year to year basis. The cases of technological innovation are very rare and would demand a considerable increase in the qualifications of the labour force employed, yet could lead to the creation of job opportunities.

The service sector, notably communications, has made the highest contribution to the GDP. The second most important sector is industry, with the production and distribution of electrical energy, gas and water, construction and manufacturing displaying the most dynamic activity. The agricultural sector is unstable and has a low

potential for development. According to some recent research, the sectors that are most able to generate both growth and jobs in the short term are communications, trade, tourism, the manufacturing industry (sewing and textiles) and construction. In order to develop the potential of the remaining sectors, the preconditions of large-scale restructuring and properly targeted investment must be met<sup>4</sup>.

The sluggish economic growth should also be addressed by exceeding the rate of imports over exports of goods and services. Machinery and equipment, textile and clothing, metals and chemicals are still making a positive contribution to exports.

Inflation has been stable ever since the Currency Board agreement came into power<sup>5</sup>. The budget surplus that was accumulated in 2002 reached the level of BGN 890 million (approximately 440 million euro). In 2004 a reduction of the corporate tax will be introduced, to keep level with personal incomes.

Economic growth and controlled inflation has had a positive impact on the stability of real incomes. The households' income structure is dominated by the share of salaries (44.5% in 2002, 1.3% higher compared to 2001). The overall levels of income, however, remain low, which is also evidenced in the structure of expenditure – the highest being the share of expenditure on food (41% since 1997)<sup>6</sup>.

<sup>1</sup> 71.9% of GDP for the first half of 2003 was produced there, in 2002 – 72%, while in 1997 – 63.4%. Source: National Statistical Institute (NSI). Unless otherwise stated, this is the source of information throughout the text.

<sup>2</sup> In current prices and calculated according to the exchange rate of BGN 1,772 per USD.

<sup>3</sup> For the first half of 2003 it made up 19.7% of GDP, in 2002 and 1998 – 18.1% and 13.0% respectively. Before the 1996-1997 crisis, the changes in GDP depended mostly on exports.

<sup>4</sup> For details see: The Unemployment in Bulgaria: Macroeconomic Dependencies and Possibilities for Reduction, Tzanov V, Loukanova P., 2002, pp. 97-98.

<sup>5</sup> In May and June, 2003 (as has happened several times earlier), deflation was also registered (3.6% drop in the industrial producer prices). Deflation remains one of the sources of serious problems for domestic producers.

<sup>6</sup> In 2002, for the households with three children, the expenditure on food reached 52.2%. For the lowest income categories it is 57.2%.

Continued stabilisation has enabled Bulgaria to participate in EU enlargement. At the end of 2003, 26 of the 31 chapters for negotiation will be provisionally closed<sup>7</sup>. As stated in the Regular Report on Bulgaria (2003), the accession requirements have been broadly met. Some progress has been noted in the area of *social policy and employment*, notably, in the field of anti-discrimination policy.

## ***Trends in the labour market***

### ***Employment***

The macroeconomic stabilisation did not bring a significant increase in employment. Most of the employment coefficients decreased after 1997, the only exceptions being in 1999 and 2003. The private sector, which in 2002 employed 63% of all employees, is still unstable. Most of the private companies are small<sup>8</sup> and have limited capacity. More than half of them are in the trade sector, the rest are distributed across the hotel business, the food industry, real estate management, transport and communications.

Employment in the industrial sector is decreasing after a contraction in production and processes of employment optimisation. Episodic investment in agriculture is largely responsible for the substantial decrease in the numbers employed in this sector.

Part-time employment has only made a marginal contribution to the overall level of employment<sup>9</sup>.

Due to a variety of reasons, including the location of the capital, the south-western<sup>10</sup> region of Bulgaria is witnessing the most dynamic development<sup>11</sup>. The north-western region has the lowest level of employment (35.8% in 2003) after the closure of several big industrial enterprises<sup>12</sup>.

There is an indirect relationship between employment and wages. Since 1997, the average monthly nominal remuneration for those employed on a labour contract has increased 2.1 times, while productivity of labour has remained at about the same level and the overall number of those employed is decreasing. More comprehensive research on the topic shows that, in Bulgaria, levels and differentiation of wages do not relate to economic and financial performance of the businesses, but rather to subsidies and monopolistic status<sup>13</sup>. The effective linking of wages to productivity could be reached through decentralised collective bargaining. However, these procedures are not effective enough and the wage regulations of those employed in companies that are 50% or more state owned are still in place.

### ***Labour force participation***

The net growth rate of the population in 2002 was 5.8%<sup>14</sup>. During the period between the last two censuses (1992–2001) the working age population decreased by more than 6%, due to low birth rates and the emigration of young people<sup>15</sup>. In 2003 the economic activity coefficients for the Bulgarian population were lower than they were in 1990 and were 10 points below the average levels for the European Union.

The proportion of men within the labour force and their rate of economic activity remained greater than that of women. However, the difference between the economic activity coefficients for men and women is just 10 points – almost twice as low as the average for the EU<sup>16</sup>.

The highest economic activity rates were those of people aged between 35 and 54 years. A worrying trend is the decreasing representation of young people in the labour force<sup>17</sup>. This pattern of economic activity, according to age, underlines the importance of lifelong learning (LLL).

In terms of education, people with secondary education dominate the labour market structure (55.3% in June 2003). It could be assumed that they will continue to need to increase their qualifications and acquire new knowledge and skills. These expectations might be met by offering opportunities for lifelong learning and training.

With regards to geographical spread, the distribution of the economically active section of the population remains stable. The south-western region has the highest coefficients (53.6%), followed by the south-eastern (51.2%) and the north-eastern regions (51.4%).

Half the population over 15 years of age is not represented in the labour force. Of particular concern is the fact that the 15-24 age group represents the biggest share of those who are both disaffected and unemployed.

### ***Unemployment***

Labour Force Survey data shows that ever since 2001, unemployment has been decreasing. The age structure of the unemployed shows that the share of young people aged under 24 years is the highest – a pattern continued since 1997. Due to limited labour market demand, the long-term unemployed reached 67.3%<sup>18</sup>. Young people and those over 50 years of age make up the bulk of this statistic. Most of the current active labour market policies are targeted at these particular age groups.

<sup>7</sup> The Chapter: Social Policy and Employment was closed with Bulgaria on 22.04.02 and the Chapter: Free Movement of People on 10.06.02.

<sup>8</sup> About 1% of the active companies can be classified as large (according to the Bulgarian classification – more than 100 people). They employ about 50% of all the employees (in 2000) and produce 70% of the added value in the economy. Source: Labour Market Strategy for 2003–2007

<sup>9</sup> In 2003, just 88,000 people, or 2.2% of the total number of employed, worked on part-time contracts. The people employed on unspecified working hours (episodic employment or employment in the grey economy) are twice as many – 176,300.

<sup>10</sup> The density of its population is higher than the average for the country (47.5% against 43.1% in 2003).

<sup>11</sup> The regions are determined according to the NUTS2 requirements.

<sup>12</sup> Reaching a dynamic economic growth presupposes the existence of well-developed territorial production facilities, which should generate employment. During periods of recovery from crises and depression, the creation of such facilities is crucial for increasing the territorial differentiation of employment, which is considered to be a positive feature for a transitional economy. For the time being, Bulgaria lacks such a differentiation of employment.

<sup>13</sup> Loukanova P., Tzanov V., Kotzeva M., Wage Policy in the 1990s: Priorities, Regulation and Social Dialogue, National Report presented at ILO conference in Sofia, Bulgaria, May 16–17, 2002, p. 21.

<sup>14</sup> Unless stated otherwise, the source of information in this part of the report is the NSI.

<sup>15</sup> The willingness to emigrate is highest for people aged 20–39. Among them, those aged 20–29 are the most eager to relocate for good (37%). The scale of emigration among the older groups is as follows: 19–22% for those aged 40–49 and 8–10% for those of 50 or more years of age. Source: NSI Report on the Migration of the Population, prepared alongside the census study, 2001.

<sup>16</sup> In 2001 and 2002, the economic activity rate of women was increasing. The comparison between the levels and the dynamics of the activity coefficients of men and women proves that the former are a more vulnerable labour market. Strategy on Employment (2003–2007).

<sup>17</sup> It was 9.3% in June 2003 (13.9% in September 1993). Since 2001 the youths' economic activity rate (29.2% in June, 2003) stayed lower than the rate for the age group 55–60 years (34.7%).

<sup>18</sup> June 2003.

**Table 1: Bulgaria – main indicators**

	1998	1999	2000	2001	2002
Gross domestic product (GDP) at current prices, 1000 Mio ECU/euro	11.4	12.2	13.7	15.2	16.6
GDP, growth (corp py)=100 %	4.0	2.3	5.4	4.1	4.8
GDP per capita at current prices, ECU/euro	1400				
	1500	1700	1900	2100	
GDP per capita at current prices in PPS, in % of EU-15 average	28.0	28.0	26.0	25.0	25.0
Real GDP per capita PPS, EU 15=100 %	28.2	28.3	25.8	24.6	25.4
Gross Investments in Fixed Assets (GFCF), growth (corp py)=100 %	35.2	20.8	15.4	23.3	9.3
Export (G&S) growth (corp py)=100 %	-4.7	-5.0	16.6	10.0	6.2
Import growth (G&S) growth (corp py)=100 %	12.1	9.3	18.6	14.8	4.7
Inflation (CPI –100), y, py=100, %	18.7	2.6	10.3	7.4	5.8
Structure of production, % of Gross Value Added					
- Agriculture	18.8	16.3	13.9	13.4	12.4
- Industry (excluding construction)	25.7	23.1	24.5	24.1	23.4
- Construction	4.8	5.0	4.6	4.6	4.4
- Services	50.7	55.5	56.9	57.9	59.7
Average employment (thousands)*	2921	2811	2795	2699	2740
Average employment, in % of total*					
Agriculture, hunting, forestry and fishing*	26.2	25.8	13.2	9.7	10.7
Industry (excluding construction)*	26.5	24.6	27	27.8	27.5
Construction*	4.1	4.3	5.9	4.9	5.2
Services*	43.2	45.4	54	57.6	56.6
Unemployment rate, total	16.0	17.0	16.4	19.2	18.1
Unemployment rate, males	16.1	17.3	16.7	20	18.7
Unemployment rate, females	15.9	16.8	16.2	18.4	17.4
Unemployment rate of persons < 25 years	36.0	36.7	33.3	39.3	35.6

\* Canstat Statistical Bulletin 2003/1 and Cestat Statistical Bulletin 2001/1 Sotia, NSI.

Source: NSI.

According to data coming from the Employment Agency and the Labour Force Surveys, more than 40% of the unemployed have a low level of educational attainment and limited professional qualifications<sup>19</sup>. Among the long-term unemployed, the largest group comprises those without profession or qualification<sup>20</sup>, and with a basic education or none at all. These tendencies have stabilised during the years of transformation due to a policy emphasis on lifelong learning.

Regional distribution of unemployment is influenced by factors such as seasonal employment, or within the grey economy; the overall economic situation in the region, numbers of tourists, etc.

After 1997, unemployment was highest in the north-eastern region (19.5%), followed by the south-eastern region (17.2%). All the Bulgarian seaside resorts are situated within these regions and so employment here is strictly seasonal<sup>21</sup>.

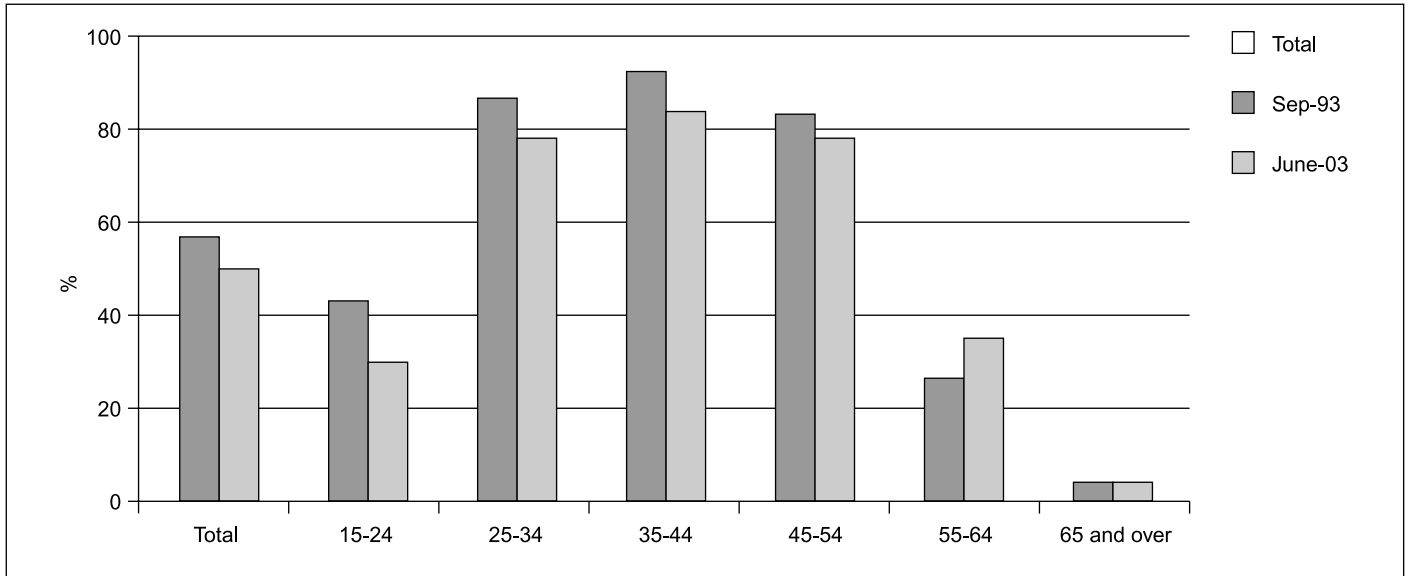
The numbers of economically active, employed and unemployed people in Bulgaria are relatively stable. Typically, the labour market has low demand and is driven by an unstable macroeconomic environment. In order to sustain stabilisation processes, the main long-term policy challenge will be to stimulate economic activity rates and improve workforce structures.

<sup>19</sup> In June 2003, 38.1% of the unemployed had basic or lower education.

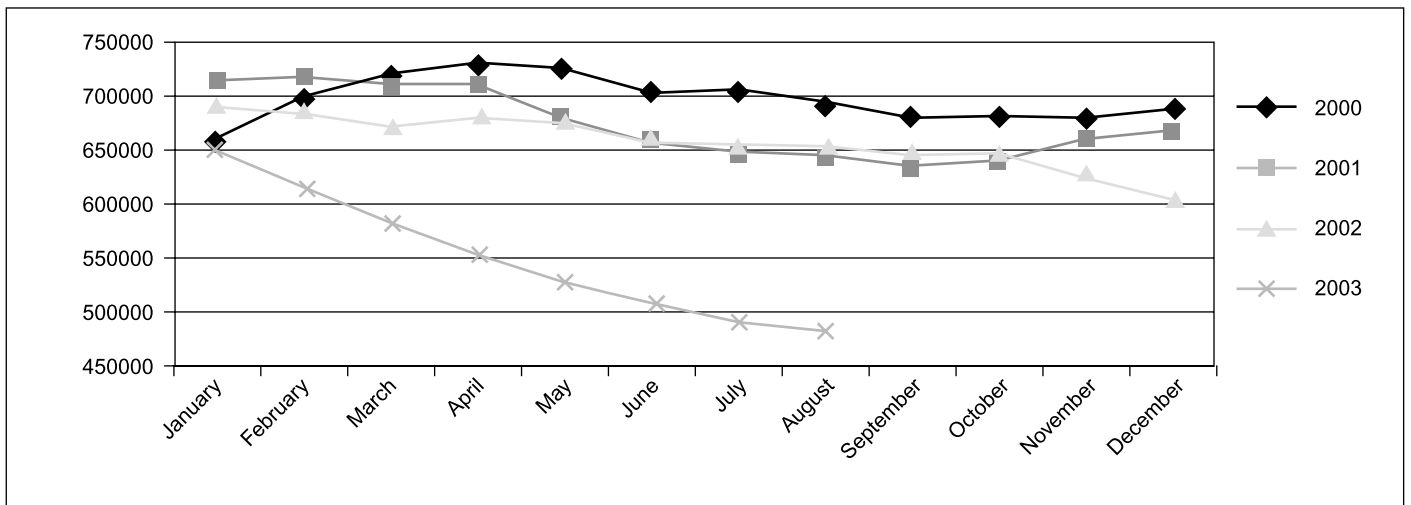
<sup>20</sup> In 1996 they amounted to 63.3% of the unemployed, in 1997 – 61.3%; in 1998 – 63%; in 1999 – 55.4% and in 2000 – 54.1% and in July 2003 74.9%.

<sup>21</sup> The influence of other factors can be felt as well – the presence of ethnic minorities; the closure of several big industrial plants; unstable performance of the already privatised companies; draughts during the summers of 2001 and 2002.

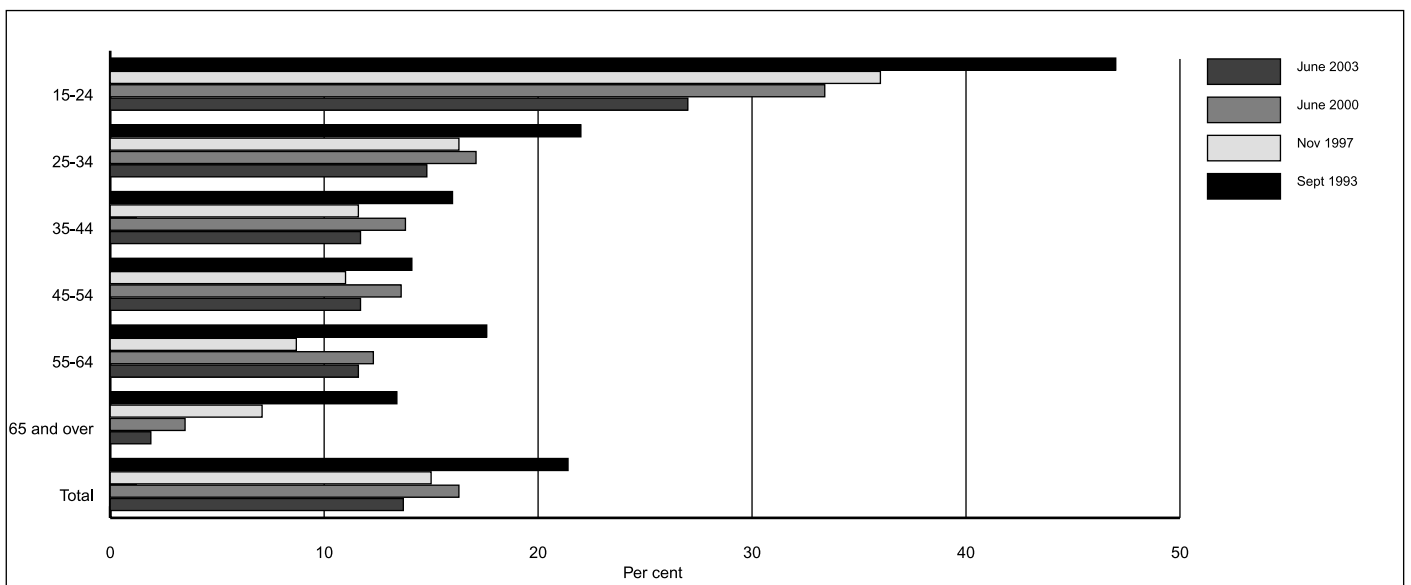
**Fig. 1: Activity rates by age**



**Fig. 2: Unemployment rates**



**Fig. 3: Unemployment rate by age**



## Labour market policies

### Active policies

Following the Employment Promotion Act, the active employment policies in Bulgaria<sup>22</sup> can be divided into:

- Employment measures for the inclusion of vulnerable target groups (young people, long-term unemployed); promotion of labour market flexibility via part time work; entrepreneurship encouragement; targeted training and financial incentives to unemployed or employers;
- Employment programmes that combine employment subsidies with training.

With regard to employment measures, emphasis is placed on encouraging the employment of young people and the long-term unemployed, on supporting part-time employment and on other measures that enhance the flexibility of the labour markets. The emphasis of employment programmes is on fighting long-term unemployment, mainly through the From Social Care to Employment programme<sup>23</sup>. All these active policies have a common goal – to enhance people's *employability and adaptability*, with a focus on *prevention and better targeting of the measures*<sup>24</sup>.

### Passive policies

The legislation of support given to those people who lose their employment is working well and has been in place for over 10 years. It specifies the procedures for financial support for those leaving the labour market<sup>25</sup>. The most important form of cash support is the unemployment benefit (UB)<sup>26</sup>. This is relatively low<sup>27</sup>, but encourages active job search for those unemployed people who have higher qualifications. For others, benefits remain equal to the salaries, or social assistance they receive and encourage people to remain in the labour market for longer periods. The need to develop a differentiated approach for the long-term unemployed who are led to the From Social Assistance to Employment Programme.

### Income maintenance policies

The Central Government is able to control incomes by regulating the minimum wage and the salaries of the state sector employees as well as by adjusting levels of the direct labour taxation and insurances. The general aim is to reach a balanced labour supply through increasing the levels of average salaries and activating demand by adjusting total labour costs.

## Financial resources and administrative capacity

Funds allocated for active policies in 2003 is BGN 480 million (approx. 240 million euro). 71.2% of the expenditure will be financed by the state budget (83.3% in 2002). The share of the funds coming through European Union programmes is also increasing – from 17.5% in 2003 to 15.9% in 2002. This is also a reflection of improvements made to the administrative capacity for their utilisation.

Following the conclusions from the Country Monograph (Sept. 2003) the speed of PES reform can be considered satisfactory. In 2002, 65% of the staff in EA took part in mediation and counselling services. These changes, however, do not guarantee conclusions regarding the improvement of the quality of the services offered.

## Preconditions for better quality of work<sup>28</sup>

### Gender equality

Data coming from both LFSs and EA shows that the two groups that experience most difficulties in finding employment are women aged between 25 – 34 and men aged 55 – 64<sup>29</sup>. Because of the recent optimisation of the national network of schools and hospitals, women with pedagogic and medical professions<sup>30</sup> have become a vulnerable group<sup>31</sup>.

Men's salaries remain higher than those paid to women, despite the fact that the existing legislation promotes the principle of equal pay for work of equal value<sup>32</sup>. This is also explained by the fact that women are usually employed in branches where the relative wages are lower<sup>33</sup>, or in the public sector; ongoing discriminatory traditions of employing female employees at the lower levels of corporate hierarchies; continued professional and occupational segregation<sup>34</sup>.

### Health and safety at work

Large-scale reforms in this area are planned for the near future. In 2002 and 2003 the emphasis was placed on improving existing legislation and organisation of safety at work.

Investments into the improvement of health and safety at work have been minimal. There are no mechanisms or regulations that oblige or motivate the employers to invest in this area. The general attitude of the employers towards keeping the laws on health and safety conditions at work also remains unchanged. The existing regulations are regarded as being mere obstacles to the achievement of quick profits and the inspections of the controlling administration are seen as acts of unnecessary state interference.

<sup>22</sup> Since 2001, policies are in the Annual National Action Plan on Employment.

<sup>23</sup> The objective of National Programme "From Social Care to Employment" (2002-05) is to counteract the increasing number of people of working age who receive monthly social benefits (increased by 42% in 2001 in comparison with 1999). The programme ensure full-time or part-time employment for a minimum of 9 months (but for no more than 12 months). Under it the employers who hire unemployed persons are entitled to receive cash benefits from the Budget.

<sup>24</sup> In Sept. 2003 the activation rate reached 25.2%, being 16.5% in 2002. Source: EA.

<sup>25</sup> Before 2002 the passive policies included cash payments of unemployment benefits and of social assistance allowances.

<sup>26</sup> They are paid from the Unemployment Fund, which is a regular insurance fund. The contribution is 4% of the total payroll.

<sup>27</sup> For the first 9 months of 2003 the size of the average monthly benefit was slightly above 90 BGN (45 euro). It is lower than the minimum wage (BGN 110 or 55 euro).

<sup>28</sup> See: Employment and Social Policies: a Framework for Investing in Quality, COM (2001), 313 final, Brussels, 20.06.01. The further preconditions presented are elaborated on the basis of analysis of secondary information. They could be considered as factors, *other things being equal*. Due to the lack of sufficient data, some of the dimensions have not been considered.

<sup>29</sup> In 2004 the former will be covered by a project for the provision of assistance for resuming work after maternity leave. The latter will be integrated into the target groups of a programme for the facilitation of retirement (already in operation).

<sup>30</sup> For the first 9 months of 2003, these amounted to 16% of the registered qualified female unemployed. (EA).

<sup>31</sup> In order to provide them with employment opportunities, two projects that involve specialised work with children have been promoted (October 2003).

<sup>32</sup> The relative share of the wages of women to those of men in 2001 is 72%. It is estimated that the ratio will increase to 80% in 2015.

See: Millennium Development Goals, Bulgaria, 2003, UNDP, Sofia, 2003.

<sup>33</sup> These are processing industry, trade, education and healthcare.

<sup>34</sup> The LFS carried in June 2003 shows that just 31.3% of all managers in Bulgaria are women. The share of employers and self-employed men in the total number of the employed is 9.3% and of women – 4.5%. These shares remain stable throughout the transition period.



**Table 2:** Participants in employment promotion programmes and measures

Employment promotion programmes and measures	1999	2000	2001	2002
<b>TOTAL</b>	<b>99,616</b>	<b>72,789</b>	<b>86,244</b>	<b>108,200</b>
<b>Total-Measures</b>	<b>9,591</b>	<b>13,194</b>	<b>15,687</b>	<b>19,388</b>
<i>Measures for youth, long term and vulnerable groups in the labour market - total</i>	2,497	4,670	6,310	8,801
- Unemployed youth	1,725	3,089	3,609	5,868
- Long-term unemployed	684	1,376	2,257	2,108
- Disabled people	88	205	444	523
- Lone mothers	-	-	-	296
- Unemployed released from prison	-	-	-	6
<i>Measures for enhancing labour market flexibility – total</i>	7,094	8,524	9,377	9,400
- Starting small businesses	2,966	2,393	820	583
- Placed on part-time jobs	3,084	4,268	4,226	5,388
- Placed under programme “Flexible employment”	0	677	3,453	3,270
- Measures for territorial mobility	870	950	694	128
- Placed under the incentive for the first five persons recruited	174	236	184	31
<i>Measures (started in 2002) for increasing employability through vocational training – total</i>	-	-	-	1,187
- Internship and apprenticeship	-	-	-	1,089
- Training and acquisition of Professional skills (under 29 years old)	-	-	-	93
- Provision of resources for vocational training	-	-	-	5
<b>Total – Programmes</b>	<b>90,025</b>	<b>59,595</b>	<b>70,557</b>	<b>88,815</b>
National programme “From Welfare to Employment”	-	-	-	55,293
National programme “Preservation of the Harvest – 2002”	-	-	-	6,764
National programme “Assistance for Retirement”	-	-	-	96
Regional Employment Programmes	146	9,544	24,922	11,009
Employment and Structural Development Associations	4,455	5,430	7,767	5,229
Regional programme “From Social Care (Welfare) to Employment”	5,584	6,101	5,505	9,497
Placed under Literacy – Vocational Training – Employment programme	296	193	214	125
Programmes for Temporary employment and community work	79,544	38,327	31,797	654
“Improving Employability and Encouraging Entrepreneurship of Youth” project	-	-	-	148
“Quick start” programme	-	-	352	-

Source: Employment Agency

The percentage of companies where management of safety at work is integrated into the overall management structures and is represented within the quality control system, is very low. The exceptions are several bigger enterprises of, mainly, foreign capital.

### ***Flexibility and security***

Free motivation and vocational training courses, stipends and supplementary grants for accommodation and commuting are being provided to enhance *the occupational mobility* of the unemployed<sup>35</sup>.

As for *career development schemes*, it is expected that their implementation will be hardest in the small and medium-sized local companies. In fact, just a few larger companies, with foreign capital, are practicing such planning. Career progression in the public administration sphere is subject to special regulations and is provided for by the State Employee Act.

*The geographical mobility* of the population displays contradicting tendencies. On the one hand, throughout the transformation period, there has been an intensive immigration towards the bigger towns. At the same time, accommodation problems and higher rents have suppressed mobility. Overall, the movement towards the capital and the tourist regions is most intensive during the peak seasons. The low incomes do not compensate for the costs incurred through connection with relocation or changing social environments.

The number of people willing to start part-time jobs is marginal (2.4% of the unemployed according to LFS, June 2003), mainly because of the low salaries offered. 65.5% of all part-time employees stated that they have been unable to find other employment.

Employment security and the transition to new employment is targeted by both passive and active policies. The EPA specifies procedures for support in finding new employment where there have been mass lay-offs. The preparatory phase for the creation of a

<sup>35</sup> The Employment Promotion Act (EPA) contains a clause for the entitlement of benefits to the employers who replace the employees they send to up to six months long training courses with unemployed who have been recommended by the Labour Office. Most of the employers do not yet realise the value of investing in the improvement of the qualification of their staff.

Guarantee Fund for payment of salaries in the case of bankruptcy has already been completed.

The application of a differentiated approach towards the Labour Offices' clients was initiated in 2001. At present, individualised plans to find new employment are being developed for each registered unemployed person. This aims to facilitate the employment transition.

The mobility preconditions created are significant only in respect to those starting new employment after being unemployed. Due to low labour market demand and investment in modernising the available technology, their contribution to the transition towards a new quality of work is only marginal.

### ***Inclusion and access to the labour market***

The programmes for the promotion of employability and adaptability<sup>36</sup> focus on the following: requalification and updating of qualifications for the unemployed; the organisation of computer literacy courses for young people and reading, writing and basic skills training for the Roma population, the elaboration of continuous education schemes for adults, and the preparation of active ageing programmes. EPA includes financial assistance to employers who invest in training employees, who hire unemployed people or offer internships. The levels of the adult professional training indicators are not satisfactory<sup>37</sup>. Full-scale reforms need to be implemented in the area of professional training for adults based on a strategy of training adaptation to reflect the needs of the labour market.

The creation of new jobs and the enhancement of entrepreneurship are encouraged through direct subsidies and facilitated access to other financial resources<sup>38</sup>. The main problem encountered is the question of how to keep these employees in the same job position when subsidies end.

In order to facilitate the set-up of new businesses or the development of existing ones, local entrepreneurs and the unemployed are given access to credit schemes<sup>39</sup> and training.

### ***Social dialogue and employee involvement***

The trade union membership decreased from 39% in 1999 to 26% in 2003. Unfortunately, precise statistics on the number of employees covered by collective agreements is not available<sup>40</sup>.

At present there are 50 branch collective agreements and 9 industry level collective agreements. Analysis of their content and coverage gives grounds to consider that they are far more flexible than the policy tools available to political institutions. It should be noted that negotiation of *agreements on particular issues* is rarely practised as an alternative to signing a collective agreement. The opportunities provided by the so-called *open clauses* are also rarely utilised. Open clauses consist of points that allow collective agreements to be adapted to the current condition of particular enterprises within each respective industry or branch, thus providing for higher flexibility. Matters such as working hours and their flexibility, the protection of the rights of employees in atypical employment, early

retirement, equal opportunities for men and women and continuous education and upgrading of qualifications, are inadequately provided for by the existing collective agreements. Collective agreements should also include clauses that will allow employees to contribute to the corporate profits and to negotiate the procedures for participation in distribution.

All the issues presented above lead to the conclusion that, currently, in Bulgaria the preconditions to establish improved working conditions are in their very early stages of development. The strategy of sticking to European practices appears to be promising and, with a revival of the local economy, could deliver comparable results.

## ***Outlook***

### ***Future labour market projections***

The need to maintain the results achieved in 2003 with respect to employment and unemployment is clear. Throughout 2004 and 2007, sustainability and further deepening of these positive trends, will be further promoted. Efforts must be made to enhance efficiency of the active labour market policies. The main steps towards reaching the goals described above are projected in NAP 2004 as follows:

- Creating a favourable environment to open new jobs;
- Balancing the supply and demand of labour through increasing the employability of the labour force (in terms of quality) and not through putting quantitative limitations on supply;
- Enhancing the scope of the active policies, encouraging entrepreneurship and supporting vulnerable groups;
- Providing the labour force with qualifications that meet market requirements;
- Ensuring equal access to employment opportunities;
- Improving the quality of PES;
- Encouraging social co-operation and regional-level negotiation procedures in the human resources development initiatives;
- Increasing the efficiency of financial resources on employment programmes and measures.

### ***Impact of accession***

The Regular Annual Report on the progress on accession underlines the need to enhance the flexibility of the Bulgarian product and its labour markets. The ongoing decrease in the rate of unemployment should be further supported by tackling the rigidities of the labour market and by improving the educational system. The implementation of these reform measures should contribute to reaching higher levels of private and public investment and hence sustaining the growth and competitiveness within the Union.

*Dr. Pobeda Loukanova*

<sup>36</sup> These are: the JOBS project; Beautiful Bulgaria project (UNDP); The National Youth Programme for Computer Education; the Phare Labour Market Initiative; the Social Integration Project for the Roma and other ethnic minority groups, as well as of people with disabilities.

<sup>37</sup> In 2002, just 1.3% of the population aged 25-64 years had taken part in vocational training. The figure is lower than the levels registered in same year as the other EU candidate countries (5.0%) and EU Member States (8.5%). In Bulgaria, the continuous vocational education for adults to a large extent matches the formal educational system and provides the participants with the same certificates. Often these are not in line with the needs of both the individual and the market.

<sup>38</sup> The subsidies are for salaries and social insurance payments in the event of hiring of unemployed persons from the risk groups (youths, long-term unemployed, people with disabilities and those over 50 years of age) and for vocational training through sending to specialised courses or through apprenticeships.

<sup>39</sup> Social Investment Fund, the Fund for Micro Credits and the leasing agreements of the Job Opportunities through Business Support project.

<sup>40</sup> Expert opinions indicate that just 38-40% of the employees are covered by such agreements.

# Romania

## Introduction

After a decade characterised by a “stop-go” transition – including a major fall in output – in 2000 Romania firmly committed itself to a path of economic growth.

Sustained efforts to enforce fiscal discipline and ensure a tight money supply together with renewed efforts to attract foreign direct investments, have resulted in falling inflation, thereby setting the country on the right course to cure the chronic malaise that has hampered its growth potential throughout the Nineties.

Economic growth started rather timidly in 2000 at 1.8%, but surged the next year to 5.5%, the highest in the region. The economy grew another 4.6% in 2002, the slower pace being attributable to the general slowdown in the eurozone, which is now the country’s main export market. Currently, the Government and the Central Bank expect the economy to grow by 4.8% this year, lower than the expected 5.2%, but still high enough to justify optimism for next year when a return to growth in excess of 5% is expected.

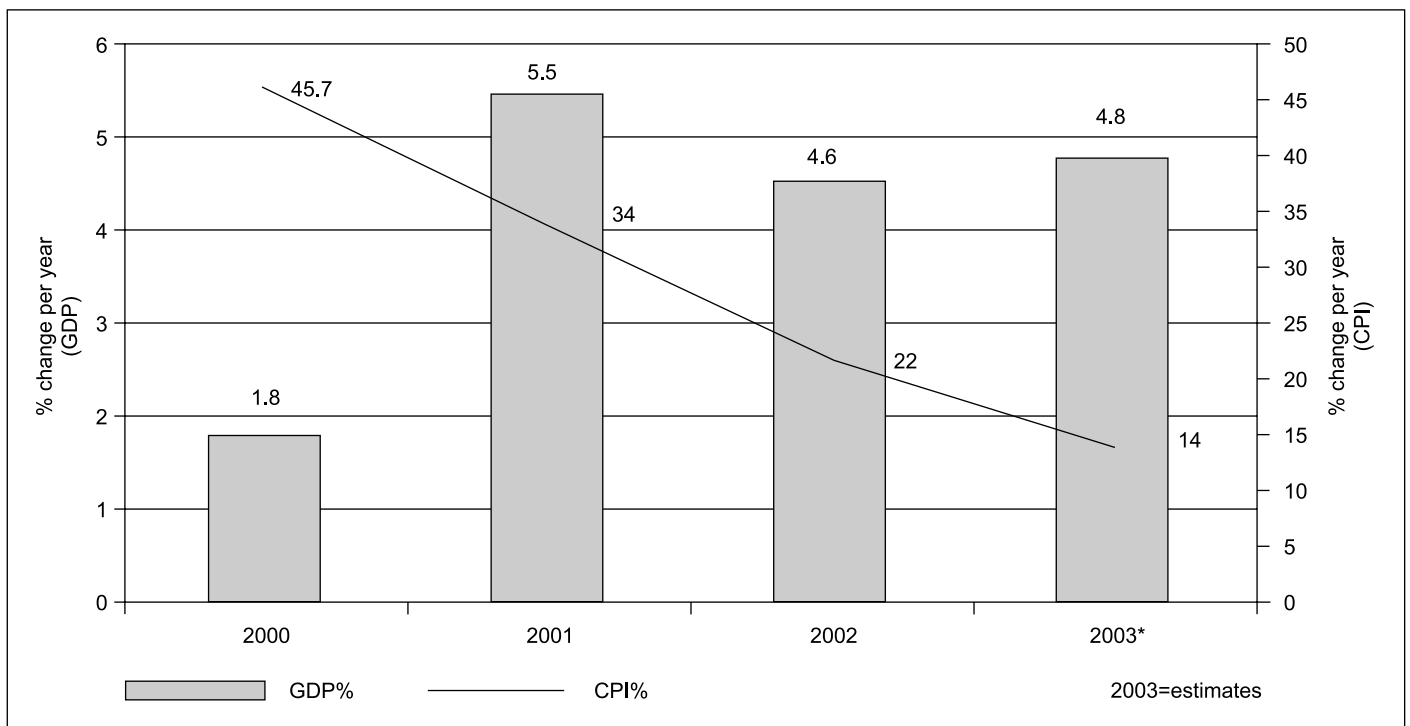
Inflation continued to fall, from 45.7% in 2000 to an expected 14% this year. Compared to last year, the rate of inflation will be almost 8 percentage points lower. Even if the current target is not met – particularly due to the shift to the euro as a reference currency, which has pushed the prices of several products with volatile prices such as fuel higher than expected as levies and duties on them were recalculated in euro – an annual inflation rate of 16% will still confirm that visible progress is being made on this front. The current budget proposal, which is being debated in Parliament this month, gives an inflation target of 9% for next year, the first single-figure inflation target since the start of the transition process in

1990. This has triggered proposals for a redenomination of the Romanian Leu (ROL), which will most probably take place in 2005.

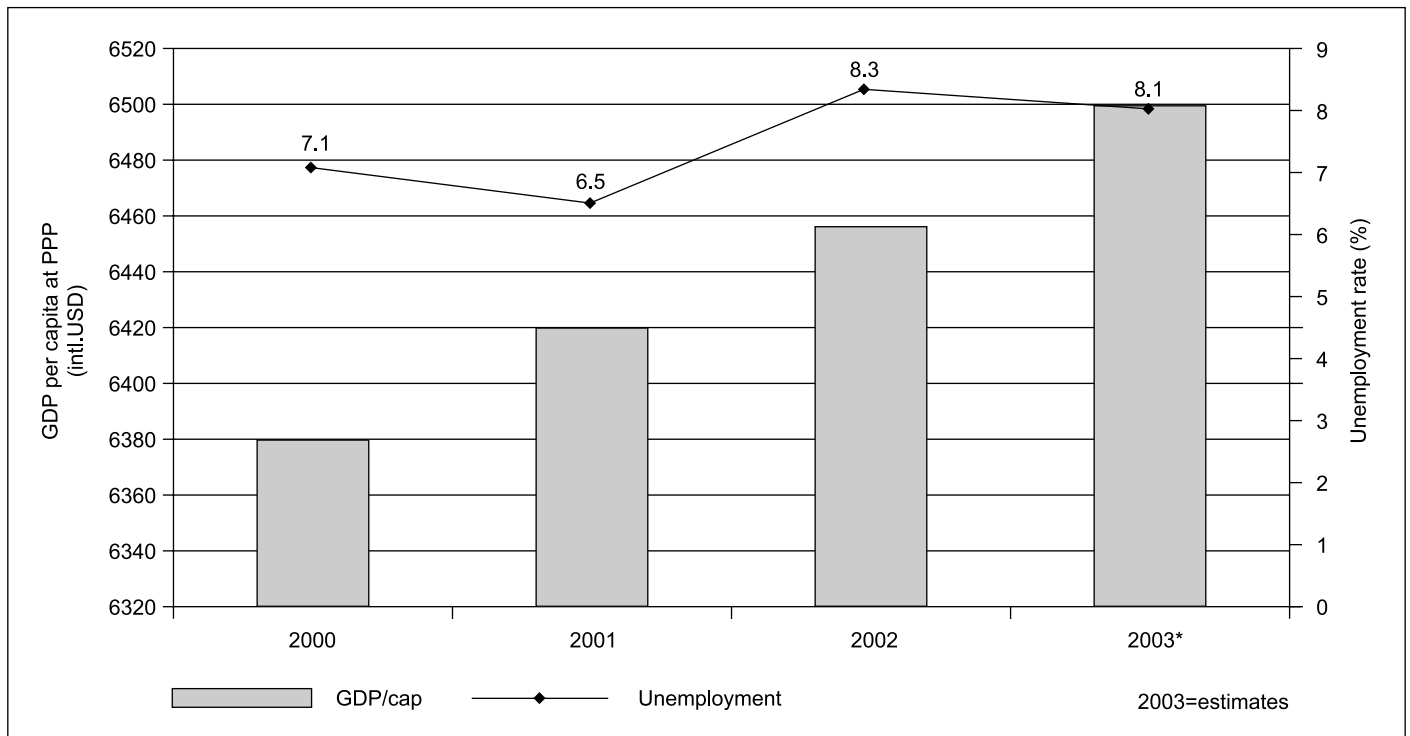
Unemployment has fallen in recent years, with the official/administrative rate currently at around 8%. The LFS calculated rate is also at a similar level. In spite of the focus on active labour market programmes and the introduction of a new Labour Code, which makes more generous provision for part-time employment, both employment and activity rates have been steadily declining. Agriculture still occupies a large share of total employment, while the informal sector looms large at around 20% of the total labour force. Authorities are, nonetheless, optimistic about the country’s labour market prospects, since full employment at 70% of the working age population can be achieved by 2010. A new law on unemployment insurance has changed the regulatory framework by introducing a flat-rate unemployment benefit, while allowing for more funds to be released for active measures. Several changes made at the end of this year will provide incentives for employers to hire young graduates as well as people close to the statutory retirement age.

Income support schemes have been thoroughly modernised, especially by the introduction of a means-tested income support scheme, known as the “Minimum Guaranteed Income”, considered by World Bank experts to be one of the most successful programmes of its kind in the whole region. This, as well as other complementary measures aiming at increasing the inclusion of socially marginalised groups, has greatly contributed to the reduction in the overall poverty rate, as illustrated by a recently released World Bank Assessment, from 35% in 2000 to around 29% at the beginning of 2003.

**Chart 1: Economic growth and inflation rate 2000–2003 (% change from previous year)**



Source: National Statistics Institute

**Chart 2: GDP per capita and unemployment rate (200–2003)**

Source: author's calculations based on National Statistics Institute data

Recently, the Government has been able to successfully conclude the first standby agreement with the IMF, therefore being the first Romanian cabinet after 1990 to achieve this performance. A new agreement with the IMF is currently being negotiated mainly as a way of enhancing the country's credibility in the international financial markets. In February this year, the US Department of Commerce granted Romania the status of a "functional market economy", thereby giving a positive signal for increased US investment in the country's economy.

Negotiations regarding the country's entry into the EU are approaching their final stages. Twenty negotiation chapters have already been provisionally closed, with the Government aiming to close the remaining ten chapters before the end of 2004. The Government hopes to sign the Accession Treaty in 2005, making the country's entry into the EU effective in 2007.

While the recent Country Report released by the Commission makes thorough mention of the progress made so far, it also expresses reservations regarding the country's administrative capacity, the independence of the judiciary as well as concerns regarding levels of corruption. Moreover, it fails once again to grant the country the status of "functional market economy", although the way in which it makes mention of this leaves plenty of scope for interpretation. The authorities in Bucharest consider that the country fulfils the criteria and that there are no grounds to doubt the commitment of the Government to reform – even with elections due in late 2004.

### **Labour market trends**

Romania's population dropped by 800,000 people in the decade preceding the 2002 Census, being 96.4% of its 1992 level. This drop has been caused mainly by the negative natural growth rate, which has been the dominant demographic feature of the Nineties, and

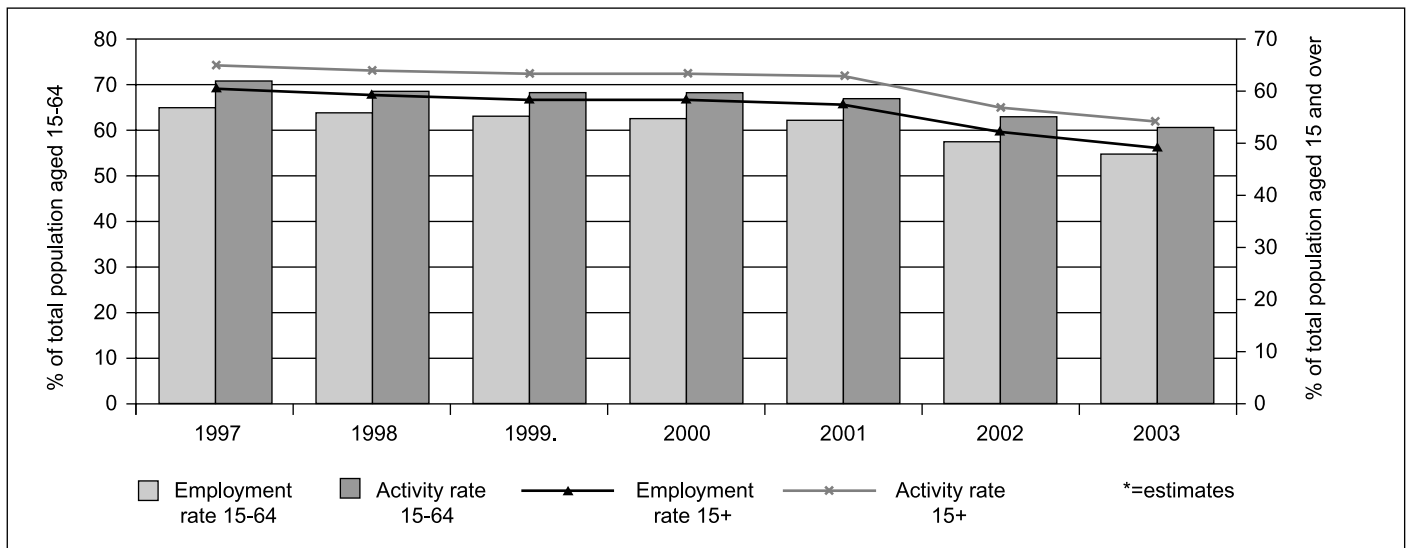
augmented by the negative migration balance, with particularly high levels of emigration at the beginning of the transition process.

Emigration is now at negligible levels, but migration to seek employment abroad has replaced permanent emigration. The 2002 Census estimated that 159,000 Romanians are working abroad for periods of at least one year. Even if in absolute terms the figure looms rather large, it only represents the equivalent of 1.6% of the active population aged 15 and over. As a result, even if we account for the effect of both permanent emigration as well as for migration for employment abroad, it still fails to explain the rather large drop in the activity and employment rates among the population aged 15 and over. In absolute terms, the active population aged 15 and over stood at 9.5 million people at the end of the first quarter of 2003, while employment among those aged 15 and over stood at 8.8 million. The first figure marks a 14% drop from its 1997 levels, while the second one stands at 79% of its 1997 level. Meanwhile, employment for the population of working age (15-64) is now at 82.1% of its 1997 levels and 85% of its 2000 levels, with the activity rate for the same age group at 84.1% of its 1997 level and 86.5% of its 2000 level.

The employment rate for the working age population was 55.4% at the end of the first quarter of 2003, down 10.5 percentage points from its 1997 level and 7.8 percentage points from its 2000 level. The employment rate for the population aged 15 and over is currently only 48.7% and therefore 11.3 percentage points lower than its 1997 level. It fell by 10% between 2000 and 2003. This decline is chiefly the result of the second transition shock that occurred between 1997 and 2000, when massive lay-offs pushed large groups of the active population either towards subsistence-type agriculture or directly into inactivity, with the second alternative being particularly common for women, now by far the largest segment of the inactive population.

Even though strong economic growth resumed in 2000, the employment generation has been rather slow in keeping pace with it. Labour demand has mainly come from low value-added sectors,

**Chart 3:** Employment and activity rate for the working age population (15–64); Employment and activity rate for the population aged 15 and over (1997–2003)\*



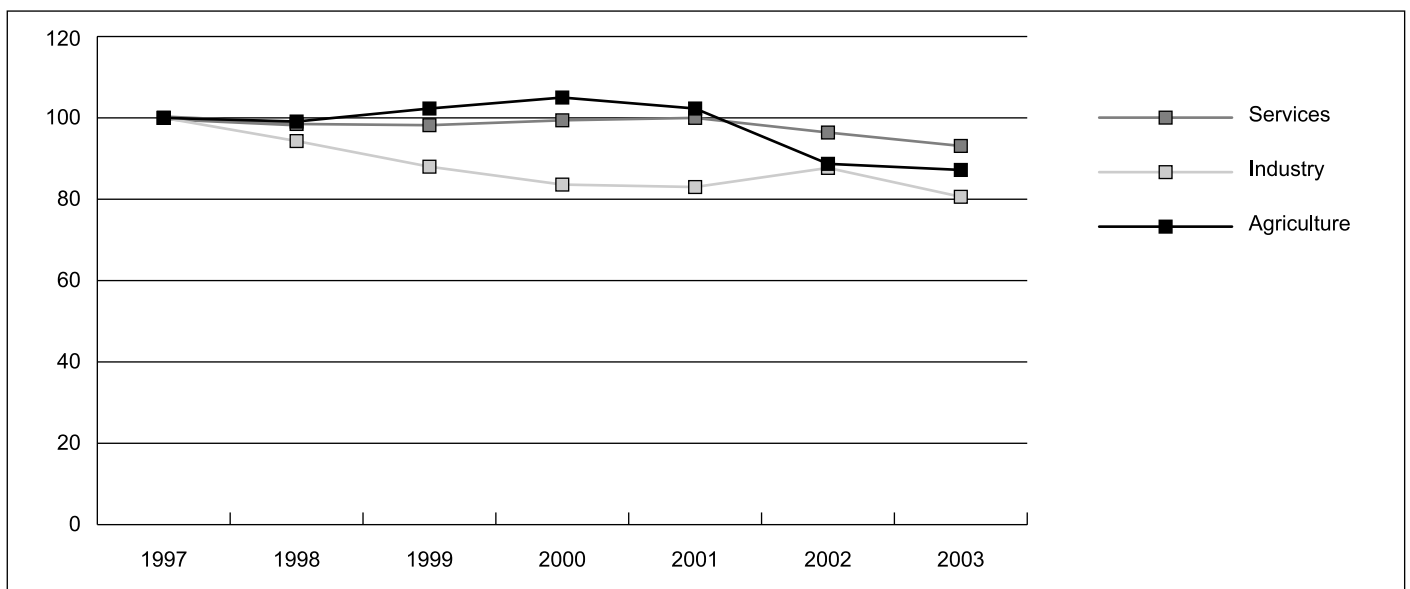
Source: LFS/AMIGO performed by the National Statistics Institute

which are frequently unable to offer more than the minimum wage. As a result, incentives for labour mobility have been undermined, as the benefits associated with this type of employment were largely offset by costs associated with the daily commute from the rural areas (where most of those people made redundant in the late 1990s found “refuge”) to the urban areas providing poorly paid jobs.

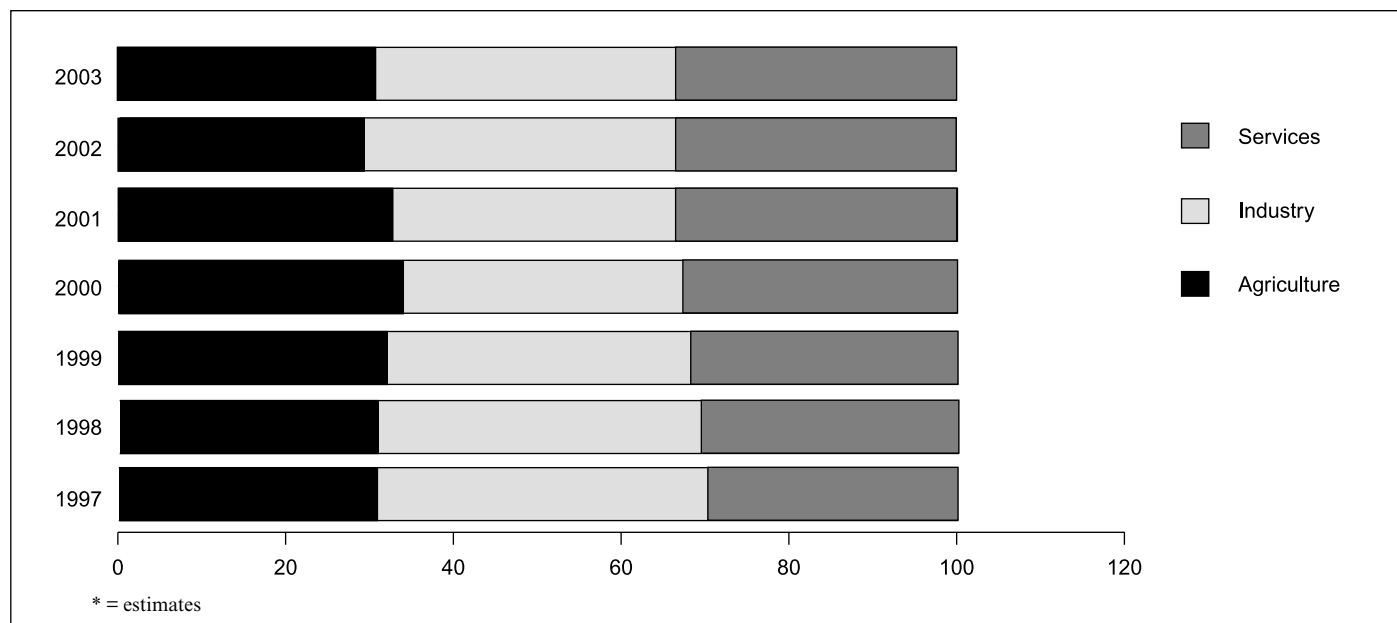
This particular feature, coupled with the restructuring process in the medium value-added traditional industrial sectors, helps to explain both the attraction of migration for employment abroad – which is on the rise, albeit not at very high values – as well as of informal employment, which now accounts for the equivalent of 20-27% of the active population aged 15 years and over. When accounting for this area, activity rates for this age group increase by an estimated 12 percentage points, reaching a rate of almost 66%. Although these individuals fail to appear in the official calculations and

registrations, they nonetheless contribute to the formation of national wealth, especially in agriculture and generally in the rural and small and medium-sized urban areas, where they form the bulk of the labour supply for small and micro businesses. The large share of informal employment, together with the concentration of formal employment in low and medium value-added sectors where wages tend to be low and working conditions poor, and the low levels of social security provision for those engaged in informal activities, only add to the precariousness of overall employment (formal and informal). This in turn might generate concerns with regard to employment growth as well as with regard to the character of economic growth in general, which might create employment but fails to generate a critical mass of wealth, essential for the country’s overall socio-economic stability. This is also apparent when judging the reduction in poverty rate from a maximum of 35% in 2000 to around 29% at the end of 2002, which was accompanied by a growth

**Chart 4:** Sectoral employment index (1997=100)



Source: Author’s calculations

**Chart 5: Sectoral shift in total employment (1997–2003)\***

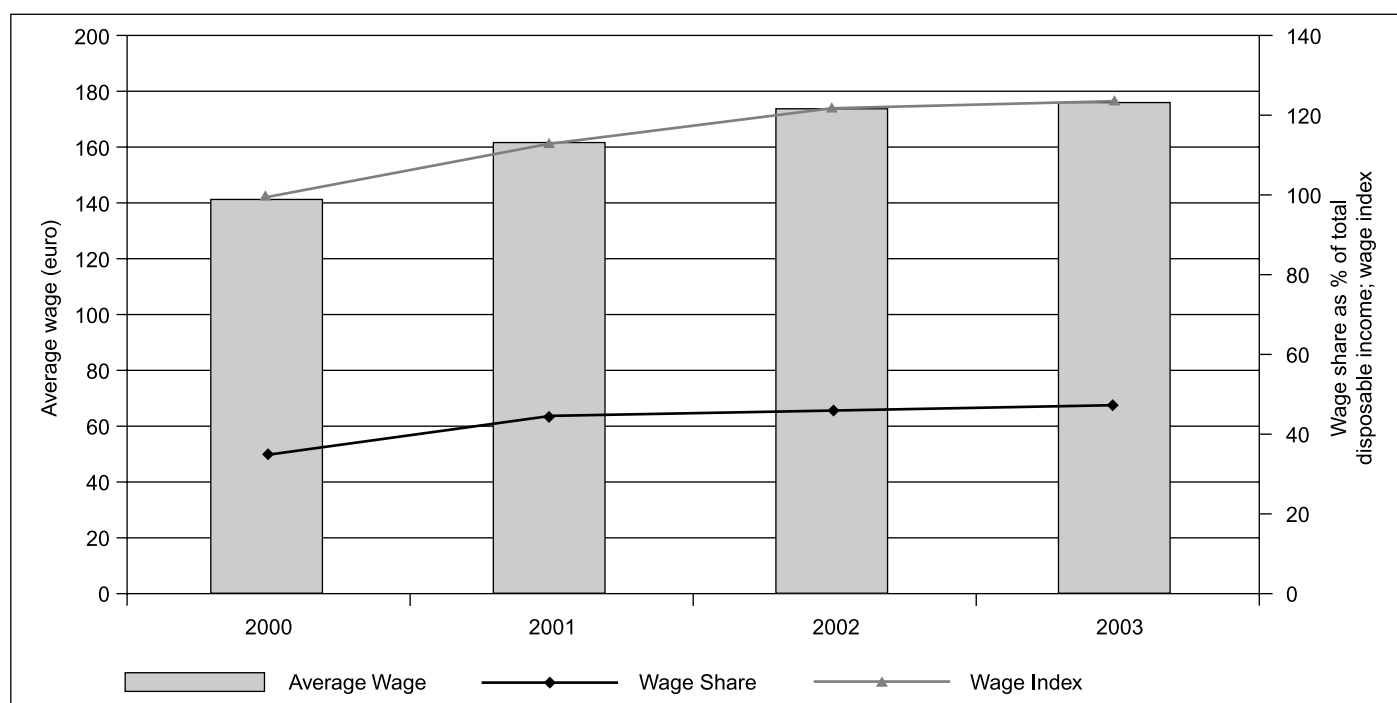
Source: LFS/AMIGO performed by the National Statistics Institute

in income inequality. Income disparities tend to increase – particularly towards the top end of income distribution, while flattening towards its bottom and middle end. This further signals the emergence of a peculiar type of income inequality that is not conducive to sustainable growth.

Registered unemployment has witnessed relatively low variations between 2000 and 2003, with the unemployment rate for the end of the first quarter of 2003 being 8.1% of the active population and thereby only one percentage point higher than the one registered in 2000. Even though the registered unemployment rate declined

through much of 2003, reaching a low of 6.9% at the end of the second quarter, this figure raises concerns about high inactivity rates and sizeable informal employment. High inactivity and informal employment can be considered as either disguised unemployment or as seasonal employment, which makes a poor substitute for genuine labour market participation.

However, in spite of previous trends, a shift in employment by sector has occurred in recent years, nurturing hopes that sustainable employment generation is under way.

**Chart 6: Wage share in total disposable income, average wage in euro and wage index (2000=100)**

Source: National Statistics Institute data plus author's calculations

Agriculture, which has served as a cushion for the transition shocks throughout the Nineties, reached its peak as a share of total employment in 2000 (36.5%). It has been in gradual decline since then, currently employing 87.2% of its 1997 level and 82.3% of its 2000 level, with a share of total employment of only 33.5%.

In the meantime, with a shrinking labour force and falling employment, industry has continued its decline. Employment has fallen by almost 20% from its level in 1997, although it did climb by 4% between 2000 and 2001 against a background of strong economic growth.

Service industries have seen the mildest decline in employment which is currently at 93.1% of its level in 1997. The share of total employment taken by services has gradually increased from 33.2% in 1997 and 34.1% in 2000 to 35% at the end of the first quarter of 2003.

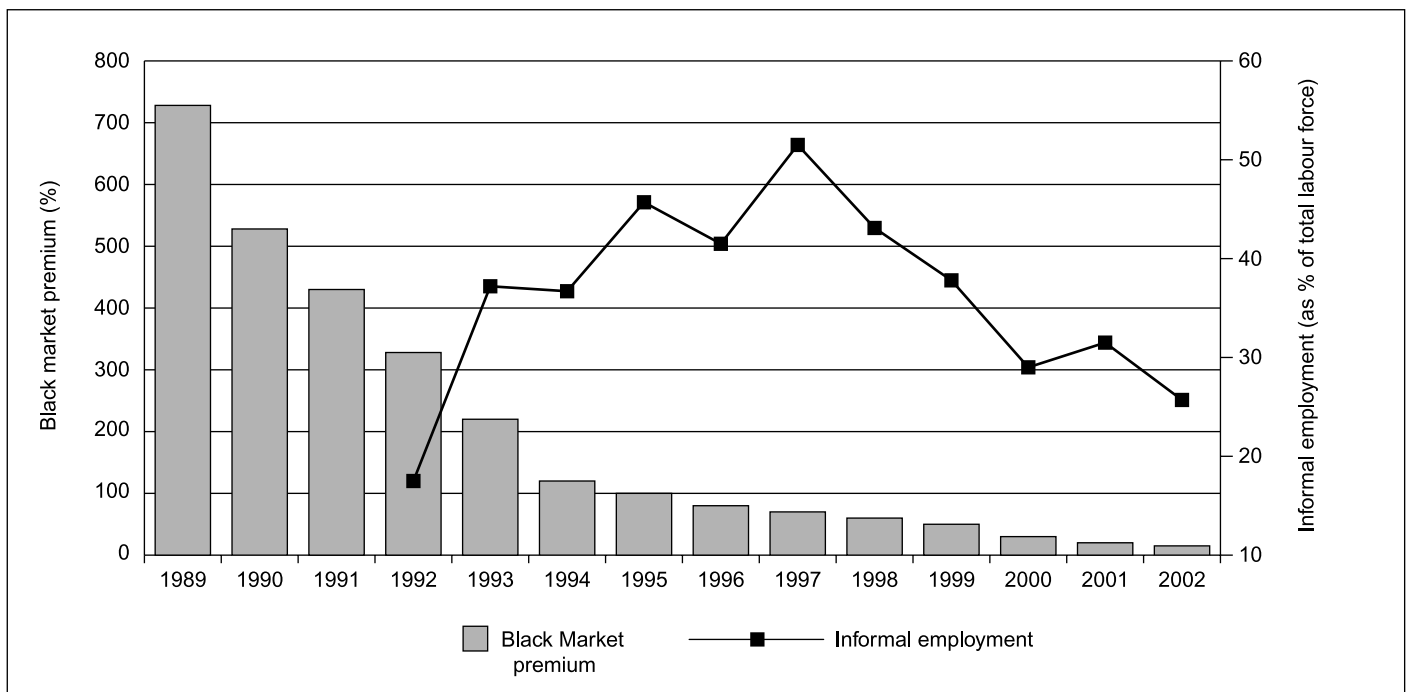
This share of employment taken by services is linked to the slow but gradual increase in high value-added employment, with a smaller but better educated and trained labour force<sup>1</sup>. It is also a cause of the growth in the share of wages of total disposable income which, during the last three years, has increased by 10.1% after falling 12.7% in the decade to 2000.

Meanwhile, the growth rate of GDP per person in market terms for the three years to 2002 has surpassed the average growth rate of GDP per person for the entire transition period by almost a full percentage point (which stands at around 3%). Compared with the

decade to 2000, the growth rate of GDP per person in the three years to 2002 has been 1.6% higher, indicating an increase in living standards as economic growth has resumed. In the meantime, one has to be cautious. These developments have taken place in a labour market that has seen falls in both formal employment and in participation. It is necessary to be cautious about some economic indicators – such as the growing share of total employment occupied by services, the increased share of total disposable income taken by salaries – as there are other trends that point to the existence of a dual labour market, like high levels of inactivity, increased migration for employment abroad (which is expected to grow by almost 50% between now and 2005) and a significant amount of informal employment<sup>2</sup>.

Regionally speaking, large disparities exist, with only one development region, Bucharest, boasting a share of services in total employment that resembles EU standards (services occupying 62.6% of regional employment in Bucharest). Among the other regions, only the relatively prosperous West development region has a share of services in total employment clearly above the national average, while the Central region hovers somewhere around the national average. All the other regions display a share of services in total employment below the national average. In the meantime, the North-East region, which is by far the poorest region in the country, has employment in the agricultural sector of 48%. Meanwhile, the region's contribution to national employment is 17.2%, making it the largest net contributor to total national employment. A certain

**Chart 7: Black market premium and informal employment estimates**

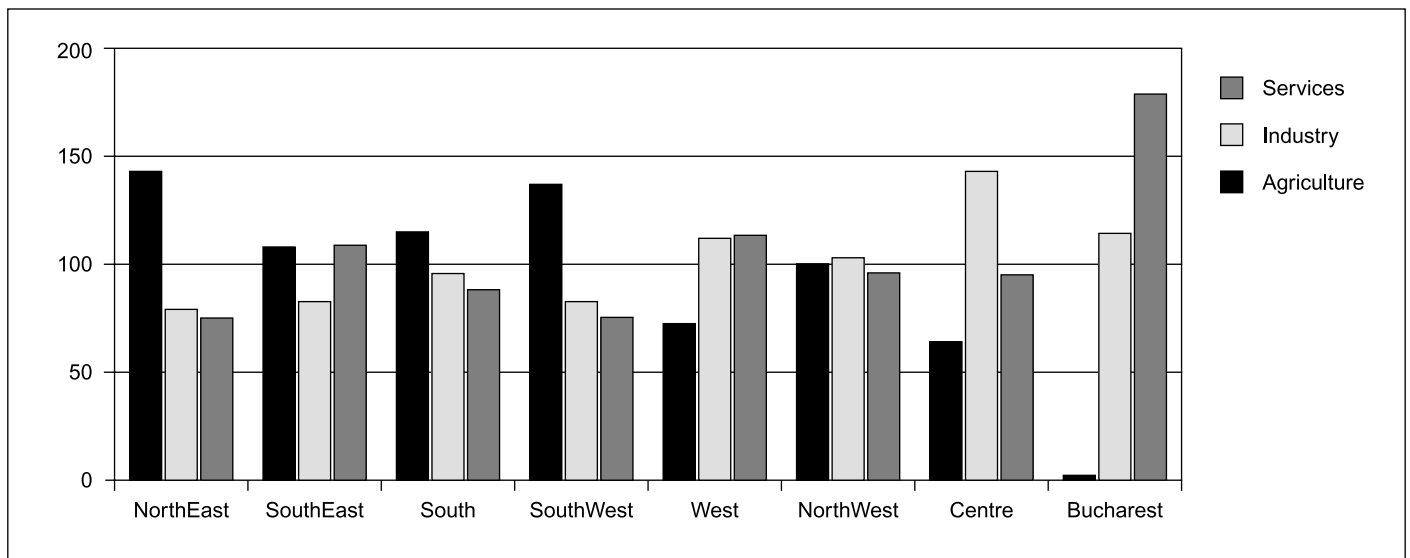


Source: author's calculations

<sup>1</sup> During 1995 – 2001, the educational level of the Romanian labour force has increased markedly.

The number of graduates was 12% higher in 2001 than in 1995. This growth is apparent in both urban and rural areas, although the urban areas still contain 88% of graduates. At the same time, with more diversified higher education, there has been a significant increase in the number of female graduates in the labour force. The educational level of the employed population reflects, to a large extent, the educational level of the labour force. There has been an increase in staff with a higher education from 8.1% of people in employment in 1995 to 9.3% in 2001. Compared to the level in 1995 (1995=100), this represents an increase of 10%.

<sup>2</sup> Besides unregistered workers, the informal sector includes some self-employed people and workers in the agriculture sector. A significant portion of the informal sector is thought to be occupied by subsistence activities. According to the National Institute for Statistics, the gross added value of the informal sector represented 156.5 billion lei in 1999, or 28.7% of GDP, and 211.47 billion lei in 2000, or 26.4% of GDP (preliminary data). According to the estimates of the National Institute for Research, the percentage of employment in informal activities, both on a temporary and permanent basis, varies between 20 and 27%, representing between 2.4 and 3.1 million people. The nature of informal activities influences employment and unemployment, because some of those involved in the informal sector are officially registered as being unemployed.

**Chart 8: Regional disparities in sectoral employment as % of the national averages per sector (national averages = 100)**

Source: National Statistics Institute data plus author's calculations

counterweight is provided by high “capital attraction”, which allows Bucharest to contribute 10% of national employment. Still, this indicates further potential for a split to emerge between the large cities and the countryside, increasing the risk of social exclusion for the rural population.

### **Labour market policies**

Active labour market policies have been carried out by the Romanian public employment services since the early 1990s. The first law dealing with unemployment insurance issues, Law No.1/1991, made basic provision for the development of active employment measures by the public services and private providers (or jointly).

The first active measures were training and retraining courses for unemployed people, which took up to 60% of the total budget allocated for active labour market policies in the early 1990s. Due to poor targeting and insufficient links to job placement, the share of the budget taken up by these measures has been gradually reduced. From the mid-1990s, active labour market policies started to diversify, with some targeted at support to SME start-ups. Essentially, this consisted of subsidised loans for small entrepreneurs willing to hire a certain number of registered unemployed people. The share of this particular measure greatly increased in the mid-1990s, by which time they occupied 95% of the total budget dedicated to ALMPs. Since then, this share has fallen, as there has been a further diversification in ALMPs. Currently, subsidised credits for SMEs account for 34% of the total ALMP budget. In accordance with Law No.76/2002 that currently regulates unemployment insurance and provides for the implementation of the various active labour market policies, subsidised credits can be made available to companies, co-operatives, family associations or licensed individuals undertaking mainly production or service provision activities. They are granted either for

capital investments or for the purchase of raw materials for periods between one and three years with a 50% interest rate or a 25% interest rate for regions registering unemployment rates above the national average. Currently, the National Employment Agency has earmarked subsidised credits equivalent to €25 million.

Training and retraining courses for the unemployed have recommenced, with 80% of these ALMPs being set up only if there is a link to employers’ demand for labour. Employment is therefore guaranteed for all participants in such training courses. Only 20% of the total training and retraining programmes organised by the PES are not tied to employers’ defined demand for labour. However, a 60% employment target in the six months following the termination of the course is attached, as a performance indicator. The PES organises training courses either through their own training centres or through the Regional Training Centres of the Ministry of Labour. In most cases, they contract them out to specialised training providers. Training courses made up 70 to 80% of the total ALMP budget in the early 1990s, declining sharply towards the middle of the decade. Under the Labour Redeployment programme undertaken by the Ministry of Labour – and, subsequently, following its establishment in late 1998, by the National Employment Agency<sup>3</sup>, co-financed by the World Bank, which has been dedicated to the labour market reinsertion of dislocated workers in mining, the defence industry, railways and other sectors – the share of training and retraining programmes has increased, reaching 16% of the total ALMP budget. Training and retraining programmes now occupy approximately 9% of the total ALMP budget.

Job brokering, information and job club services are regularly offered by the PES, together with services for those made redundant in mass lay-offs, as part of early warning and notification procedures that have established under the new Unemployment Insurance Law No.76/2002. An electronic job brokering and

<sup>3</sup> The Agency has been established under the provisions of Law No.145/1998 and became fully operational on 1 January 1999. It operates at national, regional (“judet”) and local levels through its 42 “judet” agencies and 180 local offices. It was initially known as the National Employment and Vocational Training Agency. In 2000, the Order in Council (Rom: Ordonanta) No.294/2000 changed its name to the National Employment Agency, as the regulation of the vocational training providers’ market has entered under the authority of the newly-established National Adult Training Board (NATB), a tripartite body having only regulatory and supervisory powers and acting locally via adult Training Commissions. The Agency has responsibility for the vocational training / retraining of unemployed people in the field of adult vocational training that is entirely financed from the unemployment fund.



placement service (known as SEMM) has been operational in nine “judet”<sup>4</sup> of the country since 2000. It became fully operational at national level in the summer of 2002, as a result of a co-operation programme with the Canadian Government. Each year, every “judet” agency organises a General Job Fair as well as specialised job fairs for groups like young graduates, students, women, and people with disabilities, which usually result in high placement rates. Territorial mobility also benefits from incentives under the provisions of the new unemployment insurance law, with registered unemployed people receiving a mobility bonus equal to the amount of two statutory minimum wages, if they accept a job 50 km away from their permanent residence.

Through the new Law No.76.2002, ALMPs have been divided into two broad categories: “unemployment prevention measures” and “unemployment combat measures”.

“Unemployment combat measures” include a large number of employment subsidy programmes, targeting groups such as:

- young graduates;
- employees within three years of the statutory retirement age;
- registered unemployed people before the expiry of the period of entitlement to unemployment benefit.

For each young graduate that is employed, an employer receives an amount equal to the statutory minimum gross salary for twelve months following his or her employment from the unemployment fund, providing that the young graduate is employed under the provisions of a long-term contract (“undetermined duration contract” in accordance with the provisions of the New Labour Code, adopted at the end of 2002 and in force since 1 March 2003).

Currently, subsidies for employers hiring unemployed people before the end of the unemployment benefit period amount to 3% of the total budget for ALMPS, while mobility subsidies account for 1%. In the meantime, expenditure on employment subsidies accounts for an estimated 30% of the total ALMP budget.

In accordance with the current unemployment insurance law, unemployment benefit is granted only to those contributing to the unemployment insurance fund and in direct relation to their contributory history. Therefore, the duration for unemployment benefit entitlement varies between six and 12 months according to the length of the contribution period. Unemployment benefit is currently calculated as a flat rate amount of 75% of the minimum statutory salary. Young graduates and young people who did not work before the fulfilment of their compulsory military service are exempted from the contribution obligation and qualify for unemployment benefit. In this case, the benefit is calculated as a flat rate amount of 50% of the minimum statutory salary and the entitlement period is six months.

Following the application of the new law, entitlement to unemployment benefit has been reduced from 27 months to a maximum of 12 months, thereby scrapping a post-unemployment benefit income maintenance scheme known as “support allowance”.

The main income maintenance scheme, which was introduced in 2002 and which has replaced the so-called “social allowance”, is the Minimum Guaranteed Income scheme. This means-tested income support scheme is available for those lacking any source of income

or a household income below a “minimum threshold”. This threshold is established annually and its beneficiaries are required to perform community work. In 2002, this scheme, supported from local budgets with some transfers being available from the central budget, amounted to 0.22% of GDP, with the number of beneficiaries being slightly above 1 million. This scheme is considered in itself a highly targeted one, with 62% of the transfers going to the poorest quintile of the population. By contrast, only 20% of the universal child allowance, which in 2002 represented the equivalent of 0.63% of GDP, has been directed towards children in the poorest quintile of the population. The number of beneficiaries is estimated at around 5 million for this universal social assistance/income support scheme.<sup>5</sup>

Expenditures on state pensions, state social provisions and expenditure of the unemployment fund currently account for 8.7% of GDP. Expenditure on state pensions alone forms the largest portion, accounting for 6.4% of GDP. State social provisions other than pensions and unemployment benefit account for approximately 1.1% of GDP, while expenditure of the unemployment fund makes up around 1.2%.

The share of social expenditures as a proportion of GDP has remained relatively flat in the last three years, its increase as a share of total GDP being a modest 0.6% between 2000 and 2002. Expenditure on state pensions has registered the largest increase, with a 0.6% increase between 2000 and 2002. Expenditure on state social provisions, which include a wide range of benefits (e.g. maternity benefits, child state allowances, allowances for the wives of army conscripts, etc.), has been rather flat as a share of total GDP, registering an increase of less than 0.1%.

During the same period, while their share of GDP has remained rather flat, expenditure on active measures from the unemployment fund has increased its share of the fund by nearly 12%, from 2.15% in 2000 to almost 14% in 2002. Therefore, the sums marked for active measures in 2002 were 94% higher than in 2000. SME job-creation loans have increased as a share of total ALMP expenditure from 45% in 2000 to 64% in 2002. Meanwhile, passive measures, out of which severance payments account for 11.3%, decreased their share of the fund’s total expenditure by 3.35%, their 2002 level being only 28% higher than their 2000 level. Severance payments decreased their share during the same period by no less than 30%.

## Outlook

The Romanian Government is committed to bringing the country into the European Union as a full member by 2007 and, therefore, to signing the accession treaty by 2005. As a result of this strategic commitment, it is considered important for the economy to continue to grow at an annual rate close to 5%. Coupled with tight management of the broad money supply, which will be enhanced by an anticipated redenomination of the Romanian Leu (ROL), this will help to bring inflation down and keep it in single figures.

As a result of the improved macro-economic stability – enhanced by the growing flow of foreign direct investment into the Romanian economy – it is expected that employment of 70% can be achieved by 2010. This means a 14.6% increase from current levels and a 25% increase in the size of the employed population. In other words, it

<sup>4</sup> Romania is divided according to its Constitution into 42 “judet”, plus the capital city of Bucharest, which forms in itself a special administrative unit equal to a “judet”. Eight “development regions” were created a few years ago to facilitate better co-ordination in the management of regional development funds and assistance, including EU funds earmarked for regional development. The development regions do not have administrative authority, which rests entirely with the judets. Each and every judet is divided into cities and communes. Some cities may be granted the status of a “municipality”.

<sup>5</sup> In spite of the fact that child allowance can be duly considered as social assistance, we have decided to consider it equally as income support as it is taken into account in the calculation of the Minimum Guaranteed Income.

means that efforts have to be made in order to reach the employment figure of the mid-1990s, while paying attention to the structure of employment. This can be achieved largely by attracting workers in the informal economy into the mainstream.

If growth continues at this pace, the informal economy will be cut in size by 5% by 2007, with another 4-6% fall by 2010. This will feed into formal employment, which will become more attractive as salaries increase (attributable to increases in productivity and tax cuts). This could translate into a 10% rise in the share of people in employment. Therefore, it is plausible that active employment measures – and side effects resulting from EU accession in 2007 – will add a further 4%.

Even assuming that migration for employment abroad will rise, it will be only able to reduce the employment rate by between 1.7 and 2%, thereby being unable to offset the impact of the reduction in the share of informal employment.

The constant reduction of the share of agriculture in total employment will continue, although spectacular results cannot be expected. Its share of total employment will remain somewhere around 25% in the years following EU accession. The main beneficiary of this reduction will be the service sector. This trend will be enhanced by the pull of the large cities, which will increasingly become service-dominated economies. Industry is also expected to shrink, albeit at a slower pace than it has done in the 15 years preceding 2003, as a result of increased foreign direct investment in medium value-added industries (steel, oil, and food industries), preserving some jobs in industrial employment. Industrial employment could fall to less than 25% of total employment, particularly since investors in medium value-added industries will continue to shed labour.

Unemployment will rise in the years to follow. Even though economic growth will attract labour into the formal economy, it is also likely that many new jobs will be temporary or seasonal. Therefore, attraction into the formal labour market might also mean an increase in registered unemployment, which will be compounded by the effect of the massive lay offs that will accompany the privatisation of former loss-making state companies.

It is highly likely that high economic growth, accompanied by substantial industrial restructuring and the decline of subsistence activities, will lead to a surge in the unemployment rate similar to that in Slovakia or Poland. Unemployment rates of between 10 and 12% could become common in the near future.

These developments call for further investment in the labour force and improved targeting of the ALMPs. Therefore, while subsidising employment might be a fairly good option for the current situation, more investment in human resources is needed to increase flexibility, while facilitating greater labour market participation in the medium and long term.

Shifting the emphasis of ALMPs, while allowing for greater flexibility in their design and implementation, will strengthen their ability to support the employment generation. In this respect, the integration of the recommendations of the JAP into the second National Action Plan for Employment will be crucial. This will also help to prepare the PES to access the Structural Funds of the European Union when they become available for Romania.

*Dr. Catalin Ghinararu*

# Turkey

## **Introduction**

While implementing an IMF sanctioned stabilisation programme that started in January 2000, Turkey had suffered its worst financial crisis in its modern history in February 2001. Within a few months, a new IMF programme was initiated. This same disinflation programme continues to date even after the November 2002 elections, which saw a Conservative Party government come to power.

As a result, inflation has declined to less than 20% in November 2003 from 73.2% at the beginning of 2002, thus exceeding the Central Bank of Turkey's (CBT) year-end target of 20%. Ex-post real interest rates have fallen to 15% as of October 2003. Further drops will help to generate sustainable economic growth. Turkey currently attracts negligible amounts of foreign direct investment compared with other major emerging markets. It therefore lacks an important outside stimulant of growth and relies on its domestic dynamics.

Concerns over the war in Iraq adversely affecting the Turkish economy have faded. The tourism sector had just succeeded to shake off the temporary after-effects of the conflict when terrorist attacks hit Istanbul in late November. However, the Turkish tourism sector is known to bounce back from shocks and Turkey expects to have close to €5.8 billion in tourism revenue by the end of 2003.

In economic terms, Turkey has therefore mostly recovered from the 2001 crisis and it is expected that employment figures will soon begin to reflect this trend. Optimism has been boosted by announcements that electricity prices will remain the same in 2004.

With regard to labour market policy, despite the neo-liberal outlook of the post-1980 policy reorientation, employment protection appears to have been a shared goal of the coalition governments that ran Turkey in the 1990s (Tunalı and Ercan, 2003). The failed stabilisation attempts, slow progress of privatisation, and bloated public administration, have all been attributed to relatively stringent employment protection regulations. The provisions for retirement with full pension payments that remained in place until May 2002 can be seen as an extension of this policy.

In saying this, it is worth bearing in mind, however, that a dichotomy persists in the Turkish urban labour market with one set of workers (blue-collar public sector and organised large private sector) enjoying "primary" working conditions with EU style work regulations and job security with good pay. The other set of workers is composed of young uneducated women working in the textiles sector (their precise share of employment is unknown); young uneducated men in construction (10% of non-farm employment) or

in other seasonal work; and most of the so-called self-employed. This so-called “secondary” segment of the labour market does not enjoy social security coverage or other non-pay rewards in their jobs or access to better jobs. This structure may make the labour market look “flexible” in an aggregate analysis.

Finally, in comparison with the EU, the scope of active labour market programmes is extremely limited in Turkey. Emphasis here is placed on vocational training programmes.

## *Labour market trends*

### *Employment*

Starting with two major earthquakes that hit the industrial hinterland in 1999, Turkey entered an era of economic instability. The 2000 IMF programme was followed by an economic crisis in 2001 succeeded by the current stabilisation programme. Therefore, in order to establish employment trends prior to these events, it is useful to examine data from the 1988-1998<sup>1</sup> (Tunalı and Ercan, 2003, p. 13):

During this decade total employment (of individuals aged 12 and above) grew at the rate of 1.5% per annum, from about 19 million to about 22 million. At the same time the number of individuals between the ages of 20 to 54, the subpopulation from which the bulk of the workforce is drawn, grew by more than 3% per annum (3.2% in urban areas).

... The share of women in total employment declined from 31% to 29% while the absolute numbers increased at an average annual rate of 0.76%. These figures conceal the changing role of women in the workforce. In fact, the share of women working in urban areas increased from 19% to 27% of total female employment. During this time, the share of women among workers located in urban areas increased from 15% to 18%, and the urban female workforce registered a growth rate of 4.8% per annum.

Tunalı and Ercan (2003) report employment ratios for the period 1989-99 by age group, separately by sex and location. The gender differences are considerable (except for the youngest age groups) and are amplified in the urban areas. As children stay in school longer, employment ratios among 12-14 and 15-19 year-olds have declined over time. In urban areas, male employment ratios fell for adults. By contrast, female employment ratios rose for young adults (20-24 and 25-29). The difference is attributable to the fact that employment growth has been particularly fast in sectors such as textiles and services, where women predominate.

### *Structural changes and sectors of employment*

In 1975, Turkey had a workforce (aged 12 and over) of 15.2 million (SIS, 1993). Close to 60% of the total was employed in agriculture, 14% in industry, about 5% in construction, and close to 22% in services. In 2000, a little more than 34% of the workforce (aged 15 and over, which was 20.1 million strong) was still in agriculture (SIS, HLFSS results). Services had emerged as the new leader, at over 40%. Industry accounted for around 18% and construction for 6%.

In the case of the female workforce, the share of agricultural employment declined from around 77% in 1990 to about 60% a decade later. Among females working in urban areas, the share of agriculture dropped from 15% in 1990 to 9%, while the share of services increased from 39% to 64%. Manufacturing remained as the second most important sector of employment for urban females

although its share decreased from 31% to 26% in total. Female concentration in services increased remarkably, as their employment share in the service sectors increased from 13 to 17%. In 1990, female workers accounted for about 28% of the workforce in commercial services and 19% of those in community and personal services. Ten years later these figures were 30% and 27% respectively. The share of females in manufacturing remained stable, around 18-19%. Although they remained far from parity, females registered gains in white-collar occupations. In ten years, their share among scientific and technical personnel and professionals rose from around 30% to 35%, and among administrative personnel from around 32% to 37%.

### *Working hours*

In the HLFSS database accessible from the Web page of the SIS ([www.die.gov.tr](http://www.die.gov.tr)), the information on hours comes from actual hours worked during the reference week (not the usual hours of work). The data are grouped for the following subdivisions: 1-16, 17-35, 36-39, 40, 41-49, 50-59, 60-71, 72+. What follows is an account of workers aged 15 or above, residing in urban areas.

Assuming that workers are uniformly distributed within the hours of work categories, Başlevent and Tunalı (2002) calculated average hours of work from grouped data. They find that the average working week has changed over time around an increasing trend for both male and female workers. Overall, average weekly hours of work have gone up from 48.8 in 1988 to 52.1 hours in 2001. The corresponding figures are 50.1 to 53.7 hours for males and 41.2 to 44.7 hours for female workers.

With the statutory working week set at 45 hours for the majority and 40 hours for a sizable minority, it makes sense to treat actual hours below 40 as part-time work in Turkey (rather than 30 or 35 as in OECD countries). Surprisingly the patterns for males and females are practically the same. A very large majority of part-time workers do work 35 hours or less.

Actual hours of work per week vary considerably when broken down by worker status. In Figure 1, the averages calculated for each subgroup (regular wage and salaried worker, casual wage and salaried worker, employer, self-employed, and unpaid family worker) have been plotted over time. The increasing trend is visible in all the categories except for casual wage and salaried workers. Casual workers, who do not have contractual protection, had longer hours than regular wage and salaried workers throughout this period.

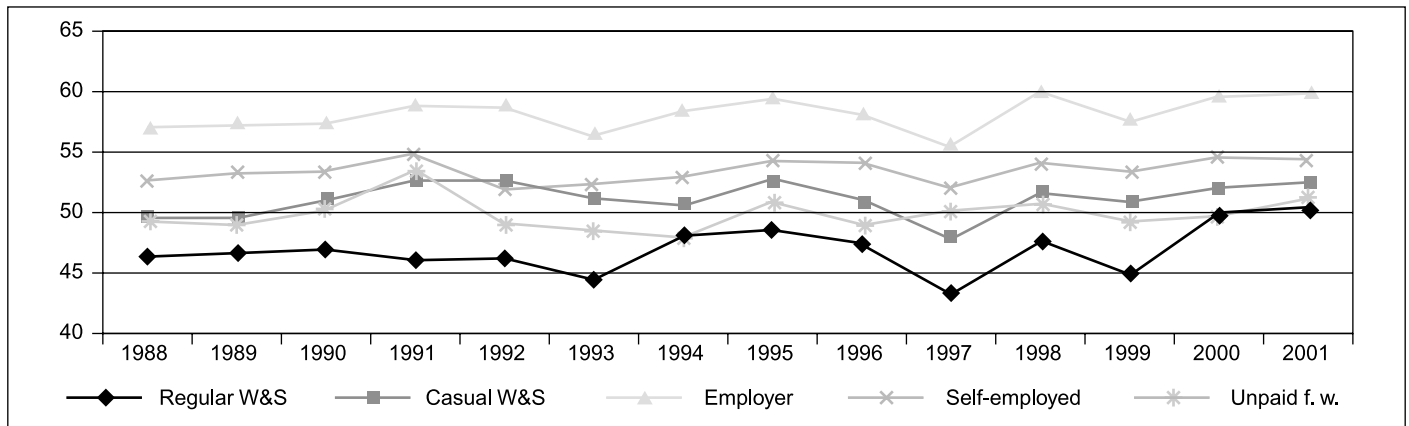
In 2001 the share of part-time workers was around 8.5% overall, approximately 18% among women, and 6% among men. The share of part-time workers among regular wage and salaried workers was only 5.3% overall, 9.3% for females and 4.2 for males.

### *Regional distribution of employment*

The sampling frame of the HLFSS prior to 2000 was not suitable for arriving at regional labour force statistics. To establish the regional contours, Tunalı and Ercan (2003, p.18) rely on the population, employment and output figures from the 1990 General Census, provided in Table 1. Comparable data from the 2000 Census are presently unavailable.

In 1990 the Marmara region, which stands out as the industrial heartland of Turkey, accounted for 35.7% of GDP and 22.6% of total employment. Regions with sizeable shares in output were Central Anatolia (16.8%), Aegean (15.8%) and Mediterranean (12%). In terms of employment Central (16.6%), Black Sea (16.4)

<sup>1</sup> Household labour force surveys (HLFSS) of the State Institute of Statistics (SIS) start in October 1988.

**Figure 1.** Weekly hours of work by employment status in urban areas, 1988-2001

Source: SIS-HLFS 1988-2001 as reported in Başlevent and Tunali (2002, Figure 2).

**Table 1:** Regional employment and output in 1990

Regions	Share of Region in Population Age 12+ (%)	All sectors			Agriculture		
		Emp. Ratio (%)	Share of Region in Employment (%)	Output Per head (Total=100)	Share of Region in Ag. Empl. (%)	Share of Ag. Empl. in total (%)	Output Per head (Total=100)
Marmara	25.1	51.7	22.6	157.92	12.2	29.1	161.56
Aegean	14.2	60.4	15.0	105.55	15.1	54.4	126.03
Mediterranean	12.3	57.5	12.3	97.65	13.2	57.7	114.07
Central Anatolia	17.8	53.3	16.6	101.68	15.6	50.7	104.46
Black Sea	14.4	65.1	16.4	60.35	21.7	71.3	69.63
Eastern Anatolia	8.8	64.2	9.8	42.58	13.1	71.9	48.07
South-eastern Anatolia	7.4	56.5	7.3	75.34	9.1	67.5	93.31
Turkey	100.0	57.3	100.0	100.00	100.0	53.9	100.00

Source: 1990 Census, as reported in Tunali and Ercan (2003, p.19).

and Aegean (15%) regions had sizeable shares. While the eastern region had the lowest share of GDP (4.2%), the south-eastern region had the lowest share of employment (7.3%).

Central Anatolia contains Ankara, the capital city. This region is the breadbasket of the country. Mediterranean, Aegean and Marmara regions specialise in cash crops. Bursa, Kocaeli and Istanbul in the Marmara region, Izmir in the Aegean, and Adana and Mersin in the Mediterranean are provinces which boast a high concentration of population and industrial activity. Mountain ranges in the Black Sea and eastern Anatolian regions and the lack of irrigation facilities in the south-eastern Anatolian region have historically imposed limits on land use and agricultural activity. These regions are characterised by high rates of out-migration directed towards provinces in the Marmara, Aegean and Mediterranean regions where the industrialisation effort of the 60s and 70s has had the biggest impact.

To provide a sense of where things stood in 2000, figures from HLFS 2000 are given in Table 2. Note that it is not possible to establish trends because the information in Tables 1 and 2 is not strictly comparable. The former relies on an age cut-off of 12, while the latter uses 15 as the threshold. Agricultural activities are not confined to rural areas, nor are rural areas limited to agriculture. The census definition of employment is broader than the ILO version used in the HLFS.

The ranking of regions by employment ratio reflects the significance of agricultural/rural employment. The Black Sea region, land-constrained but blessed with a favourable climate, boasts the highest employment ratio, ahead of the others by a comfortable margin. The eastern region, also land-constrained and land-locked without a favourable climate, ranks second.

When the data are broken down by gender, striking differences emerge. Figure 2 shows the regional patterns in urban areas for females, for 2000 and 2001. In the case of females, regional differences are considerably larger than for males who more or less exhibit a uniform regional employment ratio distribution. Underdeveloped eastern and south-eastern regions have female urban employment ratios which are less than one-half of the nationwide average.

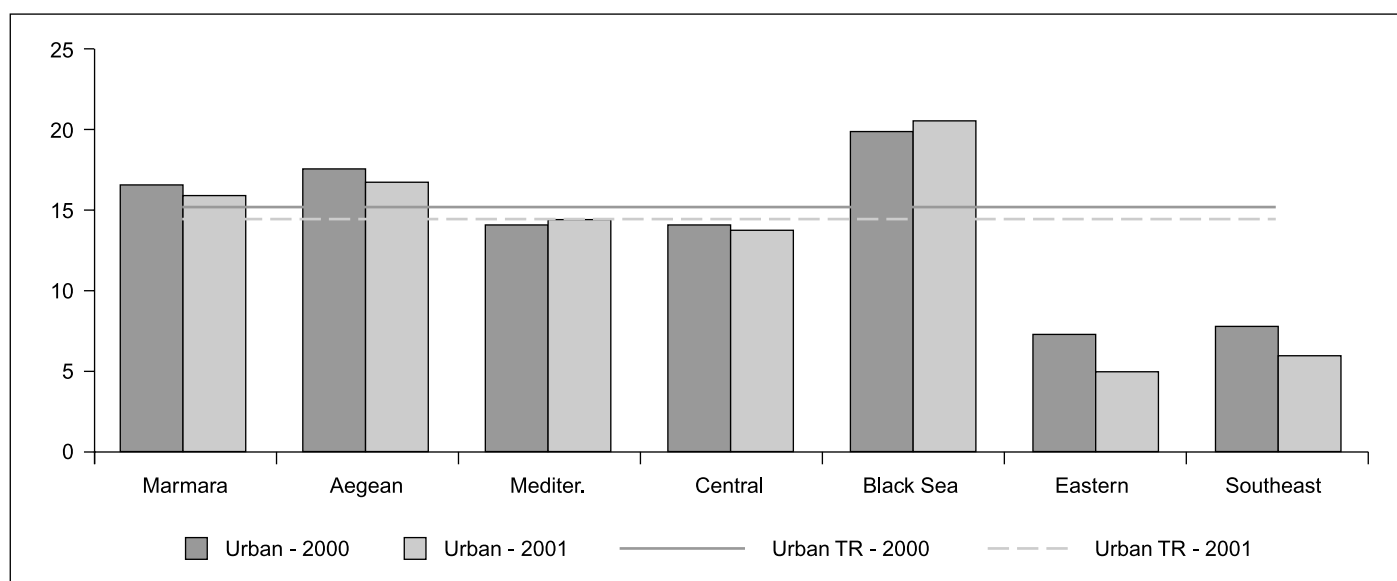
#### Key developments in wage rates

Data limitations preclude a comprehensive analysis of the evolution of wage patterns over time in Turkey. The only available aggregate wage series come from annual manufacturing surveys. The October 1988 round of the Household Labour Force Survey (HLFS) asked the wage question. Wage questions are also known to be asked in quarterly HLFSs starting in 2001; the results are not reported or microdata given to researchers by the State Institute of Statistics

**Table 2: Regional employment in 2000**

Regions	Share of Region in Population Age 15+ (%)	All sectors		Urban		Rural	
		Emp. Ratio (%)	Share of Region in Employment (%)	Emp. Ratio	Share of Region in Employment (%)	Emp. Ratio (%)	Share of Region in Employment
Marmara	25.1	51.7	22.6	157.92	12.2	29.1	161.56
Aegean	14.2	60.4	15.0	105.55	15.1	54.4	126.03
Mediterranean	12.3	57.5	12.3	97.65	13.2	57.7	114.07
Central Anatolia	17.8	53.3	16.6	101.68	15.6	50.7	104.46
Black Sea	14.4	65.1	16.4	60.35	21.7	71.3	69.63
Eastern Anatolia	8.8	64.2	9.8	42.58	13.1	71.9	48.07
South-eastern Anatolia	7.4	56.5	7.3	75.34	9.1	67.5	93.31
Turkey	100.0	57.3	100.0	100.00	100.0	53.9	100.00

Source: SIS-HLFS (2000).

**Figure 2: Female employment ratios in urban areas, 2000 and 2001**

Source: SIS-HLFS as reported in Tunali and Ercan (2003, p. 21).

(SIS) of Turkey. Another useful source for earnings is the Household Income and Expenditures Survey (HIES) that was conducted nationwide in 1987, 1994 and 2002. The 2002 results were not available at the time of writing this report. This dearth of wage and microdata makes it next to impossible to assess the evolution of wages controlled for observable skills (human capital variables) and job characteristics.

Having outlined the data limitations, broad-brush real wage developments in Turkey are as follows. The inflation experience of the 80s and beyond, coupled with changes in the economic paradigm (trade liberalisation and financial liberalisation), crises and stabilisation programmes have translated into dramatic fluctuations in average real wages (Tunali and Ercan, 2003).

Real wage levels declined every quarter in 2001 and 2002 albeit to a lessening extent in mid-2002. By the end of 2001, production workers in manufacturing had lost 15% of their real hourly wage rate during the course of the year. After two quarters of small gains in 2002.IV and 2003.I, real wages declined again in 2003.II.

## Labour force participation

### Demographic trends<sup>2</sup>

According to the general census, Turkey's population was 67,803,927 in 2000. It is estimated to have reached 70 million in 2002. Roughly, two thirds of the population (65% in 2000) lived in urban areas with 20,000 or more inhabitants. Between 1990 and 2000, the population grew at an average annual rate of 1.83%, falling below 2% for the first time since 1945. The growth rate was 2.68% in urban areas and only 0.42% in rural areas. The large difference between the two is attributable to rural-to-urban migration.

The figures from the 2000 Census confirm the conclusions drawn in a study by the SIS conducted in 1995, that Turkey had entered a period characterised by a definite and irreversible decline in the rate of population growth. Based on the assumption that replacement levels of fertility will be reached around 2005-2010, that study predicted that the population would stabilise somewhere between 95 and 98 million by the middle of the 21st century.

<sup>2</sup> Census data are obtained from the SIS site at [www.die.gov.tr/nufus\\_sayimi](http://www.die.gov.tr/nufus_sayimi). Demographic rates are reported in HIPS (1999)

### Labour force participation by sex, age and education

Although the gradient has flattened considerably, the labour force participation rates (LFPRs) in Turkey are still on the declining trend that began in the 1950s. There is strong evidence that the decline in labour force participation has gone hand in hand with urbanisation. Simply put, in rural areas all members participate in household-based production activities. In households that migrate to urban areas, men participate in the labour force, whereas women, who before were routinely classified as unpaid family workers, maintain the home. Children stay in school longer, resulting in reduced teen participation rates. Finally, skill requirements of jobs in urban areas induce selective participation.

In Turkey, therefore, (i) rural LFPRs are higher than urban LFPRs; (ii) male LFPRs are higher than female LFPRs; and (iii) the male-female differential is higher in urban areas than in rural areas. During 1988-2002, the female labour participation rate (for those 15 years or over) fluctuated between 16 and 18% in urban areas.

When age patterns are examined, well-known patterns are encountered. The age profiles based on combined data from 2000 and 2001 are shown in Figure 3. The profiles for women and men are dramatically different. In urban areas, female participation rates appear to peak early (approaching 26% in the 20-24 age group). In rural areas, the female participation rate varies little over the lifecycle and does not begin to drop until after age the age of 54. Male participation rates peak during the mid to late 30s in urban areas, and even later in rural areas. This pattern is attributable to the fact that military service intervenes during the 20s. In urban areas male participation rates drop precipitously after age 44. This pattern is attributable to the low legal retirement age, which remained in force until 2002.

Tunalı and Ercan (2003, p.37) examine the relationship between education and the LFPR for females and males, using data from HLFSS. Females with basic education or less have the lowest LFPR.

Completion of a higher level of schooling boosts the female LFPR by a larger and larger margin. Up until 2000, university educated women were participating nearly as vigorously as males. Although higher educational attainment brings about higher likelihood of participation, a decreasing trend for participation among the better-educated women is evident lately. Between the late 80s and late 90s, the LFPR of university and high school educated women fell by 10 or more percentage points.

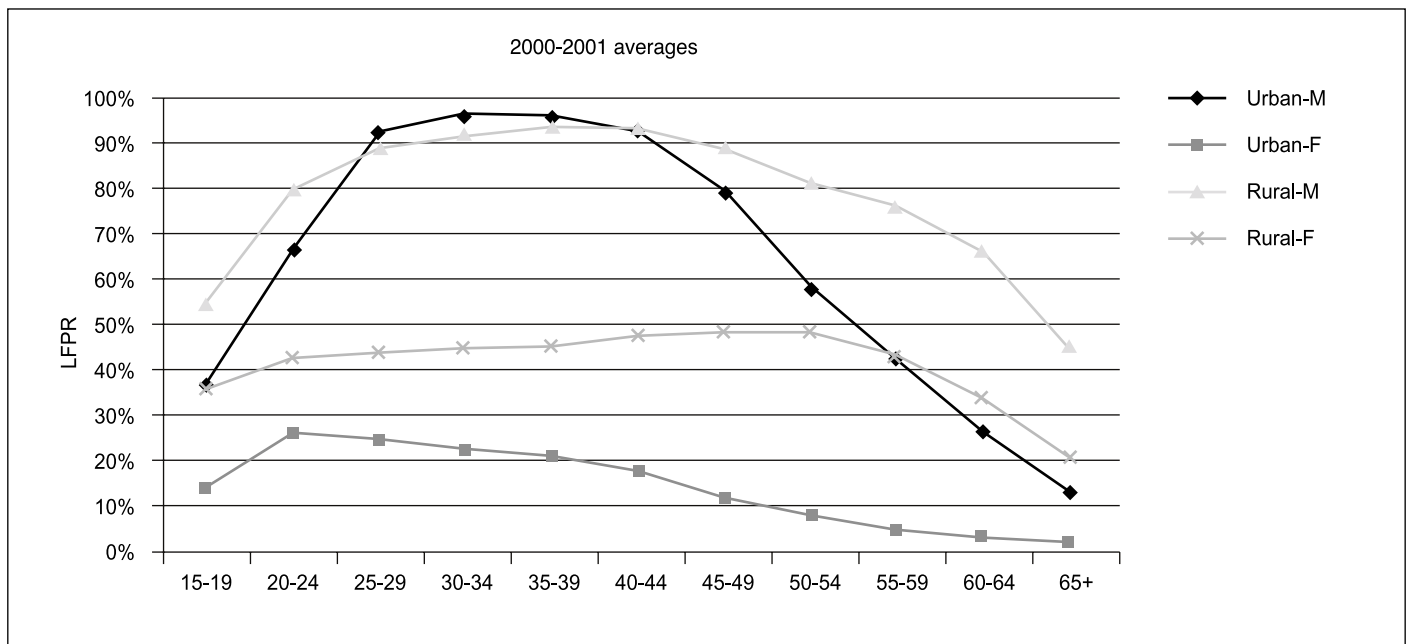
The finding that climbing the educational ladder increases the LFPR of women remains robust when age and other covariates are included. The participation inducing effect of education is stronger for women who are in their early productive years (ages 20-44). In the case of women in their middle productive years (ages 45-54), only attainment of a university degree makes a big difference. This suggests that university educated women not only have much stronger ties to the labour force when young, but also in their middle ages.

Male participation rates display a V-pattern as a function of education. University educated males have the highest LFPRs. The lowest LFPRs are observed for middle school graduates. If this is a reflection of the demand for the marginal skills acquired in middle school, the recent extension of basic education from 5 to 8 years might not be adequate investment for the needs of the labour market.

### Unemployment

As in the previous subsection, this subsection also relies on grouped raw data from the Household Labour Force Surveys (HLFS). The nationwide unemployment rate peaked at 11.8% in the first quarter of 2002 and stood at 9.9% in the third quarter. The total number of unemployed individuals, which was estimated to be around 1.5 million in 2000 and 1.9 million in 2001, approached 2.4 million in the third quarter of 2002 and stayed there in 2003.II (2.42 million). Most recent data show an unemployment rate of 10%.

Figure 3. Age-specific LFPRs broken down by sex and location, 2000-2001



Source: SIS-HLFS.

Apart from its depth, another aspect that distinguishes the most recent crisis from the previous ones is its breadth. With the exception of those oriented for exports, firms in every sector of the economy, regardless of size, have been affected. The banking sector, which was implicated as the trigger mechanism of the 2001 crisis, was especially hard hit. Reorganisation of the banks in the public sector resulted in a personnel reduction from 61,601 in December 2000 to 38,303 in May 2002. The workforce of the 500 largest firms was cut back by 5.7% (from 558,288 to 526,314) in 2001 (Radikal newspaper, 25 July 2002).

Between 1988 and 2000, the annual unemployment rate in urban areas of Turkey remained stable for males and declined for females. However, the recent economic crisis has reversed these trends. Out of a labour force of nearly 11 million in 2001, the number of unemployed in urban areas reached over 1.4 million, around one million of whom were males. Having risen by nearly three percentage points from the previous year in each case, the urban unemployment rate in 2001 was 16.8% for females, 10.3 for males, and 11.5 overall. Substantially higher rates observed for females may have been a factor in keeping urban female labour force participation rates low.

The evolution of unemployment rates in urban areas over the period 1988-2001, broken down by age groups, reveals that the risk of unemployment is highest for new entrants. While the unemployment rate in 2001 hovered around 22% in the 15-19 and 20-24 age brackets, it was below 10% for the remaining age groups. The decline in the youth unemployment rates over time is attributable to increases in high school and university enrolment. As of the end of the period under examination, individuals in their late careers have the lowest unemployment rate, just above 5%.

### ***Labour market policies***

In what constitutes the most significant attempt to address labour market concerns in the post-1980 period, the legal framework for unemployment insurance was established in August 1999. The premium collections were started in June 2000 and the first payments were made in March 2002. The outgoing coalition government also enacted a new Job Security Law, despite objections of large business organisations. Once the new labour law had been enacted in 2003, however, employers were generally pleased with the new set of labour market rules.

Two programmes targeting displaced workers in the privatised SEEs, initiated and supported by the World Bank, contain a mix of passive and active measures. The first is the Privatisation Implementation Assistance and Social Safety Net Project (PIAL), which was active during 1994-95. These funds were under-utilised, because privatisation did not proceed as planned. The second is the Privatisation Social Support Project (PSSP), which started in 2000. The active measures include training, temporary work and small business consulting components. Finally, a multi-purpose programme, entitled the Employment and Training project, was implemented between 1993 and 2000 by several government agencies.

### ***Active labour market measures***

During the past decade, targeted training programmes directed at both unemployed and employed individuals, accounted for the bulk of active labour market programmes. Some of these programmes catered to the needs of self-employed individuals and start-up businesses.

Starting with the mid-90s, a number of direct measures aimed at increasing employment have been implemented. Programmes directed at dislocated workers of privatised SEEs were the first to be put into operation. In 1998, programmes that subsidise employment in the relatively backward regions of the country were introduced. Following the economic crisis in 2001, broader measures were adopted by the Government. The 2002 Budget Law included a stipulation for lowering the contributions of the parties (workers, employers and the State) towards the unemployment insurance system by 1% for the year 2002.

### ***Training programmes***

Apprenticeship training programmes directed at young people constitute the largest training activity undertaken in Turkey. The primary responsibility belongs to the Ministry of National Education (MoNE). Professional organisations offer training in occupational areas that fall outside the scope of the activities of the MoNE.

The Turkish Employment Agency (İŞKUR) is specifically charged with the task of conducting training activities based on labour market needs analysis. These have targeted youth, women, those who have lost their jobs, those receiving unemployment allowance, the handicapped and ex-convicts.

Among the labour force training programmes directed at the unemployed are the “employment guaranteed training courses.” The courses are structured in partnership with public, private or non-governmental organisations and İŞKUR procures the course services from them. The courses are attended by the unemployed registered with İŞKUR. At least 60% of those attending the courses have to be employed for some time by the partner organisation.

Since 2001, in co-operation with the Ministry of Justice, İŞKUR has been implementing a similar programme targeting convicts who are close to being discharged. A different training programme implemented by İŞKUR focuses on courses that develop self-employment skills. In the last ten years, approximately 96 thousand people have benefited from these two programmes. Considering all İŞKUR training, approximately five out of every 1000 unemployed individuals benefited from all training programmes in a given year in the past ten years.

In Turkey, self-employed individuals and individuals who work in small establishments that employ less than 10 workers comprise a large segment of the workforce. Based on the 2000 HLFS, the shares were just under 57% in the case of males, and just under 22% in the case of females. With this in mind, the Institute of Entrepreneurship Development (*Girişimciliği Geliştirme Enstitüsü*) organised under KOSGEB (SME Development Administration) administers a number of training and consulting programmes for small businesses.

### ***Passive labour market measures***

Currently there are three passive labour market measures in Turkey. The severance payment obligation of the employer constitutes the oldest, and broadest of these. The recently instituted unemployment insurance covers workers who have held continuous employment for 600 days or more. It is funded by contributions from the worker, employer and the government. Technically all workers should benefit from these arrangements. In practice only formal sector workers do. The third measure is specifically designed to provide job loss compensation for workers displaced by privatisation. The newly-enacted Labour Law is meant to match the regulatory environment in the EU and have implications for severance payments and unemployment insurance.

### *Severance payments*

The employer is required to compensate a permanent worker in the event of an involuntary discharge, unless it can prove that the worker is at fault. Until the passage of the new Job Security legislation shortly before the general elections of 2002, a worker who worked for at least a year without a written fixed-term contract was considered permanent. From March 2003, the indefinite contract becomes effective after six months. This regulation affects establishments with 10 or more workers. In addition, Labour Law imposes an advanced notice requirement for all workers, permanent or not.

### *Unemployment Insurance*

The Unemployment Insurance (UI) System was established on 25 August 1999, upon ratification of Law No. 4447. Collection of premiums commenced on 1 June 2000, and first benefit payments were made in March 2002. The system caters to blue-collar workers who are registered with the Social Insurance Institution (SSK). It does not cover civil servants or the self-employed. Benefits are payable for a period of time, and payment duration depends on length of employment.

The UI replacement rate equals 50% of the average of the net wages earned during the last four months before becoming unemployed. However, the benefits cannot exceed the net minimum wage in force. The duration of payment is dependent on the number of days the premiums have been paid. SSK is responsible for collecting the unemployment insurance premiums. All other activities directed to the unemployed workers are carried out by İŞKUR.

The İŞKUR Directorate estimates that some 5 million workers had social security coverage through SSK as of 2002 and could, in theory, be contributing to the UI fund. The number of workers collecting benefits was 5,710 in March 2002 (first month of the programme) and rose steadily to 62,335 in August 2003. These figures pale by comparison with the total number of unemployed in Turkey (around 2.4 million according to HLFS 2003:2) and the unemployed stock registered with İŞKUR (around 512,000 in August 2003).

### *Privatisation job loss compensation*

In accordance with Law No. 4046 on the Regulation of Privatisation Applications, displaced workers in State Owned Enterprises are entitled to job loss compensation which is payable out of the privatisation fund, in addition to the severance payments. The amount of compensation and other benefits depends on the service period and the last month's wages. Between 1995 and 2002, job loss compensation was paid to over fourteen thousand individuals.

### *Financial and Administrative Capacity of Public Employment Services*

The Employment Organisation (İŞKUR) is charged with the responsibility of providing Public Employment Services (PES). İŞKUR has offices in all the provinces and co-ordinates its functions with Provincial Employment Committees headed by the provincial governors.

The main responsibilities of İŞKUR, as spelled out in the original decree are: to help job seekers to find jobs and to help employers to find workers; to provide job and career counselling services and training programmes for improving job search methods; to implement active labour market programmes (in addition to usual training and employment services); to implement passive labour

force programmes (such as the unemployment insurance system); to regulate private employment agencies.

İŞKUR (like its predecessor) supervises recruitment for the public sector. Most people who register with İŞKUR continue to do so for this reason. The job brokerage role of İŞKUR for the private sector is limited to about a third of all new job applicant placements.

Compared to its counterparts in the EU, İŞKUR has a small staff and few local offices. At the beginning of 2003, the organisation had 1760 employees in the general directorate located in Ankara, and in 116 offices in 81 provinces. The annual budget of İŞKUR was around US\$16 million in 2001 and US\$20 million in 2002. The organisation finances the training programmes from its limited activity income and using funds from foreign resources, especially the World Bank. In the five-year period 1998-2002, it offered training to approximately 25,000 people. Personnel shortages and insufficient technical capacity emerge as additional constraining factors. It can only serve a fraction of those who qualify with its existing personnel resources.

### *Conclusion*

GDP growth in Turkey is picking up and the country is shaking off the effects of its worst economic crisis that hit in February 2001. In 2004 and 2005, growth rates are expected to be around 5%, which are above the EU area's expected growth rates. The disinflation programme performed beyond expectations. By the end of 2004, Turkey may well have close to single digit annual inflation rates.

As a result of the economic crisis, the last three years were difficult on the labour market. Employers' responses presently lag behind upbeat market sentiments. There has yet not been a significant improvement in employment rates and wage developments. As with most demand-side stabilisation programmes, wages and salaries bore the brunt of the austerity measures. Employers sometimes attribute their reluctance to hire new staff to the new job security legislation which was hastily enacted in the parliament before last year's elections.

One third of the Turkish labour force is employed in agriculture. This share is second only to Romania among the EU and accession countries. The median education level is five years for the population and for the workforce. Participation rates are very low for women and unemployment rates among the educated youth are high: 16% for males, 30% for females. It is expected that the speed of urbanisation will increase, as more people move out of agricultural employment. Agricultural subsidies are being phased out. Unemployment is therefore expected to climb in the coming decade, if past trends in non-agricultural employment growth prevail.

Such developments will require İŞKUR (the Turkish Employment Agency) to design and implement active labour market policies for two main target groups. The first group is formed by the new entrants from general high schools with no marketable skills. The second one is the prime age group of former agricultural workers who will otherwise be prime candidates for being discouraged workers or long-term unemployed unless properly trained for the coming service economy. In order to achieve this, İŞKUR's present day administrative and financial capacity needs to be enhanced to compare with EU levels.

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