



French Presidency of the Council of the European Union

Work Attractiveness

Conference Proceedings

8 and 9 October 2008

OECD Conference Centre

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Work Attractiveness



Conference Opening Address

Laurent WAUQUIEZ

Minister of State in charge for Employment, France

Nikolaus G. VAN DER PAS

*Director General, Directorate-General for Employment, Social Affairs and Equal Opportunities,
European Commission*

Background Speech

Wage Moderation: Benefits, Limits and Political Issues

Raymond TORRES

Director, Institute for Labour Studies, International Labour Organisation

Conference Opening Address

Laurent WAUQUIEZ

Laurent Wauquiez highlighted the importance of this event, desired as part of the French presidency of the Council of the European Union, in the global and European context of economic and financial turbulence. It is our duty, in this period of crisis, to respond to urgent issues, without losing sight of the structural issues of employment. Tackling this issue of the work attractiveness involves giving prospects to employment policies.

"The European Union must support a dynamic employment rate policy." France has initiated a certain number of reforms as part of its employment attractiveness policy. This is a major issue, as the future and the economic and social dynamics of Europe hinge on the employment rate. The European Union must face the challenge of population ageing and be able to maintain and finance the common social model. For this, it must support a dynamic employment rate policy.

The work attractiveness is multidimensional. It involves reflecting on labour supply and job seekers. It concerns labour demand with, in particular, the issue of the capacity to motivate teams, gain their long-term loyalty and limit labour costs for companies in a difficult international climate. The proper operation of labour market institutions is the decisive factor in assuring the capacity of the work attractiveness. The European Union must rise to the challenge of developing general employment systems that can be adapted to the diversity of employment paths in Europe. Remuneration and labour costs are, in this respect, central.

With regard to training, France is very behind in relation to Germany and the Nordic countries. There are few companies that incorporate long-term training, upstream, in their competitiveness policy.

France has employed various instruments to make work attractive. The first has been to decrease charges on labour, made possible by employment policies over the last fifteen or so years, under left governments and right governments alike. While these have clearly had a positive effect on the access to work of least-skilled employees, these

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costly policies have been questioned by parliament for the past few years. The Ministry of State in charge of Employment still sets great store by them as these incentives are the most reliable levers in terms of employment policies. These debates worry both companies and employees who fear that these social charge reductions will not be maintained in the long term.

The second instrument implemented by France has been a dynamic policy to support the lowest wages, initiated during the previous term of office by a policy to increase the SMIC¹. It involved widening the gap between benefit income and earned income by increasing the minimum wage. This policy, however, has its limits as it may seem, to a certain extent, demagogic to fix the minimum wage independently of the economic climate. The percentage of French employees paid the SMIC is now high; yet, an employee on the SMIC has very little chance of getting off the SMIC to have a career path and a worthwhile wage path. France, therefore, has opted to fix the SMIC according to economic cycles rather than political cycles and to drive a policy that encourages wage partners to negotiate.

The third instrument implemented by France is the re-evaluation of overtime pay. Adopting the 35-hour week resulted in salaries being greatly reduced and the French people distancing themselves from work, with a new attraction for leisure pursuits and personal fulfilment. Yet the country cannot prosper with such a deteriorated relationship with work. The government, therefore, decided to exempt overtime pay from tax to create a positive dynamic and restart the engines of growth and employment in the medium term. France, therefore, experienced high job creation growth until August 2008, before seeing a decline due to the European economic situation.

The fourth instrument implemented is the Revenu de Solidarité Active (RSA; earned income supplement), which reviewed the basic welfare and support systems to make it financially worthwhile to go back to work; every additional hour worked must result in additional pay.

¹ Salaire minimum d'interprofessionnel de croissance; guaranteed minimum wage

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The fifth instrument is the family policy, which is the demographic strength of France, with one of the best population growth rates in the European Union. It is a question of enabling French men and women to balance their working lives with their family lives.

« So that the capitalist system can function, all profits must first be shared between all employees. »

In France, there are profit-sharing and worker participation mechanisms based on an old approach. So that the capitalist system can function, all profits must first be shared between all employees. This is another aspect of the attractiveness of work.

It is important to remain firmly at the helm and respond to emergency situations concerning the various faces of employment, without necessarily losing sight of the long-term direction of the work attractiveness.

Nikolaus G. VAN DER PAS

Nikolaus G. Van Der Pas highlighted that employment policy is a national reality, taking into account the background of every member state. Employment is, however, a major concern at European level. Without community-level concern regarding the issues of employment, the European Union would not be a social union. The various policies and strategies implemented reflect the consideration given to this aspect. Their results are positive; combining convergent national policies has made it possible to create millions of jobs. The European Union has also focused on other topics, such as gender equality, which have become community topics also tackled at national level.

A certain number of recent developments are worth looking at. Globalisation has brought a lot of positive changes, but also uncertainties regarding the preservation of jobs in the face of relocations. Demographic evolution and population ageing have made it clear that there is the need for a community-level family policy.

The introduction of NICTs² in employment makes the training and adaptation of European workers necessary. Poverty has reached a worrying level; 16% of the European Union population, 70 million people, is living below the poverty line. The phenomenon of casualisation in the labour market is emerging, with a high increase in temporary work. These observations at local, regional and national level merit European-level attention through a social policy. The member states all have high levels of social welfare and sectoral social dialogue.

Job quality and attraction receive continued attention from the European Union. In 2007, Germany devoted nearly its entire presidency to it, with the programme *Gute Arbeit*. Of all the work carried out, one conclusion emerges: job quality is a multidimensional concept that depends, notably, on wages, safety at work, health at work, workers' rights and the balance between family and working life.

The European Union must take up considerable challenges, notably, a future and very probable reduction in growth. Until now, the European economy has put up a good fight and job creation has increased. It is important to stay on track in the global crisis. The community's strength lies in the skills of the European Union and in the technological vision it has developed. The role of national authorities and the European Union's support will be essential to improving the work attractiveness. Beyond the policies already

« Combining convergent national policies has made it possible to create millions of jobs. »

developed, the European Union will look more closely at new elements, such as the concept of 'flexicurity', useful in difficult situations in the labour market, and the compatibility between supply and the labour market. Corporate accountability is a considerable contribution. The topic of decent work lends additional support and mobilises opinion. The European Commission has also noted that many member states are concerned about integrating marginalised people into the labour market, but that there is still room for improvement. Taxation in many member states works in such a way that a person moving from the edges of society to take up work is taxed. It would be advisable to define what services are needed to support these people.

² New Information and Communication Technologies

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This multidimensional subject requires an integrated approach; the role of the European Union is essential for success at national and local level. To stay on track, the European Union will employ all the instruments in its possession.

Conference Background Speech: European-level Issues and Session Topics

Raymond TORRES

For Raymond Torres, the issue of attractiveness is central, after several years of reflection surrounding employment quantity and the reduction of mass unemployment through strong wage moderation.

"Real wages have increased more slowly than labour productivity." In France, Europe and other countries around the world, real wages have increased more slowly than labour productivity. Practically everywhere, up to the 2000s, real wages decreased in relation to national incomes. One of the aspects of the employment strategy in the 90s consisted in slightly increasing wages so as to reduce unemployment. Wage disparities increased in nearly all European countries except in France. High wages have increased the most, but, due to rules of confidentiality, it is impossible to know these highest incomes precisely. Statistics thus underestimate the increase in wages observed in the majority of European countries. A large share of these high incomes results from severance compensations.

Wage moderation policies have been successful in terms of employment, with a spectacular rise in the employment rate, from 60 to 67%, for the fifteen European Union countries between 1997 and 2007. This is also true in all of the twenty-seven countries of the European Union.

Various factors, a certain number of which are found in other countries, explain this increase: the effects of globalisation, technological evolutions and financial globalisation, introducing a certain level of economic instability. National elements also contribute, such as the general drop in the rate of unionisation, more decentralised collective bargaining coverage, asymmetric competition in

the product market and the development of temporary, generally less well-paid, forms of employment, weakening the bargaining position of employees.

Four political options are conceivable for improving the work attractiveness.

The first and simplest option consists in doing nothing. This is justified by the considerable gain in jobs achieved. Nevertheless, looking at the quantity and not the attractiveness of work can be dangerous.

The second option consists in promoting links between respective wage and productivity trends by encouraging social dialogue and promoting the concept of decent work. It is a question of reassuring employees and improving their capacity to negotiate their wages. Training employees can be an effective instrument, as it helps increase their productivity. The minimum wage does not necessarily go against employment. A minimum wage level could be perfectly supported by the labour market.

The third option consists in dealing with the asymmetries in the product market. The product market plays an important role, as much with regard to the quantity of jobs as the quality of jobs as it reduces the barriers of access to certain professions and certain sectors.

The fourth option consists in the government paying an income supplement to employees to give them an interest in working in order to decrease the growing divide between wages and productivity. It is a question of maintaining the lucrative dimension of work and reducing the charges on labour.

Session 1

Career Dynamics and Work Attractiveness

Session Chair - Raymond Torres

Background Speeches

Wage Structures in Europe

Vincent Marcus

Economist, Institut national de la statistique et des études économiques (INSEE; National institute for statistics and economic studies), France

Wage and Non-Wage Aspects of the Work Attractiveness: Recent Trends in OECD Countries

Pascal Marianna and Paul Swaim

Economists, OECD - DELSA

Round Table Participants:

Robert Strauss

Head of Unit, European Strategy for Employment, Corporate Social Responsibility and Local Development, European Commission

Walter Cerfeda

Confederal Secretary, European Trade Union Confederation (ETUC)

Jean-Baptiste de Foucauld

Member of the Conseil d'orientation de l'emploi (Employment guidance council), France

Session 1: Career Dynamics and Work Attractiveness

I. Wage Structures in Europe

Vincent MARCUS

here are high wage disparities between the new members of the European Union and the EU-15. This divide is less spectacular in terms of purchasing power for a basket of goods.

The effects of regulation are very noticeable. Under the transition agreements, certain countries have greatly opened their market to European workers; the influx of workers from member countries has been observed throughout the European Union since 2006, although this remains lower than 1.5%.

The wage disparities are sectoral. In France, attractiveness is insufficient in certain sectors such as the construction and catering sectors. *« The wage disparities are sectoral »* Relative variations in sector employment problems have an impact on wage differentials.

The wage disparity is often based on length of service. Yet for the new member states, there is a very clear break beyond a certain threshold of seniority; there is no clear link between seniority and seniority pay.

The wage disparity between men and women according to age is even higher in the new member states. Wage differentials between employment and unemployment for men and women are more pronounced in the Mediterranean countries than in the Nordic countries.

There are less wage differences at labour market-entry level between less-qualified employees and qualified employees in the Scandinavian countries than in the new member states. The Scandinavian countries make use of lifelong learning. Employment in these countries is attractive for the access that it gives to continued learning.

Increasing the minimum wage level has a positive effect on distribution, but results in a high accumulation of employees at this level.

Disparities in earned income are not explained by price differences, but by job duration, in other words the number of days worked.

II. Wage and Non-Wage Aspects of Work Attractiveness: Recent Trends in OECD Countries

Pascal MARIANNA

Between 1990 and 2006, wage trends varied greatly between the OECD countries and the United States. Real wages increased greatly in the new member states. Their rise was less spectacular in the fifteen European Union countries and the United States and particularly low in Italy, the Netherlands and Spain.

Wage disparity increased in the OECD zone between 1985 and 2005, particularly in Germany the United States and the United Kingdom. This dispersal is notably explained by the increased wage spread and the rise in high wages. It is essentially due to the number of hours and days worked.

The high-income share dropped at the beginning of the 20th century. It has increased recently, notably in Canada, the United Kingdom and the United States, due to an increase in the earned income share of high salaries.

There are notable differences in the wage trends. The trend in certain countries, however, is to increase, particularly as concerns women's wages in relation to men's wages.

Paul SWAIM

The trend toward reduced working hours and part-time work increased in the OECD zone between 1990 and 2006. Casual work has increased. Nevertheless, for the majority of workers, job security has increased.

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Many workers are outside the traditional Monday to Friday work week. Work has become more intense and more stressful. Although there is a certain amount of flexibility in hours, there is still conflict between work, social and, above all, family life.

Discrimination in the workplace has decreased slightly. The number of women in management positions has risen. Employees seem to consider their work less dangerous to their health than previously. The number of workers receiving training is on the decline, which is worrying.

Fiscal policies have a significant impact on the attractiveness of employment. The tax wedge varies by country and can sometimes represent up to 50% of the cost of an employee to their employer. Some unemployed people that go back to work do not see an increase in their income and even suffer a loss of income. It would seem that, in the future, the best-paid employees will see their situation deteriorate due to the financial turbulences.

The Scandinavian and Dutch model countries have implemented social welfare systems and have attained a high rate of employment. They grant good benefits to the unemployed, but they encourage going back to work.

Round Table

A Few Specifics

Robert STRAUSS

« *Wages drive demand* »

Robert Strauss highlighted that the European Union has always considered wages as the decisive factor from a macroeconomic point of view. For a competitive economy in a competitive world, wages and productivity must go together. Wages drive demand. The European Commission asks European countries to ensure that wage levels are high enough to be attractive, or that they are more generous regarding welfare benefits. Without a net gain, there is no point in going back to work.

The wage levels of CEOs have no effect on a company's competitiveness. But it has an impact on the attractiveness of work. If the CEO of an SME does not have a wage that is much higher than that of their employees, the latter do not feel they are being overexploited. Wage differentials have an effect on employees' motivation.

Jean-Baptiste De FOUCAULD

Jean-Baptiste de Foucauld stressed the importance making employment a part of the construction of a European civilisation. At a time of environmental and financial crisis, work is not an aim in itself. The first condition of attractiveness is that employment enables every individual to find a personal balance and achieve a certain level of comfort.

« *At a time of environmental and financial crisis, work is not an aim in itself* »

Indicators need to be refined. The notion of employment rate is archaic; it is enough to work one hour to be in employment. It is important to also have a part-time employment rate and an

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FTE³ employment rate, specifying whether the part-time is chosen, enforced or chosen by default.

Employment must be attractive for the employer, the employee and the underemployed and unemployed. The balance between these three levels of attractiveness is essential. Recruitment must be considered as an opportunity and not a hindrance. In up-and-coming companies, employment development is gratifying; in a big company it has become an obstacle to profits. The continuous race to increase profitability rates must be halted.

In France, there are 2 million unemployed and 1.4 million underemployed. The problem is also a problem of representation; weak trade union organisations do not represent the underemployed or unemployed.

The concept of 'career security' may cause concern, as it gives a corporatist vision of the subject; those that do not have a career path must also have access to a career path. Career paths must be more diversified and defined before being secured.

Every state must develop its mode of attraction. While there are several models in Europe, the European Commission's vision is a distinctive compromise between the Scandinavian model and the Anglo-Saxon model.

Walter CERFEDA

The work attractiveness does not depend solely on wages, but also on the structure of the labour market, public policies and company policies.

« The work attractiveness does not depend solely on wages »

Between 2003 and 2007, except in the Scandinavian countries, where growth remained positive, all of the European countries experienced wage reductions and a loss of the purchasing power of wages. The drop in wages and demand pushed Europe into a situation of

stagnation and crisis, to which it is working to respond, although it is technically in recession. The President of the ECB has clearly confirmed the need to adopt wage cuts. Moderation is not the solution.

The structure of the labour market has changed over the last five years. The European Union now has 39 million workers on permanent contracts, 40 million workers in, often imposed, temporary employment and 16 million unemployed. The wage policy and labour market must be made to coincide.

³ Full-Time Equivalent

Session 2

Wage Formation, Negotiations and Public Policies

Session Chair – Raymond TORRES

Background Speeches

The Role of Public Policy Instruments in Wage Formation

Jean-Philippe COTIS

Director General of the Institut national de la statistique et des études économiques (INSEE; National institute for statistics and economic studies), France

The Role of Negotiations in Wage Formation

Maria JEPSEN

Director of Research, ETUI-REHS, Belgium

Company View of Wage Formation

Muriel PENICAUD

Director General of Human Resources at Danone, France

Round Table Participants:

Martine DURAND

Assistant Director, OCDE-DELSA

Tim BUTCHER

Lead Economist, Low Pay Commission, United Kingdom

Carlo DELL'ARINGA

Professor at the catholic university of "Sacro Cuore", Italy

Werner EICHHORST

Assistant Director 'Employment Policies', IZA, Germa

Session 2: Wage Formation, Negotiations and Public Policies

I. The Role of Public Policy Instruments in Wage Formation

Jean-Philippe COTIS

While fixing salaries is the prerogative of companies and employees, the authorities, nevertheless, have various means to make work attractive.

The state can fix wage standards, notably the minimum wage, which has undeniably positive effects on the attractiveness of work. This instrument nevertheless has a double edge as, in the countries where the minimum wage threshold is high, there is an eviction effect, employers being more hesitant to recruit.

The state can affect wages via earned income tax and social security deductions. Social security contributions reduce the net wage and increase the cost of labour. Their increase affects both employment and employees' remuneration. These deductions are the 'price to pay' for the services they finance.

The state can implement a negative income tax. This instrument has a significant effect on income redistribution and the labour market; redistribution must lead to an increase in earned income and encourage the return to work, without increasing labour costs. Wage supplements, however, are not intended to substitute the minimum wage.

These three instruments are complementary and must be balanced.

The authorities can also influence the nature, frequency and level of wage bargaining.

At a time of low global growth and over productivity, France should be able to find the way to recovery.

II. The Role of Wage Bargaining in Wage Formation

Maria JEPSEN

Maria Jepsen presented a summary of thirty years of wage bargaining in the twenty-seven European Union countries. While the contexts and stakeholders differ, there are a certain number of similarities. The European Union has met a certain number of challenges, such as technological changes, organisational changes, the Euro, wage moderation, economic integration, extension and the creation of the ECB.

In continental Europe, the number of unionised employees has decreased, but the rate of cover by collective agreements has remained steady; the majority of working people in Europe are covered by collective wage agreements.

Half of the member states still have national-level wage negotiations. The decentralisation of negotiation is often organised and coordinated from the top. Employers and unions still subscribe to centralised negotiation to create a certain level of stability and so that unions can protect the most vulnerable employees.

Many clauses have been introduced at the level of high-level bargaining over the course of the last five years. When a wage settlement cannot be respected by specific companies in difficult situations, there is renegotiation.

The coordination role can be more significant according to the degree of centralisation. After the crisis in the 70s, coordination under the aegis of the state was denounced. It reappeared in the form of social contracts to meet the new requirements of the euro area.

The state has always played an important role in managing wage bargaining. Decentralisation has had very different impacts according to country. Above all, it is important to first determine the objectives sought.

Session 2: Wage Formation, Negotiations and Public Policies

III. Company View of Wage Formation

Muriel PENICAUD

Danone is a multinational company with 76,000 members of staff worldwide in 50 principal countries. Danone does not have a globally-defined, detailed policy, but general guidelines. Danone's remuneration policy must be competitive, attract the people the group needs and be a significant lever in motivating staff.

Danone is still above the industry and competitor minimums and continues to invest in wages and training.

Danone always uses the term compensation package and not wage, as there are personal and collective bonuses for employees. Worker participation and profit sharing represents between one and three months' worth of wages, depending on the year.

Age and seniority are not so important; skill is the key criteria. Skills are demonstrable, opposable and disputable. *« Skill is the key criteria »*

Wage bargaining is part of a context of greater and wider social dialogue.

The group's attractiveness is not connected with remuneration alone, but also fringe benefits, career prospects, training, etc. Danone carries out employee surveys every two years. 16,000 people were questioned in 2007. Generally, the level of employee involvement is extremely high.

Danone is concerned with employee development and training. Skills are the key to employability and are the lever for wage progression. Danone is in favour of developing profit sharing and rewards collective performance over the long term.

Round table

Wage Formation in the Member States: Experiences and Good Practices

Martine DURAND

Martine Durand highlighted that wage formation is outside the public domain, except for low wages, where the authorities intervene via the minimum wage and negative tax. Balance is achieved when work is lucrative without representing an excessive cost for the employer, thus meeting targets to encourage work and fight poverty in employment.

Twenty-one countries in the OECD have fixed a minimum wage. The situations vary according to country. Ten have a lower minimum wage to help young people enter the labour market. In the countries with apprenticeship systems, such as Germany and Denmark, wages paid to young people are well below the minimum wage on account of the cost of training.

In the OECD countries that have a minimum wage, more than three-quarters of gross additional incomes are deducted in the form of taxes or reductions in welfare payments. The withdrawal of benefits represents a considerable loss in going back to work. Sixteen OECD countries have introduced 'making-work-pay' policies. To be effective, benefits must be generous, strictly targeted and visible for people that receive them.

Public policies intervene indirectly in wage formation; unemployment benefits set a 'minimum income', below which it is not worthwhile working. Countries that are driving active policies have significant results in terms of reducing the number of benefit receivers.

Social security contributions represent, on average, 45% of the gross wage in the European Union. This tax item has a considerable impact on wage trends. A social welfare system has a cost, but it is important to consider whether health should be financed through taxes on work.

Session 2: Wage Formation, Negotiations and Public Policies

« A person's chances of being poor are reduced sixfold if they work »

The issue of poor workers is still a worry. A person's chances of being poor are reduced sixfold if they work. Dynamics are essential. It is important that people do not remain in a state of poverty.

Tim BUTCHER

Tim Butcher presented the work of the *Low Pay Commission* (LPC) regarding the British minimum wage. The LPC aims to fix a minimum wage that benefits a maximum of employees without having a negative impact on employment. This wage, defined in age brackets, has risen 59% since 1997. Wage distribution has moved around the minimum wage level.

« The introduction of the minimum wage has reduce wage disparities »

The introduction of the minimum wage has affected the structure of wages. The lowest brackets have been grouped together. However, it has not had much impact on the employment of individuals with very low wage levels. Until now, although it has made it possible to reduce wage disparities, the minimum wage has had little impact on employment in the United Kingdom.

Carlo DELL'ARINGA

Carlo Dell'Aringa presented the Italian situation. Between the end of the 90s and 2007, employment rose 4% and the unemployment rate dropped 4.5%. This appreciable result is due to wage moderation fixed by the social contract. In 1997, employment protection legislation was relaxed, in particular regarding temporary employment, in order to facilitate the recruitment of young people and manpower in general.

Italy is currently experiencing a lack of growth and stagnating productivity. Wages are relatively steady. Several solutions have been conceived, in particular, a wage bargaining adjustment with the reform of the collective agreement system aimed at increasing the rate of innovation and productivity in the workplace. Some employee associations think that this solution is the right one.

Italy is within the European mean. Wage increases are generally determined at national level for the economy as a whole. Decentralising the collective agreement to company level would enable the social partners to improve performance, human resource practices and employees' identification with their company.

« Decentralising the collective agreement to company level »

The government has introduced a form of profit sharing to encourage productivity and efficiency in the workplace. In Italy, unemployment is structural. The Italian social contract is centred on macroeconomic improvement.

Werner EICHHORST

Werner Eichhorst stated that, in Germany, the system is stable, although collective agreements cover a decreasing number of sectors, in particular in the former GDR. Collective bargaining is essential. Social conflicts are rare and not very serious. The keywords in collective wage bargaining are flexibility and adaptation. The wage policy is not aggressive. It consists more in recovering in a booming economic climate. The collective agreement system has introduced much flexibility with regard to wage agreements.

« The keywords : flexibility and adaptation »

Werner Eichhorst expressed concern about underbidding with regard to wage negotiation on the part of independent unions and small employers. Low-paid jobs, casual jobs and active unemployment are increasing in Germany.

It is probable that collective wage negotiation will continue to see its significance wane in Germany, but that it will remain a sort of line of conduct. The decline in the role of unions, in certain sectors, implies the future appearance of a restrictive minimum wage.

Session 3

Working Conditions and Work Attractiveness

Session Chair

Elisabeth MORIN-CHARTIER

Member of the European Parliament, Commission for Employment and Social Affairs

Session Introduction

Ernest-Antoine SEILLIERE

Chairman of Business Europe

Background Speeches

Working conditions

Pierre RALLE

Director, Centre d'Etudes pour l'emploi (Employment research centre), France

Working hours and Work-Family Life Balance

Jorma KARPPINEN

Director – European Foundation for the Improvement of Living and Working Conditions

Round Table Participants:

Eva BERDE

Professor of Economics, Corvinus University, Budapest, Hungary

Françoise BOUYGARD

Deputy Director, Délégation générale à l'emploi et à la formation professionnelle (General delegation for employment and vocational training), France

Paolo SESTITO

Director of Research, Banca d'Italia, Italy

Session 3: Working Conditions and Work Attractiveness

I. Introduction

Ernest-Antoine SEILLIERE

Ernest-Antoine Seillière highlighted that, as regards attractiveness and working conditions needs now vary due to the personal ways of life: degree of autonomy and responsibility, wage, adherence to company values, job security, skills development within the company and work-personal life balance. Wages are a major element in the attractiveness of employment, in particular when economic growth is weak and inflation persistent. Raising wages is not a solution if it does not lead to a rise in purchasing power. Instead, economists recommend dropping prices. The nominal increase in wages, nevertheless, plays a major psychological role in the attractiveness of work.

Another aspect of the attractiveness of work is its security: permanent contracts, protection from dismissal, etc. Forms of employment are, however, increasingly diversified. Three-quarters of employees do not imagine that they will stay with the same employer throughout their lives. In France, there is still a high feeling of insecurity, despite relatively limited professional mobility.

Employers in the twenty-seven European countries are convinced that 'flexicurity' policies will make the labour markets very effective and very productive. 'Flexicurity' involves developing a range of contracting methods. In most cases, these forms of work reflect employee demand. In many European countries, flexible forms of employment do not mean job insecurity, but choice.

Being able to acquire new skills is a key factor of the attractiveness of work in a context of evolving markets and technologies. These skills are essential for the innovation capacities and competitiveness of companies. Lifelong learning is imperative. The ageing of the European population highlights this need.

The balance between family and working life is often cited as a decisive factor in employee satisfaction. 80% of employees in Europe say

they are satisfied with their working conditions and the balance between their working and personal lives. Social partners play a key role in this balance. This issue has been examined at European level and agreements concluded regarding maternity and paternity leave, part-time working and teleworking. Collective effort is needed to make progress regarding the essential topics of child care and nurseries to support working women in many European countries.

« Increase the depth of skills »

European companies must be able to recruit, train and retain their staff and increase the depth of the skills they use and which are a factor in their competitiveness. The European Union can be proud of its social culture, built on the regular sharing of the fruits of growth and based on intense social dialogue. As its competitiveness implies the attractiveness of employment, the European Union must pursue this policy of balance between growth and solidarity.

II. Working and Employment Conditions 1984-2005

Pierre RALLE

Pierre Ralle presented the trends in employment and working conditions in the public and private sectors between 1984 and 2005.

Permanent contracts and full-time contracts dropped 8 points. The average working week decreased by two hours. Atypical hours increased 12 points; these concern half of all working people.

The percentage of low wages decreased over the period as an absolute indicator. On account of growth over the twenty years and the evolution of minimum wages, fewer employees were on low wages in 2005 than in 1984.

The physical stress of work increased 1.2 points. The indicator is, however, subjective. The working environment deteriorated. Work rate requirements increased 0.6 points.

By gender, there was a relative deterioration in the situation of men in relation to that of women. The situation of workers deteriorated more than

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that of executives in terms of employment, hours and work stress. The job security of those in their fifties, high in 1984, and of those in their thirties and of young people entering the labour market deteriorated. Every generation has experienced a period sensitive to the economic climate. Structural changes are also made a lot through the arrival of new generations.

III. Working Hours and Work-Family Life Balance

Jorma KARPINEN

Jorma Karppinen presented the results of two surveys conducted periodically: the survey on European companies and the study on working conditions in Europe.

Working time flexibility raises the level of employee satisfaction. Part-time working is mainly used in the service sector. Overtime is the same in the secondary and tertiary service sectors. Maternity and paternity leave varies according to the company's system and the culture of the country concerning the mode of child care. Early retirement mechanisms are increasingly widespread in Europe. The trend is toward working for a shorter period, but more intensely.

There are glaring disparities between men and women concerning unpaid work.

Part-time work is the main form of flexible working time; it mostly concerns women. 48% of European companies have flexitime systems. This is a key element in the attractiveness of work. There is also something in it for the company as the hours are adapted to the work load. Nevertheless, part-time work does not contribute to career development.

"48% of the employers surveyed offer their employees early retirement."

The more someone works, the harder it is to find the balance between family and working life. Men aged between 25 and 39 years, the most active period in their lives, have the most difficulties. Employees and employers take responsibility for this balance. Graduated retirement and early retirement are more frequently used. 48% of the

employees surveyed offer their employees early retirement.

Men work longer than women, the self-employed more than employees. The more children women have, the less they work. They nevertheless devote a considerable amount of time to housework.

Round Table

Experiences and Good Practices in Member States

Eva BERDE

Eva Berde said that, in Hungary, the SME sector employs 60% of employees. 99.9% of companies fall into this very dynamic sector.

KÜRT Co. Information Management, a data security and collection company, has numerous subsidiaries around the world. It employs over 100 employees, nearly all with university-level qualifications, of which 20% are women and 80% men. This ratio is 30% to 70% at management level. Every employee receives at least ten days of training per year, during their work time. Executive training was introduced in 2002. The company organises team building activities and offers sports and leisure activities.

József Pata Machinery Ltd is located in the country where the unemployment rate is fairly high. It plays the role of social leader. The company is a high-quality subcontractor of Suzuki. Profits are put back into the company. A modern canteen was recently opened. The company does not hesitate to make investments to improve working conditions and offers part-time work and adjustable hours. Employee assessment is carried out regularly with compensation in the form of a bonus scheme. Every employee has accident insurance.

Baker Master's Biscuits Ltd is a country baker's, employing 18 to 30 employees, depending on the season. Created in 1991, the baker's prospered until 1996. It experienced difficulties that it was

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able to overcome by focusing on the more important products and improving their quality. Training is given in house. The owner makes recourse to all the possibilities open to SMEs, such as community training funds or the Internet.

Françoise BOUYGARD

Françoise Bouygar highlighted that the quality of employment, a decisive factor of the attractiveness of work, is multidimensional, structured on four components: socio-economic security, qualifications and training, working conditions and work-family life balance and gender equality.

In order to increase the attractiveness of certain professions considered difficult, initiatives have been taken in cooperation with professional agencies: a *Fonds d'action sociale du travail temporaire* (FASTT; social fund for temporary work) was created for temporary workers and a national *GPEC*⁴ (human resource management) agreement was concluded with the *Fonds d'action pour la réinsertion et l'emploi* (FARE; Fund for integration and employment) in the cleaning sector. An agreement on part-time work was concluded on the 17 July 2008 in the mass retail sector, to increase the number of weekly hours of work contracts from 22 hours to a 25-hour minimum and to encourage vocational training.

To support the road to employment and encourage going back to work, several measures or systems have been, or will be, introduced. The *Revenu de solidarité active* (RSA; earned income supplement) will encourage the return to work by making it financially more attractive than unemployment. There is also back-to-work aid for women (*ARAF; aide à la reprise d'activité des femmes*). Initiatives are under way to encourage retention in employment, particularly for those over fifty. Some systems are aimed at organising possibilities for career development:

VAE⁵ recognises prior experience without additional training. The national cross-industry agreement of the 11 January 2008 concerning the modernisation of the labour market is aimed at securing career moves.

The fields of activity are extremely diverse. Collective bargaining is vital. It is important to put forward strategies that are appropriate to the various situations.

Paolo SESTITO

Paolo Sestito reviewed three major topics.

« Must employment be encouraged or the net income of low-wage earners be increased? »

The policy to increase the quantity of jobs did not take into account the

specifics of each country; each country should have defined its own balance between quantity and quality. Enabling a maximum of workers to access employment involves a compromise. Certain specific population groups struggle to enter the labour market. Should employment be encouraged or the net income of low-wage earners be increased?

For budgetary and fiscal reasons, policies aiming to make work lucrative are little used in Italy. There is also debate surrounding the duration of the aid granted to people that go back to work; should it be temporary or permanent?

Policies encouraging temporary work are relevant for the Italian employment market, which has acquired the internal flexibility that companies needed. This has facilitated access to the employment market for many groups of people. This flexibility nevertheless poses problems of complexity in terms of regulation.

After 15 years, many companies and political authorities would like to review these conditions. The recourse to temporary work is perhaps no longer the most relevant.

⁴ Gestion prévisionnelle des emplois et des compétences (GPEC; human resource management)

⁵ Validation des acquis de l'expérience (VAE; Work experience accreditation)

Conference Conclusions

Michal SEDLACEK

Deputy Minister, Ministry of Labour and Social Affairs, Czech Republic

Xavier PRATS-MONNE

Director, Directorate for Employment, Lisbon Strategy and International Affairs, Directorate-General for Employment, Social Affairs and Equal Opportunities, European Commission

Laurent WAUQUIEZ

Minister of State in charge of Employment, France

Conference Conclusions

Michal SEDLACEK

Michal Sedlacek presented the programme for the future Czech Republic presidency of the Council of the European Union regarding the subject of the attractiveness of work. It is important to prevent people abusing the safety net. The key solution is motivation for work. *« The key solution is motivation for work »*

In the Czech Republic, demographic changes are increasing the number of pensioners in relation to those working. In 2050, the Czech Republic will be one of the countries with the least number of working people per pensioner. The current, official retirement age is 65 years old. It is envisaged that this will be deferred. People must be encouraged to enter the employment market by showing them that work is worth doing. For this, a decent wage is a *sine qua non* condition. Cultures and traditions are different in each country; each can regulate the issue of decent work in their own way. NICTs are leading companies to look for skilled employees. Badly-paid, unskilled jobs are coming to an end in the European Union, which cannot compete with Asia and its extremely low labour costs.

Globalisation is a great opportunity. The European Union must react rapidly and identify the future needs of the European labour market so that its workers have the appropriate qualifications and skills. Workers looking for work must be more flexible. The least skilled workers are not capable of facing this requirement and are isolated from the labour market. It is difficult to support the unemployed that do not look for work when faced with people that have worked throughout their lives. Wide reforms are under way in the labour market in the Czech Republic to modernise the labour market and the social security system and apply 'flexicurity' mechanisms. It is important that people find a reason to work.

Xavier PRATS-MONNE

Xavier Prats-Monne stressed the difficulty, above all in the current context, of giving simple and clear answers to the problem of the attractiveness of work. It is striking to note the vast diversity in Europe: the highest unemployment rate is 73%, the lowest 37%.

It is important to reveal the permanent, unchanging features. The factors that determine the quality and quantity of work are always the same. For the past fifteen years in the fifteen European Union countries, wages have increased at the same rate as productivity. The lack of skills is posing a problem throughout Europe. For the most skilled people, the employment rate is 84% and the unemployment rate 3.9%. For the least skilled people, the employment rate is 46% and the unemployment rate 18.6%.

Focusing on skills is essential. The European Union must urgently and drastically increase its skill and qualification levels. Skills determine the quality and quantity of work. To increase the right skills, the increase in the quality and quantity of the education system must be linked with the labour market. The capacity to anticipate and bring together the needs of the education system and the labour market is essential. *« Focusing on skills is essential »*

'Flexicurity' policies are a good way to handle the modernisation of the labour market and improve the quality and quantity of employment. Flexibility is being used as a recipe that is not unique or valid for everyone, but a means of modernising the labour market in a rational and sophisticated way.

While it is true that diversity is enhancing, over-diversity can generate incomprehension. To preserve the credibility of the community's vision, it is important to breathe an element of realism into the policies and not to confine oneself to banalities. The European Commission has worked to establish common and uniting principles and to clearly express them through paths that define a framework for a sufficient number of member states.

The European Commission's future role in the field of employment, in particular in the difficult context, will be to help the member states focus

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on the medium-term priorities and not simply on the short term and national arbitrage.

Laurent WAUQUIEZ

Laurent Wauquiez highlighted the elements of the discussion that he, as a political officer, thought the most interesting. Certain elements discussed call for political action.

This conference highlighted the connection between wage moderation and the spectacular rise in employment rates over the course of the last few years. For the French government, the wage attractiveness of jobs is an essential element for the employment rate.

Jean-Baptiste de Foucauld's comments regarding the strong collective dimension and the citizen approach of work in Europe were absolutely relevant. An employment policy cannot be focused on an excessively restrictive vision of what work represents in a society.

It is important to be able, in the coming period, not to take a short-term vision of the evolution of the employment market. The long-term trend will be a return to a context of tension in the employment market that will highlight the link between the attractiveness of employment and the employment rate. While wage moderation was a means of improving the employment rate, improving the employment rate at the cost of greater insecurity is inconceivable. This may prove counter-productive from an economical point of view.

In a company, the intensive training of employees increases their motivation and their standing. A contrario, difficult working conditions, without reasoning in terms of employment attractiveness, make them little productive and demotivate them. It is important to optimise and promote employment quality in the long term. This can be applied to all of the European partners.

« In a company, the intensive training of employees increases their motivation and their standing »

During the conference, the increased casual forms of employment in the European Union, the increase in wage disparities and the decreased wage share in the national revenue were

highlighted. These elements are, in the long term, economically poisonous and socially deadly. They may, notably, engender a lapse in work ethic, deterioration in social cohesion and questioning of the benefits of growth.

The report established must be lucid in order to provide appropriate answers. How can we manage to reconcile the rise in the employment rate, achieved through policies driven at European Union level, with this reflection on the attractiveness of employment? There are margins for manoeuvre. The drop in the share of wages in value added will gradually come back to cut off the branch on which the European Union is sitting. It has not necessarily well-managed wage moderation. France is an example. It has been incapable of articulating the increase, too dynamic and disconnected from the economic environment, in the minimum wage and the stagnation of the median wage to allow a proper staggering of wages. Employees need wage and career prospects. France has had an exclusively, very poisonous, political management of the minimum wage. Promotion prospects and wage increases are rare for employees on the SMIC. The French bill regarding worker participation, profit-sharing and wage bargaining aims to better place the cursor in terms of wage level management, by remaining mindful of the attractiveness of work, the possibility of career and wage development and the employment rate.

A series of initiatives can be carried out on the quality of work, the balance between supply and demand and career path security. This all still needs to be developed. The French schedule of labour market reforms is taking this direction.

« The work attractiveness is a concept for the future »

The European Union must set out the Lisbon strategy more operationally, through the topic of 'flexicurity', in order to define a common agenda of good practices. The attractiveness of work is a concept for the future. It is not a short-term concept, but a medium- and long-term concept, in order to remain attentive to the structural issues of employment policy. Employees want good wages and good working conditions; companies want to employ skilled, motivated employees that can stay with the company for the long term. The demands of the economy as a whole encourage finding fine indicators and solutions to establish

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the work attractiveness, employment rates and wages, to respond to what will be, in the long term, the new employment policy challenge for the European Union: having an employment market that is sufficiently attractive to attract the most citizens possible in a decisive demographic context.

Work Attractiveness



Report by Raymond Torres, Conference Rapporteur

Wages and employment conditions in the EU: trends, factors and policy issues⁶

⁶ This document has been prepared by Raymond Torres and Verónica Escudero, respectively Director and Economist at the International Institute of Labour Studies, ILO. The opinions expressed in this document are not necessarily those of the ILO or its institutions.

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The employment performance in the EU has tended to improve over the past decade. In 2008, despite the ongoing economic slowdown and associated job losses, the EU employment rate is expected to remain well above the levels achieved at the end of the 1990s. Of course, the employment record varies considerably across countries, and it seems increasingly challenging for the EU as a whole to meet the employment rate targets put forward for 2010 as part of the European Employment Strategy. But there is no doubt that some progress has been made.

These gains, however, have gone hand-in-hand with more mixed outcomes regarding “qualitative” aspects of employment. In particular, there is concern that the purchasing power of wages has tended to stagnate for many workers and that employment conditions have become more unstable or precarious –making the labour market less attractive to workers (see Aeberhardt *et al.* for France, for instance).

Such qualitative developments may be regarded as the “price to pay” for promoting employment prospects. It is sometimes claimed that labour market “deregulation” has supported job creation but also resulted in both wage moderation and greater job precariousness. Moreover, skill-biased technological change may have reduced the demand for unskilled labour. And, unskilled employment will fall unless the wages of unskilled labour adjust to market realities. Likewise, globalisation has opened up new growth and job creation opportunities, while also raising economic uncertainty (forthcoming ILO, *World of Work Report*, 2008). This, in turn, may have made employers less prone to recruit under permanent contracts.

The purpose of this report is to describe recent wage developments in the EU (section A), examine the factors at work (section B), and discuss policy options for EU countries, notably as regards whether it is possible to make labour markets attractive

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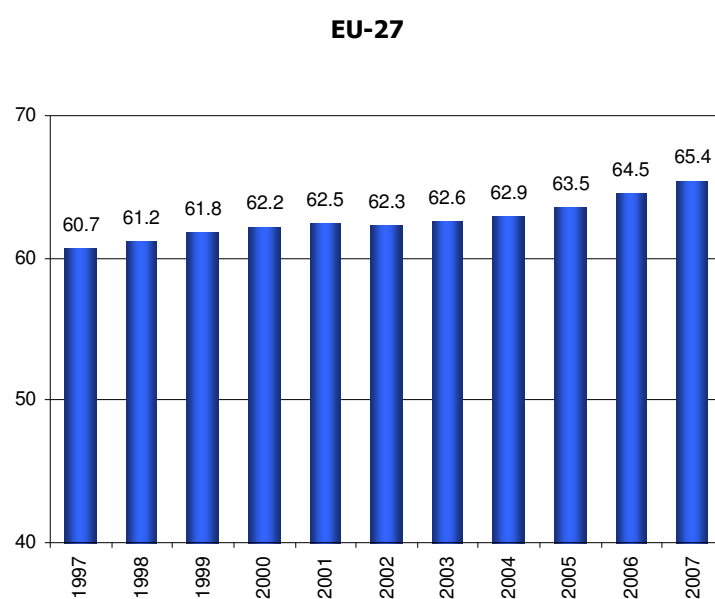
enough to workers, while still supporting employment growth and labour market dynamism (section C).

A. Employment and wage developments since 1990

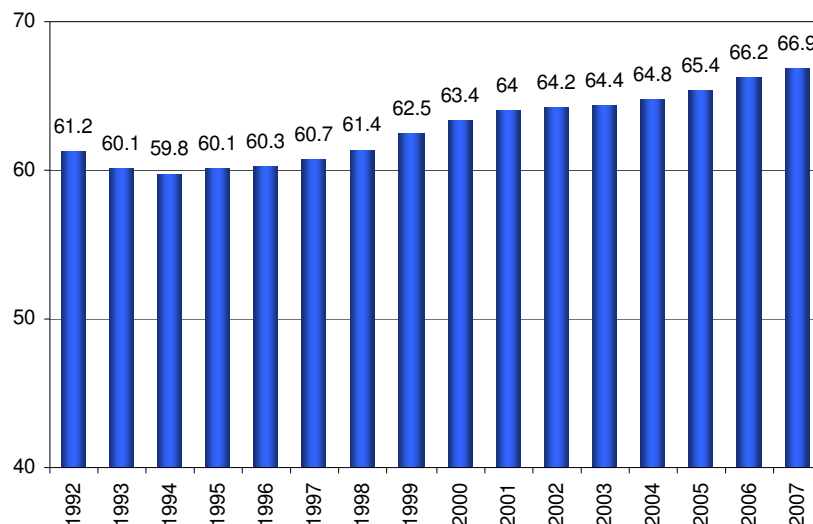
Employment rates increased over the past decade...

Employment as a percentage of working age population (the employment rate) increased almost uninterruptedly over the past 10 years. In 2007, the employment rate was almost 5 percentage points higher than in 1997, when the European Employment Strategy was launched (Figure 1). The increase in the employment rate is particularly steep for EU-15 countries. In these countries, the average employment rate in 2007 was only 3 percentage points below the 2010 target.

Figure 1. Employment rate in the EU, 1992-2007



EU-15

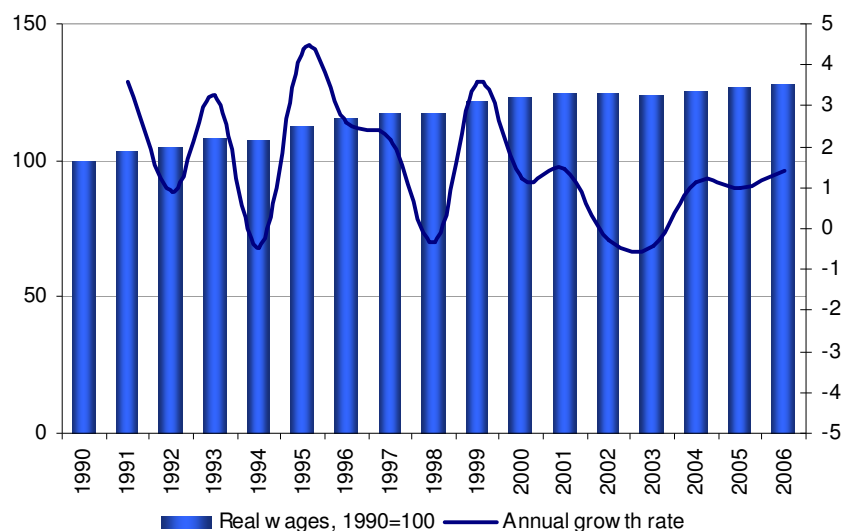


Source: Estimates based on Eurostat.

... at the same time real wage growth has been sluggish...

During the same period, real wages increased only moderately. Between 1997 and 2006 (latest year for which comparable data exist for EU-27 countries), wages adjusted for inflation rose by less than 1.5% (Figure 2). Wage moderation was especially pronounced during the 2000s. Significant real wage gains are registered in few Central and Eastern European countries only –and this largely reflects a catch up from the low wage levels recorded in the early phases of economic transition in these countries.

Figure 2. Evolution of real wages, average for the EU, 1990-2006



Source: Estimates based on OECD.Stat and Eurostat.

Note: Data not available for Malta and Romania.

Recent trends suggest a continuation of wage moderation. According to the 2008 OECD *Employment Outlook*, EU wages grew by a mere 0.9% in 2007 and are projected to grow even more slowly in 2008.

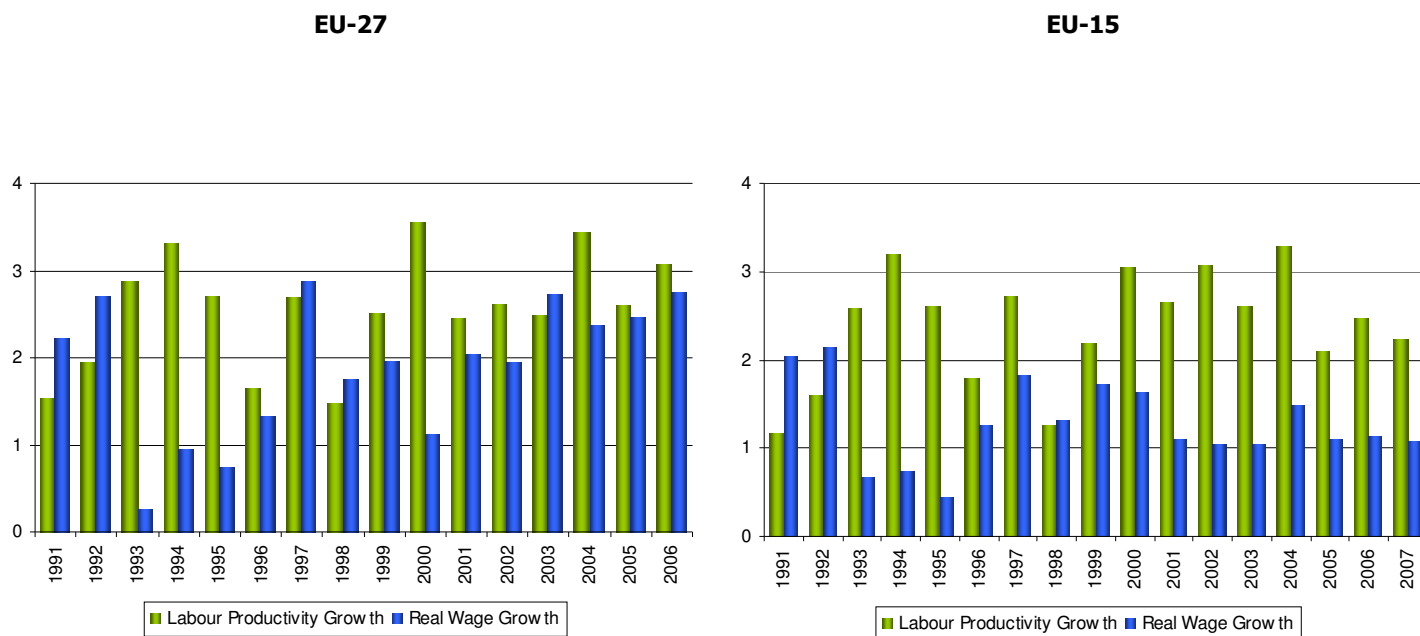
...and well below productivity gains

The extent of wage moderation is best appreciated by comparing real wage gains with productivity growth. In the long-run, and under certain conditions (such as no major changes in terms of trade, neutral technological change, etc.), real wages can be expected to grow in line with labour productivity. However, since the mid-1990s, real

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wages have grown less than labour productivity growth (Figure 3). The gap between wages and productivity is rising especially rapidly in EU-15 countries. Remarkably, in these countries, real wages grew less than labour productivity every year since 1993 (with the exception of 1998, when both grew at par). By contrast, as already indicated, there has been wage recuperation in a number of new member countries.

Figure 3. EU real wage have grown less than labour productivity growth



Source: Author's estimates based on OECD.Stat and Eurostat.

Note: Data not available for Malta and Romania.

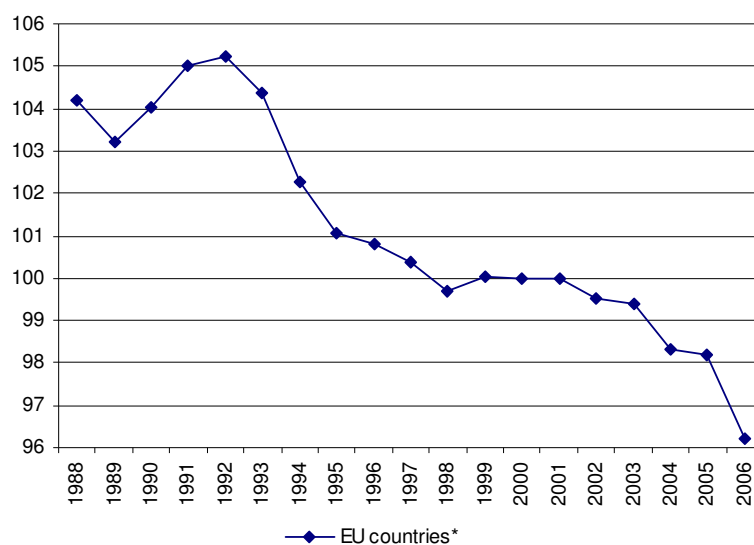
The result has been a significant decline in the share of wages in GDP

Real wage moderation has translated into a decline in the share total compensation of employees in GDP (or the share of wages in GDP). Figure 4 shows that, since the mid-1990s, the share of wages in GDP has followed a downward trend in EU-15 countries. The largest declines were registered in Austria, Finland, Ireland, Italy and

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Luxembourg. Among the EU15 countries, only Portugal witnessed a (small) rise in the wage share during this period. Data for the new EU members are not as comprehensive as is the case with EU-15 countries. However available statistics since the mid-1990s suggest that new members too have registered a decline in the wage share, with exceptions of the Czech Republic and Poland.⁷

Figure 4. Evolution of wage shares in the EU, 1998-2006



Source: Authors' calculations based on World of Work, 2008

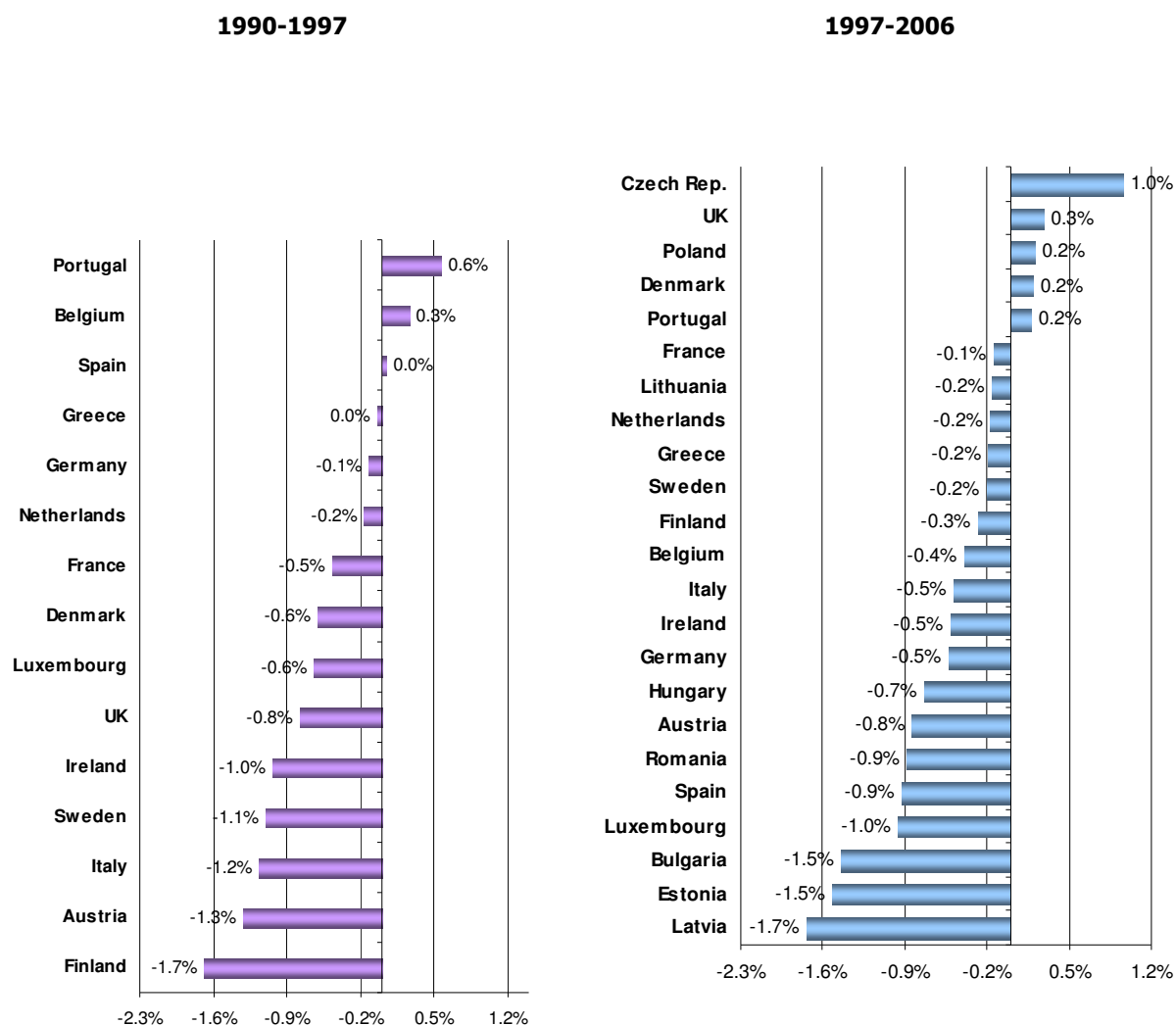
Note: *Includes all EU countries but Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Rep. and Slovenia.

⁷ Compared with the end-1980s, even these two countries have probably registered a decline in the wage share. Indeed wages stagnated during the initial years of transition.

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Figure 5. Changes in wage shares by EU country

(percentage point change in the share of wages as a percent of GDP)



Source: Authors' calculations based on World of Work, 2008.

Note: 1) The analysis for Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania, corresponds to the period 1995-2003; 2) Data not available for Cyprus, Malta, Slovak Republic and Slovenia; 3) The labour share is adjusted to take into account the labour income of the self-employed for all the countries considered.

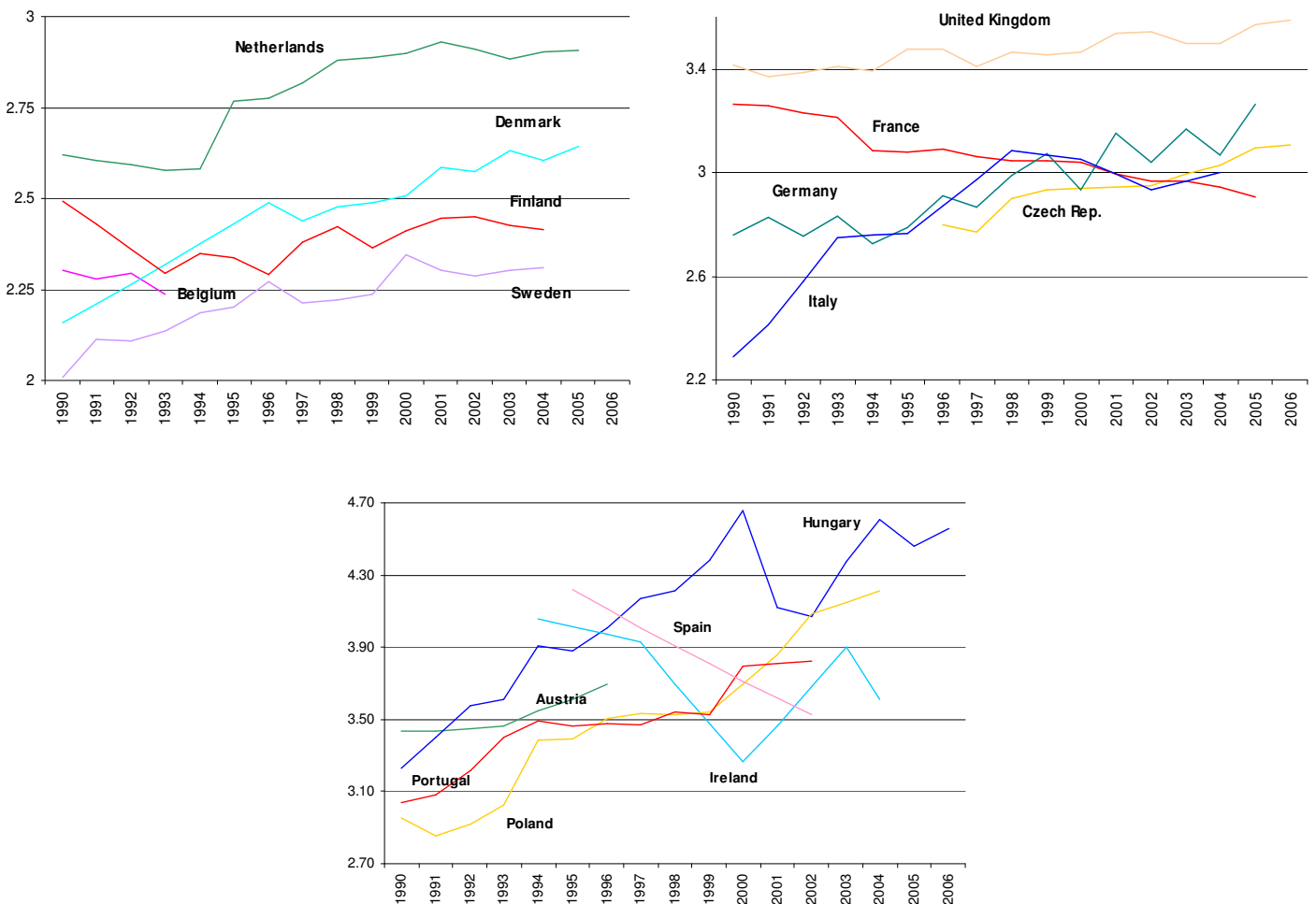
Wage moderation has been especially strong for low-paid employment

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According to OECD data⁸, during the past 15 years, in the majority of countries for which data exist, the wages of the 10% best-paid workers increased faster than is the case for their bottom 10% counterparts –i.e. the so-called P9/P1 ratio of wages increased. Increases have been particularly large for countries which have overall low inequalities such as Nordic countries and some transition economies. The only exceptions to this pattern are France and Ireland (as well as Belgium and Spain, but only short time series are available for these two countries).

Figure 6. Wage inequality

(ratio of 90th percentile to 10th percentile of earnings, 1990-2006)



Source: OECD *Employment Outlook*.

Note: Data not available for non OECD European Union countries.

⁸ This section covers only OECD EU countries, since no information is available for the rest of the EU countries.

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Growing wage inequality mainly reflects a significant increase in top wages, rather than a falling bottom. However there are differences across countries in inequality patterns. Among countries which have seen increases in inequality, Poland, Czech Republic, Denmark and Finland appear to be characterized by an effect of “polarization”⁹ of wages, having experienced an increase in inequality in both the highest and lowest deciles vis-à-vis median wages. The same occurs in the Netherlands and Sweden, although the increase inequality in bottom wages is barely apparent and therefore the core drivers of inequality are top wages. In the case of Hungary and the UK, increased wage inequality appears to be driven by flying top wages, which largely outweigh the decrease inequality among bottom wage deciles. Finally, the force behind the overall increase in inequality in Germany is the growing disparity between the median and lowest wages --some sort of “collapsing bottom” case. And, in France the falling overall inequality is explained by an important decrease in the dispersion between the medial and lowest wages, which offsets the increase disparity caused by fast growing top wages.

B. The role of globalisation and domestic institutional change

Several studies point to different factors explaining the trends towards the relative stagnation of real wages and the declining wage share. For the IMF, for example, technical progress has been the main responsible for the decline in wages relative to profits (IMF, 2007). The ILO World of Work Report (2008) points to globalization and (domestic) institutional change as possible factors.

Globalization has boosted growth opportunities but may have also weakened workers' bargaining power

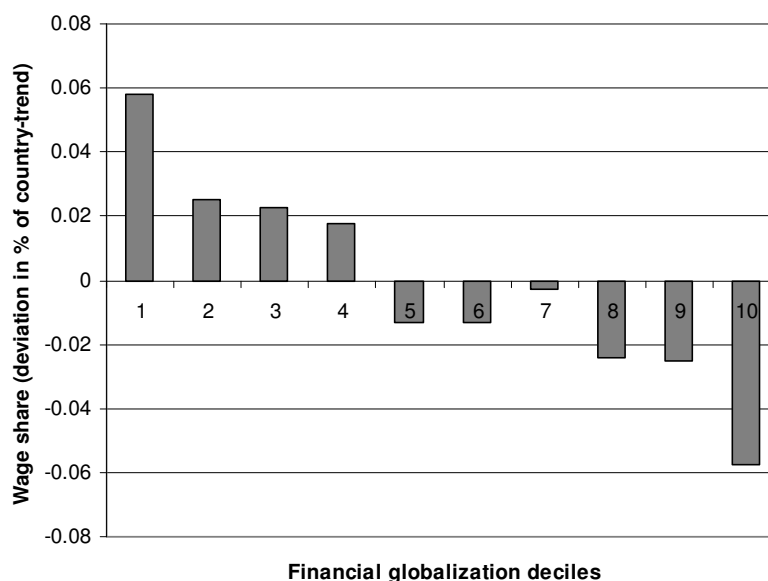
⁹ For more detail regarding the typology of increasing inequality, please see ILO (2008a).

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Trade and investment liberalisation is overall beneficial to growth and employment, while also bringing about more turmoil in labour markets (OECD, 2007; European Commission, 2006; Andersen, 2006; Andersen and Sorensen, 2006). In particular, substitution opportunities provided by outsourcing and the intensification of competition may have enhanced the responsiveness of labour demand to shocks. This affects the vulnerability of workers due to the increase in the responsiveness of employment and wages to economic shocks. This may have reduced workers' bargaining power and therefore contributed to overall wage moderation. However, it is likely that trade and outsourcing have had a smaller wage impact than other external factors such as skill-biased technological change (Jaumotte and Tytell, 2007).

Financial globalisation may have also contributed to reduce the share of wages in GDP (Figure 7). This effect is over and above any trend decline in the wage share that may have resulted from sectoral shifts, rising labour demand elasticities from trade openness or changes in labour market regulations and institutions. According to ILO (2008b), an increase of financial openness by 1 percentage point reduces the labour income share by 0.3 percentage points.

Figure 7. Financial globalization and the evolution of the wage share



Note: The graph displays the deviation of the wage share from country-specific trends for 71 countries against deciles of financial globalization.

Source: ILS estimates based on ILS Database on Labour Shares and Lane and Milesi-Feretti, 2006.

Trade union density has declined but collective bargaining structures have remained broadly stable

Social dialogue institutions have traditionally aimed at sharing the benefits from economic growth. There is evidence, however, that these institutions are less able to achieve this –which may partly explain the declining wage shares observed in EU countries.

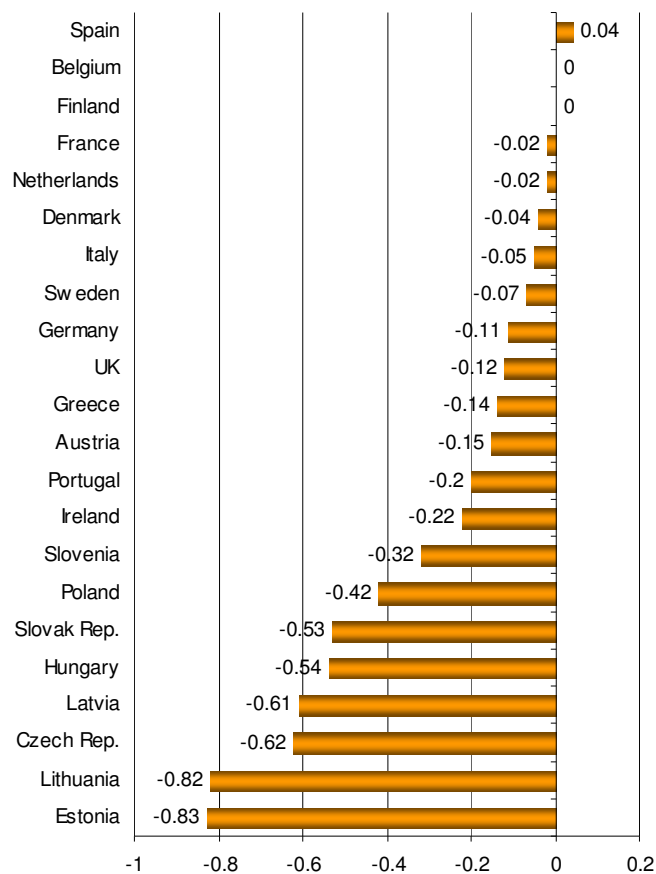
According to ILO (2008a), between 1989 and 2005, union density declined in most of the EU countries for which data could be collected (Figure 8).¹⁰ The only exceptions

¹⁰ No available data for Bulgaria, Cyprus, Luxembourg, Malta and Romania.

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are Spain, where union density increased marginally, and Belgium and Finland where it stabilised. The decline was dramatic in the Czech Republic, Estonia, Hungary, Latvia and Lithuania –though the starting position was near universal union affiliation in the Communist years.

Figure 8. Change in trade union density rates, 1989-2005*



Source: World of Work Report 2008, Chapter 3.

Note: *Data for Czech Rep., Slovak Rep., and Poland correspond to the change in unionization during the period 1990-2005. In Latvia the period analyzed is 1991-2005.

Though trade union density has declined, the coverage of collective agreements has remained broadly stable for the EU as a whole. New members like the Czech and Slovak Republics, as well as Germany, the Netherlands and the UK experienced a

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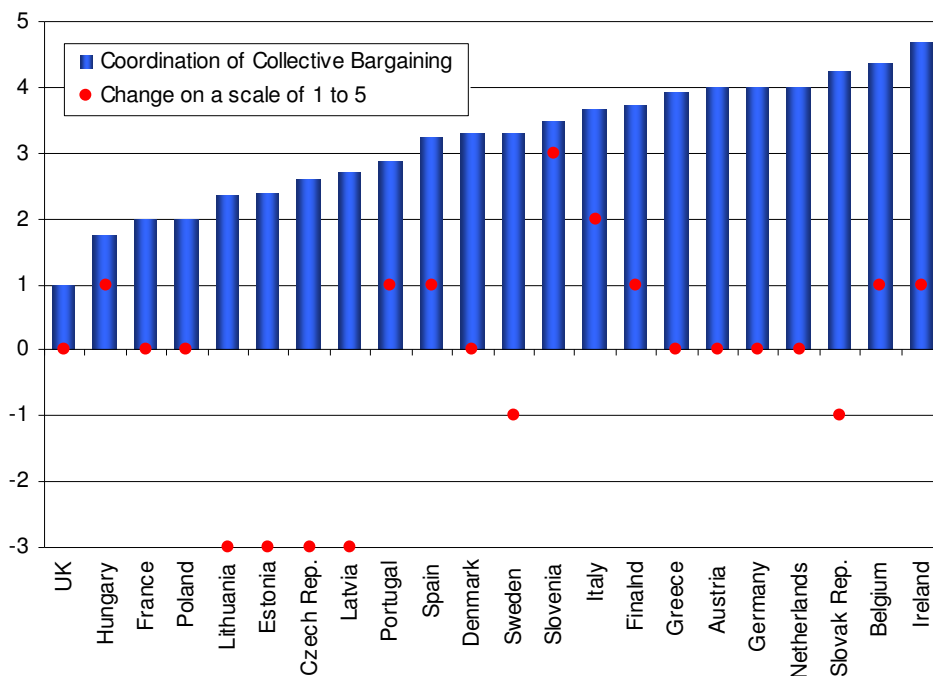
reduction in the coverage of collective agreements over the last 15 years or so. But the opposite trend was registered in other countries, notably in Latvia and Lithuania. In Nordic countries as well as Hungary, Portugal and Spain collective bargaining coverage remains high or is increasing.

The coordination of collective bargaining measures the way employers and workers bargain over wages and working conditions. It can be more or less centralized and coordinated. The ILO (ILO, 2008b) has produced estimates of the extent of coordination of collective bargaining¹¹ for the period 1989-2005. Significant cross-country differences emerge (see Figure 9). Coordination is greatest in Ireland, closely followed by Belgium and Slovakia. Netherlands, Austria, Germany, Greece and Italy appear also to have relatively coordinated bargaining structures. By contrast, bargaining is strongly decentralized in the United Kingdom and Hungary. Poland and France lie somewhere in between these groups, with bargaining taking place between the plant and the sectoral level. Between 1989 and 2005 for 8 EU countries (Belgium, Finland, Hungary, Ireland, Italy, Portugal, Slovenia and Spain) collective bargaining seems to have become more coordinated or centralized. These are the countries that saw the emergence in the 1990s of social pacts. For 6 countries (Czech Republic, Estonia, Latvia, Lithuania, Slovakia and Sweden), the index signals a trend towards more decentralized or uncoordinated bargaining. And for the remaining countries, there is no apparent change.

¹¹ These estimates, graded in value from 1 (in cases where bargaining is mainly confined to individual enterprises) to 5 (where bargaining is centralized and coordinated by national federations).

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Figure 9. Degree of coordination of collective bargaining and change between 1989 and 2005



Source: World of Work Report 2008, Chapter 3.

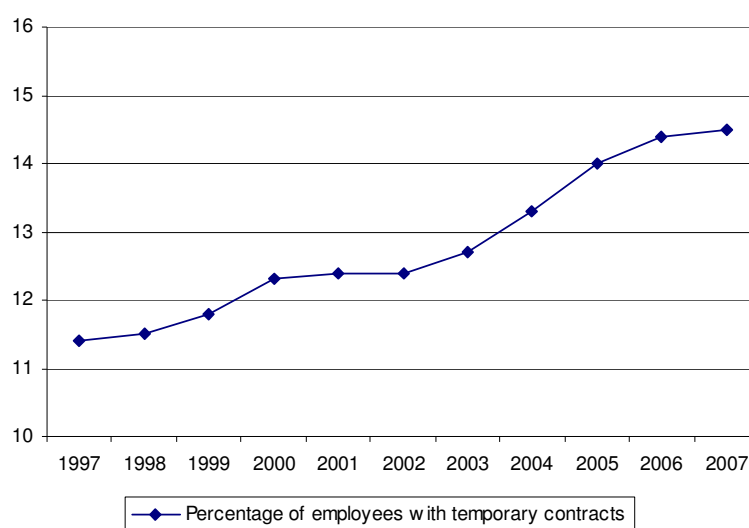
Unstable employment conditions exert downward pressure on wages

There is growing concern that the employment relationship has become less stable. It is a fact that new forms of employment contracts, notably fixed-term or temporary arrangements, have multiplied (European Commission, 2006). The 2006 OECD *Employment Outlook* shows that the most significant changes in employment protection legislation focus on facilitating recourse to various forms of temporary employment.

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In the EU as a whole, the share of employees with a temporary contract has followed an upward trend since 1997 (Figure 10). Evidence suggests that the patterns vary considerably across countries. An opposite trend can be observed for some countries (Bulgaria, Denmark, Ireland, Latvia, Lithuania, Romania, Spain and the UK). But in most of these countries the decrease in the incidence of temporary employment is relatively recent –the incidence of temporary employment remains above the levels achieved in the 1980s.

Figure 10. The trend rise in the incidence of temporary work in the EU, 1997-2007



Source: Estimates based on Eurostat.

These developments are relevant to the discussion on wage shares. A study carried out by the European Commission (EC, 2003) shows that temporary contracts add a considerable negative wage penalty of up to 12%.¹²

¹² Analysis carried out on the basis on individual-level data from the European Household Panel (EHP) for the EU Member States for the years 1995-2000. No comparable individual-level data is available for the accession countries.

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More generally, career interruptions tend to have a negative effect on wages, as a considerable body of studies show. For instance EC (2003) shows that having being unemployed in the past can lower wages by some 3-4% and the effect is worsened when the duration of unemployment is longer. The study finds that an additional month in unemployment can lower wages by up to an additional 1%, on average. A more recent study, on Sweden, by Edin and Gustavsson (2007) finds a negative relationship between career interruptions and wages due to the erosion of skills. There is also some evidence that career interruptions have increased for some groups like youth (Cordellier, 2006) and women (Debrand and Privat, 2004) over the past two decades.

C. Policy issues

Though there is some evidence that developments in wages and employment conditions reflect a combination of global and domestic factors –and are thus partly the outcome of policy action— there is no agreement as to whether policy makers should redress the situation. Some argue that, to the any significant interference in the wage formation process will entail a cost in terms of job creation. And there is no doubt that wage moderation has been a crucial pillar of the employment strategy of several EU countries. The recent oil-price shock (only partly reversed as a result of the financial crisis) provides a useful reminder of the advantages of a cautious wage policy as a tool to avoid the kind of wage-price spiral which characterised the first oil-price shock.

Yet, there are also reasons for policy makers to pay attention to wage developments. To start with, social support for pro-growth policies may be strongly eroded the majority perceive that growth does not work to their advantage. The World Values Survey shows a declining degree of tolerance vis-à-vis income inequality trends. To

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some extent, wage stagnation is not overly problematic in a context of rising employment levels, as was the case until 2007 in a majority of EU countries. However this may change depending on how the employment picture changes in coming years.

Wage moderation may be “excessive” for more fundamental reasons. This is particularly the case when wage moderation occurs in the context of product markets where barriers to entry create rents. Estevão (2005) shows that, in this case, the employment benefits of wage moderation are muted. This calls for more attention to the product market, including also issues of corporate governance and executive compensation.

There is also evidence that activation policy can help improve both wage and employment prospects. Indeed there is evidence that career interruptions –which can be shortened through well-designed activation policies-- entail a large wage cost. Likewise, policies to reduce the degree of labour market duality may help on both the employment and wage grounds.

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