

# EMPLOYMENT OBSERVATORY

EUROPEAN COMMISSION

DIRECTORATE-GENERAL  
FOR EMPLOYMENT,  
INDUSTRIAL RELATIONS  
AND SOCIAL AFFAIRS



*Social  
Europe*

## Trends

Changes in employment, analyses, evaluations  
Series produced from the SYSTEM network

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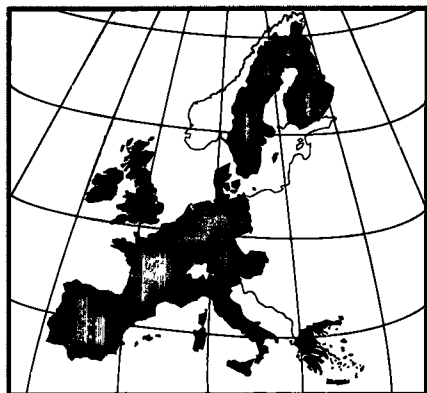
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# EMPLOYMENT OBSERVATORY Trends



The Bulletin of the European  
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TRENDS Bulletin is the quarterly publication of the European System of Documentation on Employment. It disseminates information collected by SYSDEM on the evolution of employment at European Union level. SYSDEM is managed on behalf of the Commission of the European Communities (DGV) by ECOTEC Research and Consulting Limited.

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TRENDS Bulletin is available in English, French and German.

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The articles in the TRENDS Bulletin and the information presented in the Statistical Supplement reflect the views of the authors and do not necessarily reflect the opinions of the Commission of the European Communities.

# How the tax “wedge” may affect job creation

The financing of extensive social welfare systems has become an increasing matter of concern as regards the possible consequence for competitiveness and the process of job creation. Chapter Six of the Employment in Europe Report identifies three interrelated questions which are of critical importance:

- the extent to which the methods of financing social protection systems adds to labour costs and discourages firms from taking on more workers;
- whether a different method of financing would have less effect on labour and production costs and so provide an inducement to increase employment;
- whether a less extensive and costly system of social protection would reduce labour costs.

The report recognises the complexity of assessing any reduction in social contributions on labour and productivity costs but nevertheless concludes that, in the short- and medium-term, any substantial reduction in social contributions may provide a significant incentive for job creation. This is particularly so because of the scale of the tax “wedge” between what employees receive in net earnings and what employers pay to employ people, implying both a possible deterrent to employment and an incentive to avoid, or evade, paying taxes and contributions. This may apply especially to workers at the lower end of the pay scale.

The rate of social contribution paid by employers - including both statutory and voluntary contributions - averaged 22% of total labour costs in 1991 (across EU-12) for an employee receiving the average wage paid to male workers in manufacturing (with large variations between EU-12 countries). In the US, social contributions amounted

to 21% of labour costs in 1991 and in Japan, to 15%. In the EU-12 the average relative cost of employing a woman on average earnings in manufacturing was 28% less than a man (in 1991), again with large variations between Member States.

In the Union of 12, the wedge was reduced somewhat between 1985 and 1991 by almost 2% of labour costs. Only in France, Belgium and Portugal was there an increase (of less than 2% in each case) of labour costs. In Luxembourg, the UK and the Netherlands, there were significant reductions.

Progression in the combined tax and contribution rate means that marginal rates are above average rates in most countries. As employers increase the wages paid to their workers, progressively less of the increase goes to the employee and more to the state, so potentially affecting the incentive to work and the inducement to reward high levels of productivity.

Marginal rates in the Union of 12 are higher than in the US and Japan.

The Report concludes that, given that a high proportion of the unemployed are low skilled, labour costs at the bottom end of the scale are particularly relevant. The challenge for policy is viewed as one which brings about a reduction in the costs of employing low skilled workers such as to encourage employers to take on these people, while avoiding any significant reduction in their already low take-home pay.

*Employment in Europe Report (1994). Available from: Office for Official Publications of the European Communities, 2985 Luxembourg. 190pp. All EU-12 languages.*

## National Correspondents

With the accession to the European Union of Austria, Finland and Sweden from the 1st January 1995, SYSDM will shortly be expanding its network of correspondents in order to monitor employment trends in the new Member States.

### Readers' Survey Questionnaire

Have you completed and returned your Readers Survey Questionnaire as found in Bulletin 20? If not please ensure that you return it as soon as possible to the SYSDM Analysis Unit.

# OECD assesses capacity to change

## A review of recent documentation from international sources

### OECD Jobs Study: Evidence and Explanations

OECD (1994)

This Document is the companion report to the overview published in June of this year *OECD Jobs Study: Facts, Analysis, Strategies*. Details of the first report are included in *TRENDS 20*. A key finding was that much unemployment, and many poor jobs, can be traced to a growing gap between the need to adapt to change and the economy's and society's ability and even willingness to change. The two-volume Evidence and Explanations builds on this finding. The opening chapter describes the nature of unemployment and each of the following eight chapters addresses a broad policy area and specific questions:

- Have efforts of macro-economic demand management caused unemployment, and to what extent can macro-economic policy affect output and employment?
- How do international trade and investment flows affect jobs, and does competition from low-wage countries depress the demand for low-skill workers or force down wages in the OECD area?
- Are we experiencing technological unemployment and how do new technologies and the emergence of high-tech industries affect the number and nature of jobs?
- What is the relationship between wage flexibility and jobs, and how much is that flexibility reduced by factors such as collective bargaining and minimum wages?
- Do more flexible wages mean more employment? Does legislation to protect employment actually lead to fewer or to less stable jobs? Do active labour market policies get people back to work faster than passive policies?
- How can education and training systems be reformed to provide a strong educational base and encourage the lifelong learning that is required to

adapt to the constant flux of necessary job skills?

- Do generous unemployment benefits encourage unemployment? How can benefit systems be reformed to reduce benefit dependency and long-term unemployment?
- Should tax systems be redesigned to switch tax burdens away from labour or away from those with low-income? How can governments do away with 'poverty traps'?

Further work at the OECD will extend the country-specific analysis. Studies are underway to examine which policy areas are particularly important for which countries and possible solutions; and to analyse under various policy themes, problems and solutions that affect groups of countries.

Available from: OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France. EN, FR.

### Statutory European Works Councils: the Final Countdown?

GOLD M AND HALL M (1994)

EU legislation on employee participation in multinational companies, previously blocked by the UK, may now be adopted by the other 11 Member States under the Maastricht agreement on social policy. This would represent a major political breakthrough, but its industrial relations implications remain uncertain, particularly for UK companies and employees.

This article takes the form of a commentary on the Commission's April 1994 draft of the directive. It reviews the convoluted history of the issue, analyses the draft's key provisions and their implications for management and unions, and discusses the anomalous position of UK employees and UK-based multinationals resulting from the UK's 'opt-out'.

In *Industrial Relations Journal*. Vol 25, No 3. Available from: Basil Blackwell Ltd, 108 Cowley Road, Oxford OX4 1JF, UK. EN.

### Economic Policy and Employment in the Transition Economies of Central and Eastern Europe: What Have We Learned?

JACKMAN R (1994)

Considering macro-economic developments and economic and labour market restructuring after several years of transition, the author suggests that supply shocks, not deflationary policies or restructuring explain output collapse. Unemployment rose sharply in many countries along with an increase in long-term unemployment, but private firms continued to recruit from the state sector while long-term unemployment has continued to grow. The extent of restructuring should thus be measured not by unemployment levels but by changes in the sectoral composition of output. After a discussion of wage-setting options, the author recommends gradual rationalisation of over-staffed state firms, encouragement of private-sector recruitment and business start-ups, and policies for mobility to sustain an eventual recovery in employment.

In *International Labour Review*, Vol 133, No 3. Available from: ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. EN, FR, ES.

### Women and Structural Change: New Perspectives

OECD (1994)

An examination of the relationship between structural adjustment and the integration of women into OECD economies in the 1990s is set out in this report. Stability depends on the successful adjustment of societies and their supporting economies to the new realities of increasing globalisation, rapid technological advancements and profound demographic change.

In recognition of the minimal role played by women in influencing this adjustment process to date and the lack of opportunity for women to do so, this

publication identifies directions for action related to family and employment, occupational segregation and employment flexibility. It provides an analysis of the impact of structural change on women's employment, especially the growth in part-time work, and trends in the service and public sectors and considers existing equal opportunities policies in a constantly changing environment.

Available from: OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France. EN, FR.

### **Multinational Britain: Employment and Work in an Internationalised Economy**

MARGINSON P (1994)

This publication provides an assessment of the role of Britain in a global economy which is increasingly shaped by the corporate decisions of multinational companies. Emphasis is placed on the multinational character of Britain's economy as compared with those of other large industrialised countries. The author considers the contrasting implications of the activities of multinational companies for employment practice; and explores the factors underlying the considerable variation evident in the actual practice of multinational companies.

In *Human Resource Management Journal*. Vol 4, No 4. Available from: Industrial Relations Services, 18-20 Highbury Place, London N5 1QP. EN.

### **Social Europe: Europe for Safety and Health at Work**

DGV, CEC (1993)

This edition of *Social Europe* was prepared by the Health and Safety Directorate of DGV. It provides an outline of the options for further action and, together with the responses received from the other institutions and social partners, will form the basis for future proposals to make workplaces across the Union safer and healthier.

The publication is separated into two chapters which examine, in the first instance, health and safety at work initiatives since 1987 - including common legislation, present and future strategies and the main steps which have been taken in relation to health and safety at work to date. The second chapter examines the success and results of the European Year

of Safety Hygiene and Health Protection at Work and also provides a list of publications produced during the year on this subject.

The annex to the document reproduces detailed information on the principle texts on safety and health at work. Also included is the general framework for action by the CEC in the field of safety, hygiene and health protection at work for 1994-2000 and the Council decisions and directives in relation to health and safety from 25 July 1991 until 12 October 1993 from the Official Journal of the European Communities.

3/93. Available from: Office for Official Publications of the European Communities, L-2985 Luxembourg. EN, FR, DE.

### **Fifth Periodic Report on the Social and Economic Situation and Development of the Regions of the Community**

CEC (1994)

This Report updates the information contained in preceding reports and provides further analysis on matters relating to regional problems and policy.

Part A of the report covers the main regional trends and differences over the last decade in regard to output, productivity, employment and unemployment. Also included are the results of a major re-examination of demographic trends in the regions which focuses on the prospective changes in population and labour force for the year 2000.

Part B examines some of the factors underlying the disparities between regions. The role of research and technological development in the regions is also examined, as is a consideration of the trends in foreign direct investment flows and differences in the accessibility of regions.

Part C of the report outlines the situation in the Community's problem regions which were eligible for assistance under Community regional policies for the period 1989-93. The next generation of regional policies is considered and the Member States' own regional policies and the changes over the last decade are also included.

Part D of the report covers other Community policies in the field of economic

and monetary integration and external policy (enlargement).

COM (94) 322 Final Brussels, 19.07.1994. Available from: Office for Official Publications of the European Communities, L-2985 Luxembourg. EN, FR, DE.

### **Active Labour Market Policy and Unemployment**

CALMFORS L (1994)

This paper assesses the role of active labour market policies (ALMPs) as an instrument for fighting persistent unemployment. An analytical framework is developed to examine the effects of these policies on a number of economic outcomes, including: job matching; labour force participation; competition between labour market insiders and outsiders; displacement, deadweight and substitution in the labour market; productivity; and tax effects. While some of the effects converge, others work in opposite directions.

The paper develops a framework to assess the net effects and examines available empirical research from this perspective. It concludes with a discussion of key design features of ALMPs which can help improve the positive labour market effects while limiting the negative effects. The role of different types of ALMPs, compensation levels, targeting, co-ordination with unemployment insurance and other social programmes are explicitly examined.

*OECD Labour Market and Social Policy Occasional Paper*. No 15. Available from: OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France. EN, FR (summary).

### **Measurement of Low Incomes and Poverty in a Perspective of International Comparisons**

OECD (1994)

During the past two decades, issues such as insufficient resources among particular populations, relative and absolute low incomes and poverty have occupied a prominent place in social policy research in many OECD countries. However, many different concepts have been used in the literature to define and measure 'low income' or 'poverty' across and within Member countries. This paper analyses alternative approaches to quantifying these concepts for the explicit purpose of

international comparisons. The paper uses to illustrate the issues the micro data sets on income from the Luxembourg Income Study for 13 OECD countries for the mid- to the end of the 1980s.

The three main approaches normally used to define low income and poverty - the absolute, relative and subjective - are examined in detail in Chapter II. Chapter III discusses ways to adjust disposable income for family size and presents sensitivity tests using different equivalence scales. Chapter IV presents more comprehensive poverty indicators, in particular the Sen index which allows for decomposition of poverty into incidence, intensity and distribution of low incomes. Chapter V considers the role of public transfers in alleviating poverty and applies the Sen index for an analysis of the net impact of taxes and transfers on poverty among non-elderly families, families with many children, single-parent families and children. Conclusions are presented in the final chapter.

*OECD Labour Market and Social Policy Occasional Paper, No 14.* Available from: OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France. EN, (FR summary). FR, (EN summary).

### **P+ European Participation Monitor No 9**

EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS (1994)

This issue focuses on the economics of participation and its impact on European enterprise performance in an attempt to take stock of the European experience of participation and its underlying rationale. The authors are essentially trying to redress the balance whereby employee participation is examined as an integral and defining part of the competitive advantage enjoyed by companies and indeed entire economies, rather than simply discussing employee participation as first and foremost a matter of employee relations.

A selection of papers are included which detail experiences and issues relating to participation in France, Germany, Ireland and the United Kingdom. The articles in this issue analyse the economic impact of participation across a range of areas such as the decision-making processes, employee motivation,

work design and the introduction of new technology, amongst others. Case studies of participation in a number of companies are also included.

Available from: the European Foundation for the Improvement of Living and Working Conditions, Loughlinstown House, Shankill, Co Dublin Ireland. EN, FR, DE.

### **OECD Societies in Transition, The Future of Work and Leisure**

OECD (1994)

This report evaluates likely long-term developments in employment and unemployment, and explores the opportunities and risks that wide ranging changes such as transformations in the workplace, leisure activities, welfare, family and community life may bring to OECD countries in the decades ahead. The pressures which result from high levels of unemployment, are expected to persist well into the next century.

This publication brings together papers presented at an OECD conference held in early 1994 divided into four sessions. The first assessed the longer-term outlook for growth and employment over the next ten to fifteen years, especially in the OECD area. The second session assessed where the number of jobs is likely to expand or decline, the changes in occupations and job profiles that can be expected in the coming years, and the ensuing challenges for education and training and for government policy more generally. The third session focused on the changing relationship of work, leisure and other non-work-related activities, and how these are affected by shifting societal values. The final session examined the issues of social cohesion in OECD countries, the pressure bearing on traditional social structures, and new developments in social organisation which could contribute positively to the future evaluation of OECD societies.

Available from: OECD, 2 rue André-Pascal, 75775 Paris Cedex 16, France. EN, FR.

### **US Bureau of Labor Statistics (BLS)**

The *BLS Handbook of Methods* provides comprehensive information for each of the BLS' sources of data including: sta-

tistical procedures, place of publication, and their uses and limitations. It includes descriptions for: Labour force statistics; Occupational pay surveys; Negotiated wage and benefit changes; Employment Cost Index; Employee benefits survey; Productivity measures; Occupational safety and health statistics; Economic growth and employment projections; Producer Price Index; International price measures; Consumer expenditures and income; and Consumer Price Index.

For International Comparisons Data, the BLS compiles statistics on comparisons of hourly compensation costs, productivity and labour force statistics.

Non-U.S. labour research and statistical analyses are undertaken for a variety of reasons:

- often the information is not readily available to U.S. labour representatives, employers, government officials, and others and is often not in English;
- often only an expert can judge the quality of foreign statistical sources;
- comparisons between U.S. and foreign labour conditions shed light on U.S. economic performance relative to other industrial nations; and
- comparisons provide information on the competitive position of the U.S. in foreign trade.

The emphasis of the current programme is on the development of international comparisons of the labour force, employment and unemployment; productivity and labour costs; hourly compensation costs of manufacturing production workers; and trends in consumer prices and real compensation of manufacturing employees. The measures compiled relate primarily to the major industrial countries and most of the series are prepared on an annual average basis, although comparative figures on unemployment and consumer prices are prepared monthly.

The BLS also produces a number of diskettes for data on employment; consumer expenditures; prices; productivity; injuries and illnesses; wages; and hours worked.

Those wishing to join the complementary mailing list of the BLS should contact: U.S. Department of Labor, Bureau of Labor Statistics, Division of Foreign Labor Statistics, Postal Square Building, Room 2150, 2 Massachusetts Avenue, NE, Washington, DC 20212-0001, USA.