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EMPLOYMENT AND LABOUR MARKET FLEXIBILITY

Results of an ad–hoc labour market survey covering employers and employees

Introduction

Rising unemployment stresses the need for studying opinions of employers (managers in industry and trade) and employees on the actual and expected labour market evolution. The Directorate–General for Economic and Financial Affairs of the European Commission has collected such information by a harmonised labour market survey concerning both industry and retail trade sectors, carried out in the European Union Member States in June 1994. The survey partly overlaps with those carried out in 1985/86 (see European Economy, no. 27, 1986) and in 1989 (see European Economy, no. 47, 1991). After close examination, the original intention of repeating the survey in 1993 after four years – the same interval as between 1985 and 1989 – has been abandoned because of the possible source of error that could have arisen owing to the very wide differences in the economic situation between Member States. It has been decided to postpone the survey until such time as the economic trend was comparable with that in spring 1985 and 1989. The beginning of summer 1994, when the cyclical upturn was increasingly taking shape, has proved suitable.

As in 1985 and 1989 the economic research institutes, survey organizations, and national statistical offices which carry out the harmonized monthly surveys for the European Commission were also asked to undertake this survey. This decision did much to ensure the high quality of results since reliable and sound samples were thus available for the ad hoc labour market survey too.

More than 23,000 industrial firms, selected on a sample basis by the institutes engaged by the Commission, took part in the survey. These firms had a total workforce of 7.4 million, almost one quarter of employees in manufacturing industry. The results were thus very representative, and hence also provided reliable information on employment structures, by sector and firm size. The 10,000 participating firms in the retail trade employed some 1.9 million persons, which means that the survey results were very representative in that sector too.

A full report about the survey results together with a complete set of tables will be published in an issue of European Economy – Reports and Studies, *forthcoming in October 1995.*

1. Economic Background

In the European Union, some 60% of the population of working age (people between the ages of 15 and 64 years) were economically active in 1994. In the rest of the industrialised world, the typical figure would be of the order of 70 per cent.

Table 1 compares the broad picture in the European Union, the US and Japan. Over two decades, the average growth rates of output in the EU as a whole and the US, were broadly comparable but significantly below those of Japan. Average productivity in the US has grown more slowly than in the Union, whereas, apart from the last three years, in Japan productivity growth has been much faster.

In these circumstances, the prime focus of policies to improve employment creation has therefore shifted to structural measures to improve the operation and efficiency of labour markets. In particular, since the structure of unemployment is heterogenous (cyclical, classical, structural) it implies the use of a broad policy mix, both at the macro and at the micro–economic levels in order to reach significant and lasting results on the employment front. Along the lines of action proposed in the Commission's *White paper on Growth, Competitiveness and Employment*, the Essen European Council identified within the wide array of measures working in the directions outlined presently, the following five priorities:
i) improving the employment opportunities for the labour force by promoting investment in vocational training,
ii) increasing the employment intensiveness of growth,
iii) reducing non–wage labour costs,
iv) improving the effectiveness of labour market policies,
v) improving measures to help groups which are particulary hard hit by unemployment.

Active and more efficient market policies should

- improve the employment opportunities for the labour force by promoting investment in vocational training, notably in SMEs, and thus raise the quality of human capital which improves competitiveness, potential output and the flexibility of the workforce;

- ease the absorption of cyclical unemployment, by improving the information about vacancies, making available "fast" retraining facilities, etc.;

TABLE 1 : **Growth, productivity, real employee compensation and unemployment**
(average annual rate of growth, %, unless otherwise stated)

	1971–80	1981–90	1991	1992	1993	1994
EUR–15						
Growth of output (real GDP)	3.0	2.4	1.5	1.0	–0.6	2.7
Labour productivity	2.7	1.9	1.4	2.3	1.4	3.2
Real compensation per employee	3.0	1.1	1.3	2.3	0.3	0.2
Unemployment rate*	4.0	8.9	8.2	9.3	10.9	11.3
USA						
Growth of output (real GDP)	2.7	2.7	–0.6	2.3	3.2	4.1
Labour productivity	0.6	0.8	0.4	2.5	1.4	1.0
Real compensation per employee	0.9	0.5	0.6	2.3	0.9	0.5
Unemployment rate*	6.4	7.1	6.7	7.4	6.8	6.1
JAPAN						
Growth of output (real GDP)	4.5	4.1	4.3	1.1	0.1	0.6
Labour productivity	3.7	2.9	2.2	0.0	–0.2	0.5
Real compensation per employee	4.1	2.0	2.1	–0.3	–0.4	0.8
Unemployment rate*	1.8	2.5	2.1	2.2	2.6	3.1

* (Eurostat definition; USA and Japan as a percentage of the total labour force).
Source: European Commission services, July 1995 updatet figures.

- enable a reduction of the pure classical unemployment by reducing tensions on the labour market, notably by improving, via a consensus approach, the overall flexibility of the labour market, including more wage differentiation by region, qualifications and sectors;
- tackle the structural unemployment problem and increase the labour content of growth mostly by acting on the reorganisation of working hours, not by generalised and compulsory reductions but by pragmatic agreement between social partners, by the promotion of voluntary part–time work, by the reorganisation of the production process, etc..

The feasibility of such policies largely depends on the degree of acceptance of the implied measures by both employers and employees, above all on their readiness to introduce and accept flexible working practices respectively.

The EU ad hoc labour market survey draws particular attention to the arrangement and distribution of working time as one of the key features of an active labour market policy. On the one hand, it provides useful information about employees' viewpoint concerning internal and external flexibility, taking into account the nature of their job, their skill and age structure and, last but not least, their sex. On the other hand, it tests employers' attitude towards increasing labour market flexibility by changes in the organisation of labour. Much attention is devoted, in particular, to the use of flexible working practices in order to increase operating time of the plants in industry and opening hours of the shops in retail trade. In fact, if operating (opening) time is extended, output can be raised without expanding the capital stock. This would increase capital productivity and eventually its profitability and, at the same time, would bring more people to be employed at the same workplace – a desirable development given the continuing large oversupply of labour.

2. Working hours and operating times in the European Union

The European Union is one of the most prosperous regions of the world, and this is reflected in workers' incomes and working hours. The working lifetime has been reduced by longer periods of education and training and by earlier retirement. In many Member States, persons in full–time employment no longer work the standard 40–hour week. The established vested rights of workers include four to six weeks' annual holidays. In particular, women are crowding on to the labour market in greater numbers and are increasingly seeking part–time work or flexible working hours in order to be able to match family and career aspirations. Overall, a secular trend towards shorter individual working hours and increased leisure can be observed.

In contrast, operational requirements (high capital intensity of production, new production processes, increasing and expanding services) are necessitating longer operating times, the advantage being not only that production is cheaper but also that, through flexible working hours, more people can be employed at the same workplace. Further, if operating time is extended, output can be raised without expanding the capital stock. Macroeconomically, this signifies additional growth potential on the supply side.

These conflicting trends – longer operating times and shorter working hours – present new challenges for the organization of work, the policy on working time and labour–market policy.

The 1994 EU ad hoc labour market survey sought to elicit information on current working hours and operating times, the working hours which employees would like and managements' intentions, thereby improving the transparency of labour–market developments.

2.1. Weekly operating times longer than weekly working hours

From a statistical angle, the attempt to ascertain the operating times of production plants in the Member States breaks new ground. The information stemming from the survey is complementary to official statistics due to the lack of official figures concerning the industrial organisation of labour. However, the survey results should be interpreted with caution since the measurement of operating hours may be influenced both by structural differences among industries and by seasonal and cyclical situations that cannot be detected by the survey questionnaire. Thus, over– or under–estimation of average operating time may occur; this should be kept in mind especially when making comparisons between countries. Nevertheless, survey results seem plausible concerning the individual Member States and the Community as a whole.

As regards industry in the Community, it transpires that the average operating times of production plants differ markedly from the average weekly working hours of persons employed full time. In other words, operating times and working hours are already decoupled from each other.

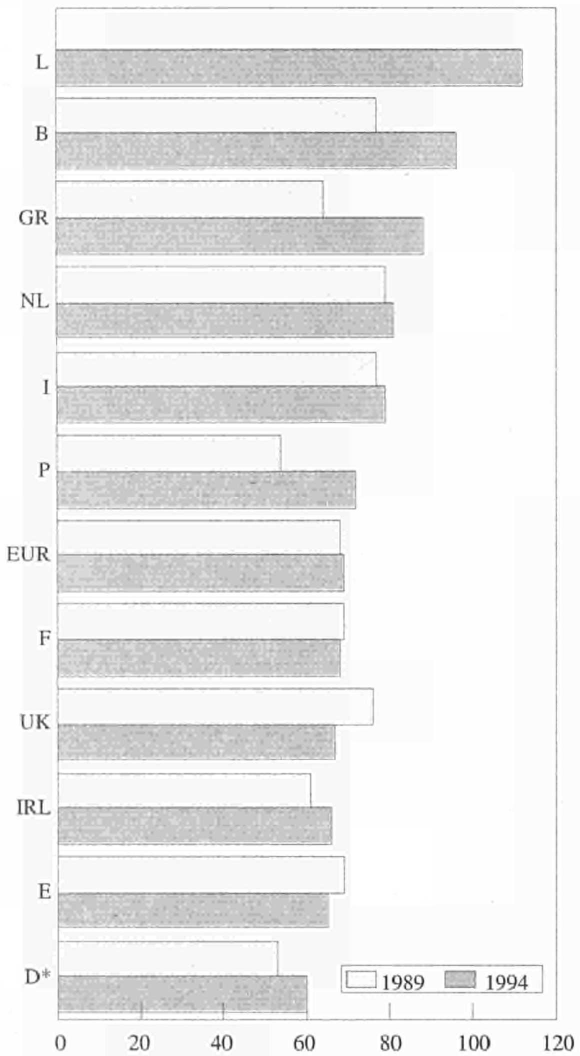
The average contractually agreed working week for a full–time industrial employee in the Community amounts to 38 hours, one hour less than in 1989. With the exception of Portugal (41 hours), the figures for the Member States are fairly closely grouped around the Community average.

TABLE 2 : **Working hours and operating hours in industry**

	Average operating hours per week (% of replies)							Average contractually agreed weekly working time (hours)	
	<40	40–60	60–80	80–120	>120	No reply	Average	1989	1994
B	20	15	8	18	37	2	94	37	37
D	27	32	23	14	4	0	60	38	37
GR	8	40	4	18	30	0	88	40	40
E	27	38	9	13	12	2	65	40	39
F	33	14	14	7	15	17	68	39	39
IRL	40	20	8	10	16	7	66	41	40
I	6	30	30	17	17	0	80	39	39
L	7	9	5	34	46	0	113	41	40
NL	5	53	5	12	25	0	81	39	39
P	12	54	8	8	18	0	72	44	41
UK	41	19	10	10	18	2	67	37	38
EUR	25	27	18	12	14	4	69	39	38

Source: EU ad hoc labour market survey, June 1994 and 1989.

GRAPH 1 : **Average number of operating hours**



* Only West Germany to allow comparison with the past.
Source : EU ad hoc labour market survey, June 1994 and 1989.

Much larger differences may be found concerning the operating time of production plants. The Community average amounts to 69 hours a week, but national averages range from 60 hours in Germany to 112 hours in Luxembourg. Compared to the 1989 survey results, it appears that in most EU Member States operating hours have increased. This is particularly true for Belgium, Greece and Portugal. In contrast, a downward trend seems to characterise Spanish and British industry (see Graph 1).

The reasons why operating times vary within the Community are to be found first of all in differing industrial structures and in the size of industrial establishments. The survey has looked into these aspects. Further, companies were asked directly about the reasons for not extending operating time.

The results for the three main industrial groupings (basic materials and producer goods, investment goods and consumer goods) show that operating time depends on the product and/or production processes involved. Operating time is longest in the intermediate goods industries. Continuous production processes are represented in this sector to a disproportionate frequent degree, especially in Luxembourg, Belgium and Italy. In the investment goods and consumer goods industries the decoupling of working hours and operating time is less pronounced. It is worth noting, however, that operating time in the consumer goods industry in Belgium and Italy is, on average, much longer than in the other Member States. For these two countries, and for Luxembourg, Greece and Spain, the same is true in the investment goods industry.

According to the survey results, the length of operating time is also determined by the size of the interviewed firm. Smaller plants (up to 200 employees) have consistently shorter operating times than larger ones. Fairly large firms (500 to 1000 employees) and large firms (over 1000 employees) operate for much longer periods.

GRAPH 2 : **Expected variation in operating hours in the next 12–24 months** (balances)

* Including Eastern Länder.

Source : EU ad hoc labour market survey, June 1994.

In the next twelve to twenty–four months industrial firms are planning to lengthen operating times mainly in Italy, Luxembourg, Germany and Greece (see Graph 2).

This is particularly true for large firms operating in the intermediate and consumer goods industries, whereas in the investment goods sector firms are expecting them to decline.

In increasing their operating time 60% of firms questioned see a possibility of reducing unit costs. Such a percentage rises to 72% leaving aside the plants already engaged in continuous production.

However, the same firms cite insufficient demand, existing collective agreements and costs of reorganisation as the three main obstacles to an increase of operating time. The relative importance of these three obstacles has increased compared to 1989. This is particularly true for the lack of demand that has become increasingly important due to the slowdown in economic activity. As the recovery gathers pace, this obstacle should diminish in importance. To clear away the other two obstacles management and unions must enter into an appropriate dialogue, in particular at plant level, in order to put the promising project of operating time on the right track. It is worth noting that compared with 1989 the obstacle of legal rules diminished in importance; this may reflect the overall effort of EU Member States to make the labour market more flexible.

In the case of retailing, the survey focused on shop opening hours. The differences between Member States are not so marked here as with operating time in industry. Shop opening hours range from 46 hours a week on average in Spain to 59 hours in Greece. The average working week of full–time staff in retailing is less than 40 hours, except in Spain, Greece, Denmark and Portugal. In retailing too, therefore, opening hours and working hours are decoupled.

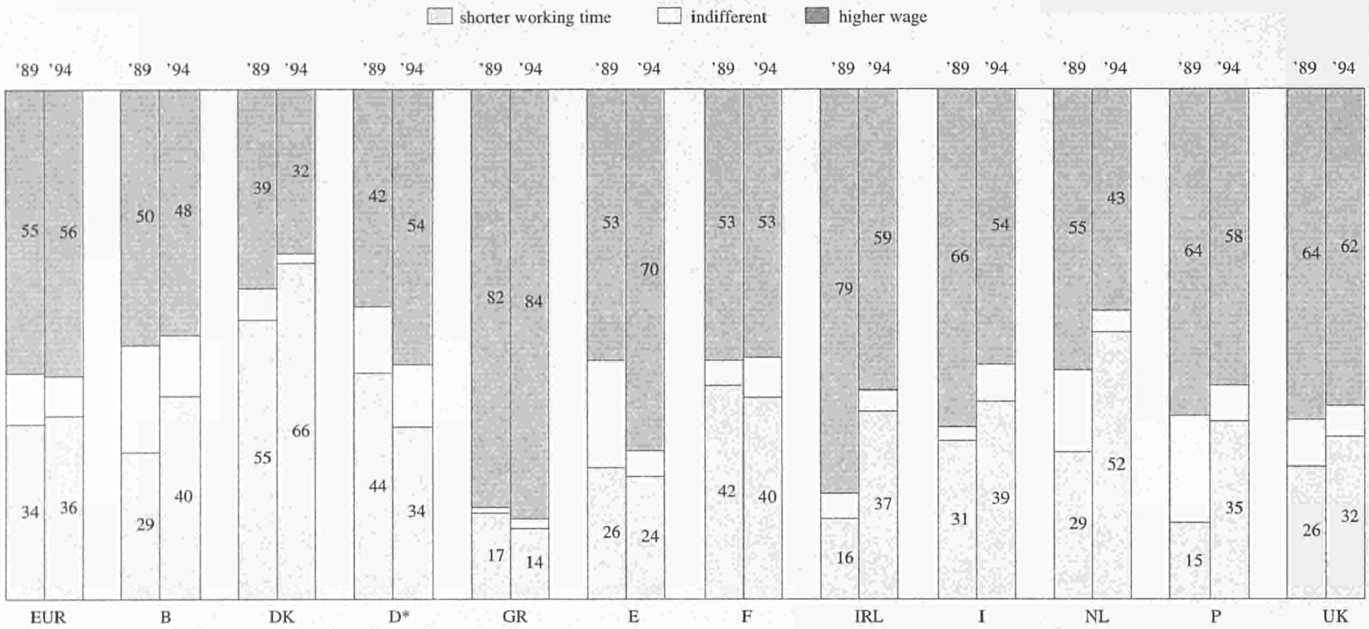
The retailers in the Community view administrative rules as a major obstacle to longer shop opening hours, followed closely by insufficient demand. Belgian retailers regard collective agreements as particular deterrent, while Italian, Danish and Portuguese retailers consider insufficient demand as the main obstacles. By contrast, in France, Germany, Greece, Spain and the Netherlands, statutory controls top the list of obstacles. Even so, retailing firms in Greece, Italy and the United Kingdom have been able in recent years to extend shop hours, and in the last two countries shop opening hours are to be extended still further. In the other Member States, there have been hardly any changes in shop hours in recent years, and, at most, only a slight extension is planned.

However, in Germany there are proposals to extend shop opening hours considerably, modifying existing rules in the direction of greater flexibility. Such a measure should bring to a relevant increase of sales and employment in the retail sector in the next three years.

2.2. Desire for shorter working hours

The tendency for operating time in the Community to be extended must deal with the desire of European workers to work shorter hours.

GRAPH 3 : **Preferences for higher wage or shorter working time** (percentage of replies)



* Data for Germany concern only West Germany.

Source : EU ad hoc labour market survey, June 1994 and 1989.

According to the weighted average of the answers of interviewed workers, the contractually agreed working week, for the Community as a whole, amounts to 35 hours (38 hours for men and 32 hours for women). Only 35% of workers are satisfied with their current working hours; 47% would gladly work less and 16% more. On average, women have stronger preferences for a shorter working week than men: the survey results indicate that 65% of women would prefer to work less than the contractually agreed number of hours (with the same salary per hour), the figure for men being 36%. All workers – men and women equally – would like to work, on average, two hours less a week, which represents 6% of working time. This share of *over–employment* may be considered as the potential of job creation in the Community, to be achieved by changes in working hours.

A number of Member States have, to date, succeeded better than other in translating a given volume of work into jobs, both by reducing contractual working hours and by increasing the number of part–time jobs. The Netherlands has gone much further in this direction than other countries: in 1994, those in employment worked an average of only 32 hours a week as compared with 35 hours a week in the Community as a whole. By contrast, in southern Member States did not occurred any redistribution of work, thus the share of *over–employment* (i.e., the difference between actual and preferred working time) is much higher than elsewhere. In Portugal, which has the longest working week in the Community, the preference for a shorter week is most pronounced.

The experience of the recent past is very relevant for future job–creation prospects and for the debate on distribution of work and income. Standing the overall reduction in contractual working time (36 hours in 1989, 35 hours in 1994), workers have been asked about the alternatives of higher wages and shorter working time. As a overall result, 36% of interviewed workers would forgo a nominal increase in their income if their working time was reduced accordingly. By contrast, 56% of workers would prefer an increase of the actual wage to a shorter working week. As Graph 3 shows the preference for shorter working time as opposed to higher pay has increased particularly either in countries most affected by unemployment, like Portugal and Ireland, or in countries where the redistribution of work as become a deliberate part of labour market policy, as in the Netherlands and Denmark. In the more prosperous Member States (e.g., Germany and France) workers have changed perspective as compared to the 1989 results becoming more keen on higher wages than on shorter working time. This is probably the effect of the gradual reduction of real wages, due to the inability of changes in nominal wages to keeping up with inflation, during recession.

2.3. Flexible employment conditions

As in 1989, the ad hoc labour market survey provides useful insights into the incidence of flexible working practices (shift work, night and weekend work) in the European Union.

TABLE 3 : **Incidence of flexible working practices** (average of replies, %)

	Shifts	Nights	Saturdays	Sundays	Overtime
B	21	12	32	18	30
DK	12	13	34	27	44
D	13	7	24	10	34
GR	21	14	39	21	23
E	31	17	42	22	20
F	25	18	44	24	36
IRL	19	20	40	25	24
I	25	15	42	18	36
NL	11	12	31	20	41
P	22	21	41	20	33
UK	31	25	47	34	40
EUR	22	15	38	21	35
EUR '89	20	14	38	17	..

Source: EU ad hoc labour market survey, June 1994 and 1989.

Probably owing to the lack of general legislation restricting these arrangements, every form of flexible working practice is most common in the United Kingdom. But southern European countries also use flexible working practices rather frequently, with Spain scoring high for shift, night and saturday work, Italy and Portugal for saturday work. Denmark and the Netherlands have a high incidence of overtime, whereas in some countries (Greece, Spain) its application is still restricted.

In industry, night work and weekend work are still not very common among EU–Member States. As an overall result, only 10% of industrial workers do night work regularly, while 9% and 5% are working on Saturday and Sunday respectively. In particular, the incidence of weekend work is much below average in Germany, but also in Spain, France, Ireland and the Netherlands. For the Community as a whole, a working week of five days for shift workers seems to be the norm. A longer working week (6–7 days) is quite common only in Luxembourg, Greece, Portugal and Belgium.

Shift work is the conventional means of decoupling working hours from operating time. On average, 22% of all workers in the Community do shift work either regularly or occasionally. The frequency of shift work is above average in France, Italy, Spain and the United Kingdom. On average, 72% of industrial firms in the Community do resort to shift work, but only 53% of the staff employed in the production process do shift work regularly.

Nevertheless, shift work is more common in industry than in the other sectors of the economy. As might be expected the basic materials and producer goods industries have the highest proportion of regular shift work (58%). Considerable differences are to be found, moreover, between the various size classes of interviewed firms. Only 36% of workers in the production process operate regular shifts in the smaller industrial firms. The proportion of shift work increases with firm size, amounting to 66% in the case of the very large firms.

The survey has also dealt with employees' readiness to work under flexible employment conditions. On the whole, survey results show that there is still considerable room for making working hours more flexible, especially on weekdays. Indeed, alongside their wish for shorter working time, interviewed workers are quite keen on starting their day's work earlier or finishing it later as well as on working on Saturday. There is less readiness to work at night or on Sunday, although in some northern Member States the proportion of workers willing to do so is still remarkable (e.g., respectively 40% and 43% in the United Kingdom). This is especially true for young people, whereas older employees are in general less keen on flexible working time. Of course, figures for men and women considerably differ for all age groups. On average, only 18% of women are ready to work at night and 23% to work on Sunday, the figures for men being respectively 32% and 29%.

2.4. Temporary and part–time contracts.

Although the question of *temporary contracts* has often been discussed as a mean of achieving greater labour market adaptability, only 9% of interviewed employees are currently under temporary contract in the Community, without any variation with the 1989 survey results. As in the past, the proportion of temporary workers is higher in Spain, Greece and Portugal than in the other Member States, while the expected duration of temporary job is equal, on average, to 12 months (11 months in 1989). There is no striking difference between men and women as the availability of temporary contracts is concerned. Differences do exist, however, between the various age groups: 17% of younger employees (below 30 years) are under temporary contract, but this percentage decreases with increasing age. Better results could undoubtedly be achieved, especially in the fight against long–term unemployment, if a larger number of temporary contracts would be made available to elder workers.

Non–standard labour contracts

Labour contracts form the traditional core of legislation relating to labour market and numerous regulations concern the main features of such contracts. In general, the traditional standard contract relates to a full–time job occupied by a worker for an undefined term.

The use of non–standard labour contracts (temporary, part–time) is limited in most EU–Member Countries, although most restrictions have been relaxed in recent times to encourage hirings. An apparent fear is that these contracts may be used to circumvent what might be regarded as a conventional level of protection for the worker. Thus, statutory or collectively–agreed regulations are required to fix features such as the objective need for a non–standard contract, limits to the number of successive renewals, maximum cumulated duration and the worker's eligibility for employment rights and social protection.

Temporary contracts. With the exception of DK, I, IRL and the UK many Member States have introduced specific legislation on fixed–term contracts. Thus a fixed–term contract needs objective justification in a number of countries (D, GR, E, F, I, P). Moreover, the number of workers on a fixed–term contract must not exceed a fraction of the firm's workforce. The renewal of successive temporary contracts is limited in B, GR, F, I, L, NL and P. Finally, the worker's eligibility for employment rights and social protection often follows the same tenure–related criteria as for individuals on standard contracts (although a minimum period of tenure at job is required in D, IRL, P and UK).

Part–time contracts. Few legislative texts or collective agreements explicitly regulate the use of part–time work in the European Union. In countries where no specific regulations apply (B, DK, IRL, L, NL, P, UK), part–time contracts are subject to the same regime as are full–time workers. However, notice periods and redundancy pay following dismissal are explicitly less for part–time workers as compared with full–time workers in Ireland and the United Kingdom.

By contrast, recent laws in GR, E and I have given a distinct legal status to part–time work, with legislation on social security, employment protection and similar matters adapted appropriately. Moreover, the use of part–time contracts has been encouraged either by reductions in the social contributions charged on part–time jobs (B, D, F) or by an active role of the public sector combined with a reduction in the normal working week for its employees.

Part–time work is also of major importance in creating jobs by increasing internal flexibility. On average, 17% (15% in 1989) of workers in the Community work on a part–time basis. The figure is much below average in Portugal, Greece, Spain and Denmark, but much above average in the United Kingdom, Belgium and the Netherlands.

However, according to the survey results, only 3% of industrial employees work on a part–time basis in the Community; the share rises to 4% only for those firms that carry out one shift work. The proportion of part–time jobs in industry decreased between 1989 (it was 6%) and 1994, but trend varied from country to country. In Ireland additional part–time jobs were created after 1989; on the contrary, in Spain and the United Kingdom part–time employment fell sharply. In Germany and the Netherlands, despite the drop in the proportion of part–time jobs after 1989, these shares remain above the Community average in 1994.

Part–time work involves mainly women with less than one fourth of all part–time employees being men. The proportion of women employed part–time is above average in Germany and the Netherlands. By industrial branch, the proportion of part–time working is highest in the consumer goods industry, at 5%, and lowest in the basic materials and producer goods industries at 2%; by firm size, the smaller the firm, the larger the proportion of part–time jobs. This structure is closely related to the nature of branch–specific jobs and the resulting proportion of women in the workforce.

According to the survey results, 34% of job–seekers would prefer to get a part–time job than a full–time one, the figure rising to 40% for women, especially in their 50s. Percentages differ widely from country to country (91% in Greece compared with 15% in the United Kingdom); this is probably due to the specific socio–economic structure in each of the Member States.

However, such differences among countries do not raise when questioning full–time workers about their preference for full or part time work: on average, only 13% would prefer a part–time job, much less than in 1989 when 22% of interviewed full–time workers declared to be wishing to switch to part–time.

Nevertheless, part–time employees are seeking a full–time job less than in the past (only 30% in 1994 compared with 37% in 1989), the figures been above the Community average in Portugal, Italy, France, Ireland and Spain.

Whereas the share of part–time jobs in manufacturing industry is almost negligible at 3%, the share in the retail trade is almost one third (32%). Here, too, the share of part–time jobs varies with the size of the firm. The highest share of part–time jobs at 35% is found in the largest firms; but small firms too have a very high proportion (28%) of part–time jobs.

The survey results show that 59% of employees in the retail trade are women. The employment structure thus differs from that in manufacturing industry not only because of the share of part–time jobs, but also because of the number of women. This means that there is a recognizable relationship between women and part–time jobs in retailing too. Firms with 50 or more employees have the highest share of women employees (61%) and, unlike in manufacturing industry, small and medium–sized retail firms with 5 to 49 employees have the lowest share (52%). In the smallest firms with up to 4 employees the share of women workers reaches 55%.

3. Skill structure of labour force

The level of training of the labour force, i.e. the quality of labour as a factor of production, is crucial to the productivity and growth prospects of the economy. For individual workers, vocational training and knowledge play a part in determining income and job opportunities. The ad hoc labour market survey sought to gather, as in 1989, Community–wide data on the skill structure of the labour force. However, the data must be interpreted with care, since they rely in part on self–estimation and since the concept of vocational training differs from one Member State to another.

3.1. Two–thirds of European workers possess vocational skills

Taking the average for the Community, 72% of the dependent labour force (i.e. employed and unemployed) have received training. The proportion of qualified workers is above average in Germany (89%), Denmark (76%), Italy (75%) and France (75%). The degree of qualification is particularly low in Spain (56%), Portugal (39%) and Ireland (54%), but also in the United Kingdom (53%).

On average, half the skilled labour force in the Community acquired their skills through in–house training and half through vocational training in educational establishments. In–house training predominates in Portugal, Germany and Italy. In the other countries, vocational training is provided primarily in educational establishments.

There are significant differences in the occupational skills of employed and unemployed persons. Whereas only 28% of employees have received no vocational training, the figure for the unemployed is 52%. The proportion of the unskilled unemployed is particularly high in Portugal (64%) and Ireland (61%). These figures underline once more that retraining or further training is vital to the jobseeker's chances of finding work.

Taking the average for the Community, workers who have received vocational training also perform at most a skilled job, with 72% possessing a vocational qualification and 67% carrying out a skilled activity. In some Member States, however, the situation differs a great deal. In Belgium, Germany, and Spain in particular, qualified workers significantly outnumber skilled employees. This raises the question of whether the skill potential on these labour markets has not been exhausted or whether vocational training has become obsolete.

3.2. Skill structure of employees in industry and retailing

On average, the skill structure of industrial employees in the European Union is broadly similar to that of all employees. In Ireland and the United Kingdom, industry employs relatively few skilled workers compared with the Community average and with the average national skill level. In Ireland, in particular, only 49% of industrial employees are skilled. On the other hand, the proportion of skilled workers in industry is particularly high in France, Greece and the Netherlands.

In the case of industrial employees, as in general, a skill differential exists between men and women, with a larger proportion of men (73%) than women (57%) who are skilled. This divergence is particularly pronounced in the Netherlands (86%: 44%) and Greece (84%: 65%).

By category of industry, it is the investment goods industry in the Community which has the largest proportion of skilled employees (74%). This is true in nearly all the Member States. Only in Italy and Greece the proportion of skilled workers is the highest in the basic materials and consumer goods industries.

In the retail trade, taking the average for the Community, 69% of employees exercise a skilled activity. This applies almost equally to men (72%) and women (68%). The proportion of skilled employees in retailing in the United Kingdom is much lower than the

Community average. In addition, a comparison by firm size indicates that the smaller the firm, the higher the share of jobs which require particular skills.

3.3. Favourable employment prospects for skilled workers

According to the survey results, industrial firms plan on balance to employ more skilled workers over the next two years, predominantly on a part–time basis. Similarly, in the retail trade, a general rise is anticipated for employment of skilled part–timers (except in Spain and Portugal).

Indeed, the expected increase of industrial employment focuses in particular on skilled part–time workers in most Member States, except Luxembourg, the Netherlands and the United Kingdom. A significant expansion of skilled full–time employment is planned by industrial firms only in Ireland and the United Kingdom.

In all Member States, except Ireland, firms questioned intend to reduce the number of jobs available for unskilled workers. Such a result underlines again that the lack of occupational qualification considerably increases the risk for workers of becoming or remaining unemployed.

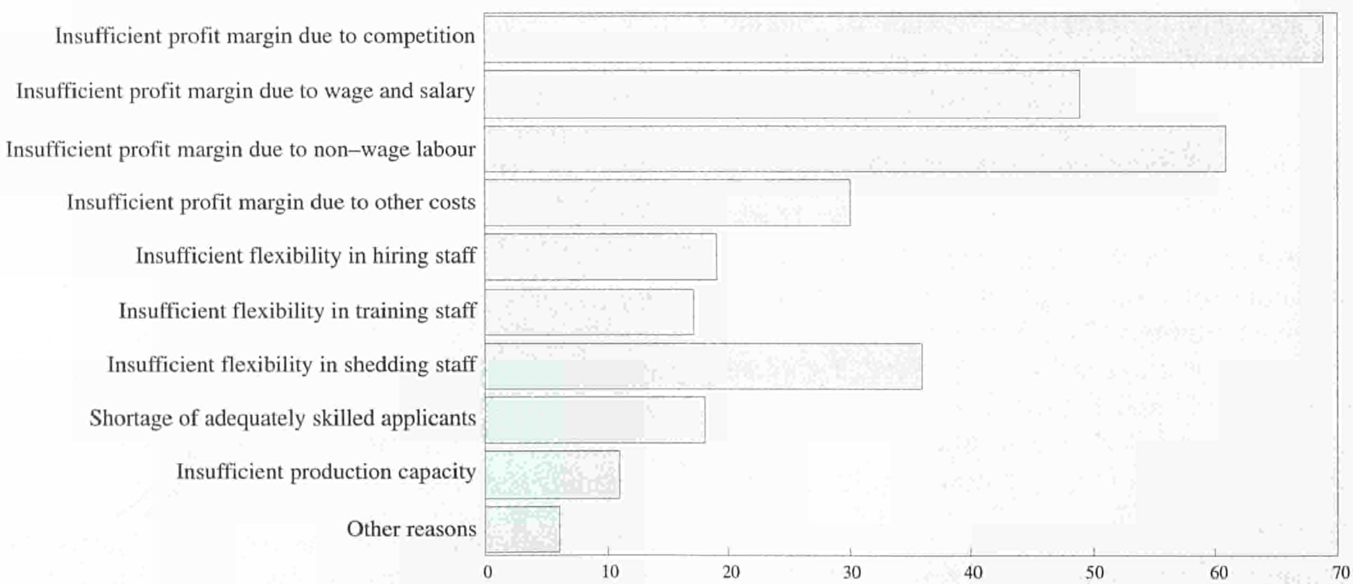
A breakdown by size classes shows that it is above all large firms that are particularly interested in expanding the proportion of skilled part–time workers. On balance, 15% of such firms intend to hire on a part–time basis additional skilled workers in the years ahead. Taking into account the industrial sectors, balances show that a similar trend concerns firms operating in the intermediate goods and investment goods sectors. By contrast, perspectives for employment in the consumer goods industry seem quite negative both for skilled and unskilled workers, independently on the size of the interviewed firm.

As in 1989, the labour market survey among employers has asked industrial firms to rank ten possible reasons that may discourage them from increasing their workforce (see Graph 4). Firms put the *insufficient profit margin due to domestic and foreign competition* at the top of the list. Nevertheless, in France, Germany and the United Kingdom lack of price competitiveness is given as a reason less frequently than on average for the Community.

The second most important reason is *high non–wage labour costs*; by comparison with the Community average, non–wage labour costs are mentioned with particular incidence in Belgium, Germany, Ireland and Spain, while in Portugal and the United Kingdom their effect in inhibiting recruitment is not nearly as great.

The third relevant obstacle to employing more workers is *insufficient profit margin due to actual wage and salary levels*. In Germany, Belgium and Ireland labour costs are regarded as an obstacle to increasing employment more often than in other EU–Member States. This is also true of *insufficient flexibility in shedding staff* (the fourth most important reason for the Community as a whole). The difficulty in dismissing redundant workforce is below average in Italy, Portugal and the United Kingdom.

GRAPH 4 : **Obstacles to employing more workers in industry** (coefficient of importance*) – **EUR**



* The coefficient ranks responses from 0 (all companies consider a particular reason to be "not so important") to 100 (all companies consider a particular reason to be "very important").

Source : EU ad hoc labour market survey , June 1994.

Broken down by size class, the results do not reveal any significant difference in the Community–wide ranking of the reasons given by industrial firms for not increasing industrial employment. On average, firms with fewer than 500 employees gave *shortage of adequately skilled applicants* as a reason for not increasing employment more often than industry as a whole (sixth place as opposed to seventh place). By contrast, *insufficient flexibility in hiring labour* was seen by such firms as a less important reason than in industry as a whole. In firms with 500 or more employees *insufficient flexibility in training workers* was seen as an obstacle to an expansion of the workforce more than on the average level.

The survey results reveal that small and medium–sized industrial firms are highly labour–intensive and have a high proportion of skilled workers. A feature of large firms, however, is fully rationalized and capital–intensive jobs employing the latest technologies. High non–wage labour costs and the shortage of skilled workers prevent small and medium–sized firms in particular from expanding their workforces, while high investment costs make it difficult for large firms to take on new workers.

This is also reflected in the results broken down by country. Small and medium–sized firms in Germany, the United Kingdom, France, Belgium and the Netherlands especially assign greater importance to the *shortage of skilled applicants* as an obstacle to expanding their workforces, than is the case in the Community. This is true of *non–wage labour costs* in France, Italy, Belgium and Spain. Analysis of the results shows that the obstacles in question are cited with particular frequency in those Member Countries where industrial structures are more modern and better developed.

An analysis by industrial sector shows that the main industrial groupings place the reasons for not increasing industrial employment in a similar order than industry as a whole. However, in the consumer goods industry there are significant differences between Member States regarding the *shortage of skilled workers*, which, for industry as a whole, occupies the seventh position. For managements in Luxembourg, Greece and Ireland it is a major obstacle to any expansion of the workforce, whereas it is of minor importance in Italy.

As in the industry survey firms in the retail trade have been questioned about the obstacles to an expansion of employment. An *insufficient profit margin* is by far the most important obstacle to be mentioned. More specifically, insufficient profit margins caused by the level of non–wage labour costs, by competition and by wage and salary levels are cited as very important by most retail trade managers. Compared to 1989, *insufficient margin due to competition* has clearly gained force as an obstacle to recruitment. This may be an effect of an augmented retail trade internationalization, due to increasing development of the EU Internal Market.

The fourth most important obstacle is *insufficient flexibility in shedding staff*. The importance of this obstacle is confirmed by the assessment of the number of staff as compared with sales levels. Indeed, 24% of employers declare more staff than necessary against only 5% declaring to have less than necessary. The relatively weak economic outlook at the time of the survey may have influenced this assessment. Often countries with a high percentage of "more than necessary", consider insufficient flexibility in shedding staff as important (France, Greece). Countries with a low percentage of "more than necessary", on the other hand, consider insufficient flexibility in shedding staff as unimportant (United Kingdom, Denmark, Portugal).

4. Conclusive remarks

The EU ad hoc labour market survey has proved to be a very effective tool to elicit information about the arrangement and distribution of working time considered as one of the key features of an active labour market policy. Generally, the need for labour markets to be more adaptable is no longer disputed. But there is a lack of detailed data which cnnot be met (yet) by official statistics. The survey was meant to help to fill this gap so as to provide labour market policymakers and parties to collective agreements with the information they need.

The Directorate–General for Economic and Financial Affairs intends to repeat the survey in 1998 enlarging the sample to take into account the new EU Member Countries (Austria, Finland and Sweden) and their labour market trends.

19 September 1995

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Principal economic policy measures – July/August 1995

Community (EUR–15)

10.7 EcoFin Council adopts its Recommendation on the Broad Economic Policy Guidelines of the Member States and of the Community.

10.7 EcoFin Council approves the Recommendations to 12 of the 15 Member States which are still in a situation of excessive deficit.

Belgium (B)

9.8 The central bank reduces two of its key interest rates: the central rate from 4.50% to 4.45% and the rate on advances within the ceiling from 5.75% to 5.70%.

23.8 The central bank reduces two of its key interest rates: the central rate from 4.45% to 4.40% and the rate on advances within the ceiling from 5.70% to 5.65%.

24.8 The central bank reduces its discount rate from 4% to 3.50% and its rate on advances in excess of the ceiling from 8.75% to 8%.

30.8 The central bank reduces two of its key interest rates: the central rate from 4.40% to 4.30% and the rate on advances within the ceiling from 5.65% to 5.55%.

Denmark (DK)

6.7 The central bank lowers the discount rate by 25 basis points to 5.75%. The repo rate is lowered by 15 basis points to 6.20%.

27.7 The central bank lowers the repo rate by 15 basis points to 6.05%.

3.8 The central bank lowers the discount rate and the interest rate on current accounts by 25 basis points to 5.50%.

24.8 The central bank lowers the discount rate and the interest rate on current accounts by 50 basis points to 5.00%. The rate on two–week deposits is lowered by 25 basis points to 5.65%.

24.8 The government presents its 1996 draft budget, which provides for fiscal tightening equivalent to 0.5% of GDP.

31.8 The central bank lowers the repo rate by 25 basis points to 5.65%.

Germany (D)

13.7 The Bundesbank cuts the minimum reserve requirement from 5% to 2% on current accounts and from 2.0% to 1.50% on savings accounts. The reserve rate on term deposits is left unchanged at 2.0%.

24.8 The Bundesbank reduces the discount and Lombard rates by 0.50 percentage point, to 3.50% and 5.50% respectively, with effect from 25 August.

Greece (GR)

None.

Spain (E)

5.7 Parliament approves the "Ley Tributaria" on new rules governing tax fraud.

France (F)

6.7 The Bank of France cuts its 5–day to 10–day lending rate to 7.25% from 7.50%. The intervention rate at which it allocates repo funds remains unchanged at 5.00%.

12.7 The National Assembly approves an increase in the 18.6% VAT rate to 20.6% as from 1 August.

18.7 The National Assembly approves the revised budget for 1995 at its first reading. As a result of amendments, the deficit target for 1995 amounts to FF 320.95 billion compared with FF 322 billion in the initial draft budget.

20.7 The Bank of France cuts its 5–day to 10–day lending rate from 7.25% to 7.00%, the third rate cut since 22 June.

3.8 The Bank of France cuts its 5–day to 10–day lending rate from 7.00% to 6.50%. The move brings the rate close to the 6.40% level it was at before 8 March, when the Bank of France suspended it and replaced it by an overnight facility at 8.00%.

31.8 The Bank of France cuts its 5–day to 10–day lending rate from 6.50% to 6.15%. The intervention rate at which it allocates repo funds remains unchanged at 5.00%.

Ireland (IRL)

None.

Italy (I)

27.7 The Constitutional Court ruling adds to state pensions bill.

4.8 Parliament approves – without major changes to the government proposal – the reform of the pension system.

Luxembourg (L)

1.8 The government presents its draft budget for 1996, which shows a general government deficit of LFR 400 million, equivalent to 0.1% of GDP.

Netherlands (NL)

17.8 The Nederlandsche Bank lowers one of its key interest rates: the rate on special advances from 4.10% to 4.00%.

21.8 The government reaches agreement in principle on cuts in taxes and social security contributions totalling HFL 3.75 billion, of which HFL 3.2 billion concerns employers.

24.8 The Nederlandsche Bank lowers two of its key interest rates: the central rate from 3.75% to 3.50% and the rate on special advances from 4.00% to 3.90%.

Austria (A)

24.8 Following the reduction in official rates announced by the Bundesbank, the central bank cuts the discount rate by 50 basis points to 3.5%.

Portugal (P)

None.

Finland (FIN)

None.

Sweden (S)

3.7 The discount rate is increased by 50 basis points to 7.50%.

4.7 The central bank raises the repo rate by 25 basis points to 8.91%.

United Kingdom (UK)

None.

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