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# BENCHMARKING WORKING EUROPE 2007

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This seventh *Benchmarking Working Europe* report is published at a time when European labour markets face a range of significant challenges. Though 2006 was marked by an improvement in the labour market as a whole, insofar as the unemployment rate decreased slightly and the employment rate increased, this improvement was generated by the creation of non-standard forms of employment – including part-time work, fixed-term employment and self-employment – giving rise to concerns that the increase in employment may be at the cost of the quality of jobs. Meanwhile, in certain member states the labour market situation remains critical, as it does also for specific labour market groups such as young people, women, immigrants, and older workers.

These developments have sparked renewed interest in the functioning of the European labour markets and placed them back up high on the European political agenda under the heading ‘flexicurity’. This is the term used to describe a situation – a reform, strategy, policy or arrangement – whereby labour market flexibility is combined with security for the workers. The main idea behind ‘flexicurity’ is that, in order to have flexible labour markets, be it with regard to working time, changing jobs, or tasks, there needs to be a certain degree of security that will enable workers to make the necessary transitions and enhance their well-being in the long run, and these improvements should not neglect the weaker individuals in society. However ‘flexicurity’ is not a ‘one-size-fits-all’ concept, and the combination of flexibility and security that is needed to improve the situation of workers as well as business will very much depend on the institutional settings and points of departure. Four main initiatives on the European level dealing with the European labour market and all borrowing from the concept of flexicurity should be mentioned. The first is the Green Paper on labour law published in October 2006, for which the consultation ends on 31 March 2007. The second is the current discussion on the establishment of a set of ‘common principles’ for flexicurity, which are meant to help member states focus their labour market reforms and are planned for adoption by the end of 2007. This will be preceded by the third

initiative, a communication on ‘flexicurity’ from the Commission in June 2007. Last, but certainly not least, is the ongoing joint analysis by the European Social Partners of the challenges facing European labour markets. Given this range of European-level initiatives, it is clear that the issue of labour markets, and the manner in which these labour markets are and should be dealt with, is high on the European agenda. It is thus the main theme featured in this year’s *Benchmarking Working Europe*.

The structure of *Benchmarking Working Europe* is only slightly altered in comparison to last year’s edition. Alongside the particular emphasis placed on the issues of security and flexibility in the labour market, we have included a chapter on the working environment and occupational health and safety.

While employment rates are increasing, the simultaneous rise in non-standard employment – part-time, fixed-term and self-employment – continues to raise serious questions as to whether the increase in employment is a trade-off with the quality of employment. This crucial question can be answered in many ways but, at the end of the day, it is an issue of political choice. If Europe is to take the knowledge-based society seriously, this requires a European workforce that is well-trained, productive and adaptable, without which the goal will be extremely difficult to reach.

Building employment growth on sub-optimal solutions such as fixed-term contracts, involuntary part-time and false self-employment will only undermine the effort to become a knowledge-based society. In this year’s *Benchmarking Working Europe* the figures graphically display the problems with the way that work is dealt with. Working conditions are not improving, and wage growth is lagging behind productivity growth, leading to a shift from wages to capital.

From an occupational health and safety perspective the increased pressure to be competitive has led to a situation where, in addition to classic occupational health and safety issues, new constraints have been added, namely the

demand that workers become pro-active, adaptable, multi-skilled, responsible and competent. Though none of these qualities are negative in themselves, they add up to a tall order, creating extra pressure on workers and exacerbating their difficulties at a time of deteriorating working conditions and compressed wages. This gives rise to a chain reaction that will prevent any progress that is made from achieving its goal. The resulting price is unbearable: a growth in ill health, with an associated decrease in quality of life and unmerited costs for both individuals and society.

Lifelong learning is one of the tools put forward to enable workers to tackle the challenges of the new working environment, and here again there are lessons to be learned. From a policy perspective it matters not only *how much* training is being provided, but also how the opportunities for training are *distributed* and how they are perceived by the population. While the Nordic countries can lay claim to a good track record, other countries clearly have a long way to go. One of the main conclusions is that not all groups in society are offered training, not all individuals choose to take up what is on offer, and not all workers are satisfied with the training they do receive. Careful monitoring of this situation is required and reactions, with a view to improvements, are called for.

Involvement of workers in shaping their future is a necessity – be it in the shape of social dialogue, board-level representation or collective bargaining. Here the conclusions are clear-cut and several new developments are taking place. Though the current climate does not make it easy, there are many positive lessons to be learned and many opportunities to be taken. Stable and efficient industrial relations are still an important prerequisite for job creation and the improvement of working conditions, for only where they benefit from early and comprehensive information and efficient consultation can workers' representatives and their trade unions make their contribution to the social moulding of change.

John Monks  
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As Europe is a strong global player and does not – contrary to many politicians' views – appear to suffer from any serious problem of external competitiveness, it should manage its affairs accordingly. All the signs are that the EU25 has a good anchorage in a sophisticated segment of the production market and is also an important exporter of services. To maintain Europe's current advantages, and develop them still further, the answer cannot be to cut back on labour and social standards as is often suggested. The precise opposite would indeed seem to be the right way forward. The European population needs to be provided with higher investment in education and learning, better social services, while better and more intense efforts need to be deployed in the areas of innovation and R&D. A global approach to investment in the factors of production will take the European Union forward and provide Europeans with the increase in well-being to which they aspire. The road of deregulation represents a dead-end that will lead inevitably to a state of regime competition.

Every year, we try with the *Benchmarking Working Europe* report to offer a contribution to the Spring summit. In this publication we outline areas that are of importance to the trade unions and of crucial significance for a social Europe. The strengthening and further development of the social dimension will ultimately be one factor in determining whether a united Europe can remain successful. Social cohesion and economic efficiency, just like flexibility and security, are not in contradiction with each other – on the contrary. Here again, social dialogue is a prerequisite for effectively combining these different claims and mobilising support for the European policies. A genuine benchmarking exercise applied to the world of labour and social affairs, grounded in effective labour and social rights, will continue to be one of the most important elements in taking the European project forward.

# 1. FLEXICURITY AND THE ECONOMIC CASE AGAINST JOB PROTECTION: A NON-CASE

At the European level, a discussion on a new balance between flexibility and security is scheduled to take place over the course of this year. The formal aim of this policy discussion is to decide on a common set of 'flexicurity' principles at the December 2007 European Council. In practice, the 'flexicurity' theme seems to be used as a platform to weaken employment legislation protection (EPL) (see for example European Commission 2006g). According to this orthodox point of view, job protection is bad for job creation, has detrimental effects on innovation and contributes to excluding weaker workers from accessing the labour market.

However, this line of argument ignores the fact that the academic debate on the impact of EPL on labour market performance has moved on. A closer look at the available and new evidence shows that the traditional economic case against job protection is extremely weak and not at all convincing. Instead, several studies are pointing to the fact that job protection has several advantages that should not be underestimated. This means that European policy-makers need to 'catch up' and take due account of this new evidence.

## Themes

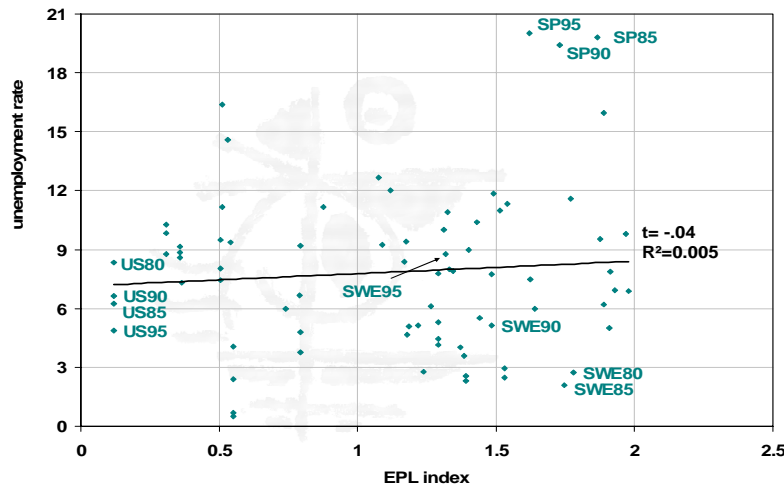
- 1.1. Employment protection and overall job performance
- 1.2. Employment protection preventing innovation and rapid change?
- 1.3. Employment protection and jobs for groups at risk
- 1.4. The cost of non-protection or protection of jobs as a 'beneficial constraint'
- 1.5. Conclusions

## 1.1. EMPLOYMENT PROTECTION AND OVERALL JOB PERFORMANCE

### NO EVIDENCE THAT EPL IS A 'JOB' KILLER



Link between EPL and unemployment performance



Source: Baker et al. (2005)

Figure 1

A first 'traditional' argument is that job protection reduces firms' willingness to invest and to take on new workers out of fear that they might find it hard to fire these workers at a later date. The European Central Bank for example has been at pains to explain why high profits and export success in Germany have failed to spill over into high investment, job creation and domestic demand by referring to the system of protection in this country.

The theoretical foundation of this argument is, however, weak. Investment and hiring decisions are based on a whole set of conditions with factors such as demand perspectives and the availability of skilled labour as the main determinants. Businesses tend to take a 'going concern approach'. Firms rarely invest expecting to pull out of an activity within a short period of time. Business considerations on ease of firing are at best secondary factors in firms' decisions to invest.

Moreover, even if job protection might entail the effect of postponing hiring decisions until the economic upturn is more certain, this also implies that job protection slows down the pace of firing of workers in the downturn. The overall effect of EPL on employment over the whole business cycle is therefore ambiguous and a matter of empirics.

Let us therefore turn to empirics and confront economic theory with reality. Figure 1 reveals that the correlation between job protection and unemployment throughout the OECD area over the 1980-1999 period is hardly perceptible. Spain, an extreme outlier, indeed combines a relatively high level of job protection with high unemployment (at least in the earlier parts of this two-decade period). At the same time, however, several countries entitle workers to relatively robust job protection while enjoying employment rates that are amongst the highest in the world (Sweden, the Netherlands, Austria for example).

An even more sobering piece of evidence comes from the recent reassessment of the OECD's *Jobs Study*. We quote: 'The link between the stance of employment protection legislation and aggregate unemployment is uncertain in theory, and in practice highly dependent on the specific national context' (OECD 2006c). The background study to the main report makes it clear why the OECD is using such careful language. Indeed, the background study runs regressions, trying to link up unemployment with several labour market institutions including job protection legislation. Despite the fact that different variants of the regression are tested, the OECD cannot find any effect of job protection on unemployment. Some variants even find that EPL actually *reduces* the level of unemployment, although it needs to be added that no single coefficient is statistically significant. The least one can say from the new OECD *Jobs Study* is that the hypothesis of job protection as a 'job-killer' has no empirical basis whatsoever.

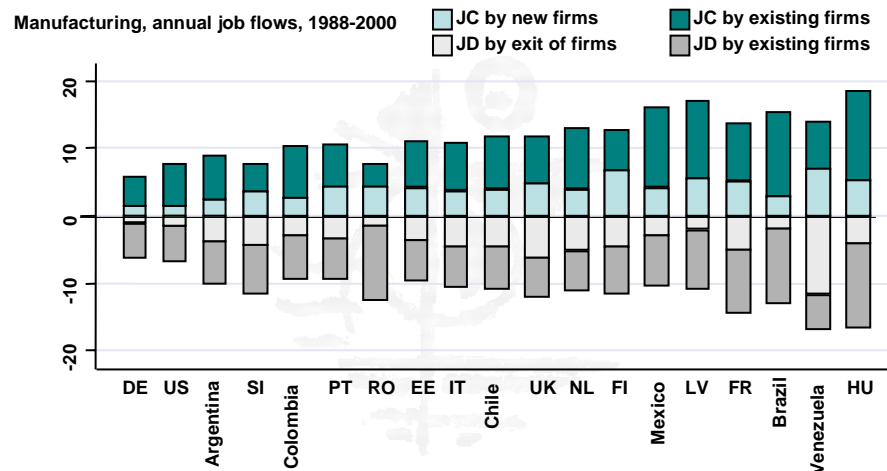
## 1.2. EMPLOYMENT PROTECTION PREVENTING INNOVATION AND RAPID CHANGE?

### A FALSE ARGUMENT



#### Most countries experience considerable job creation and job destruction

Figure 2



Source: World Bank (2003)

A second but related argument brings globalisation into the picture. The emergence of low-cost economies in world trade requires a European labour market that can handle rapid change. In the face of globalisation, Europe should not try to keep workers in jobs that are doomed to disappear anyway. Instead, professional mobility on the labour market should be promoted so that workers move more rapidly to the jobs being created in new sectors and activities that are more in line with European competitive advantage. The process of 'creative destruction', induced by globalisation, needs to be matched by a labour market that is sufficiently mobile.

There is, however, an important caveat. The previous theoretical argument of globalisation requiring rapid change on the *external* side of the labour market is not as clear cut as it would appear. Indeed, much depends on the nature of the process of globalisation. If, for example, a new sector, such as ICT, is driving the expansion of global trade and world exports, as was the case in the second half of the nineties, then the economy indeed needs to rely more on external flexibility in order to shift employment to new companies and sectors. In the first half of the present decade, however, the expansion of global trade has been dominated by existing industries such as steel, chemicals, machinery, transport equipment (Institut Français des relations internationales 2006). In this case, the process of change can rely equally on internal flexibility, of workers and jobs moving inside existing firms.

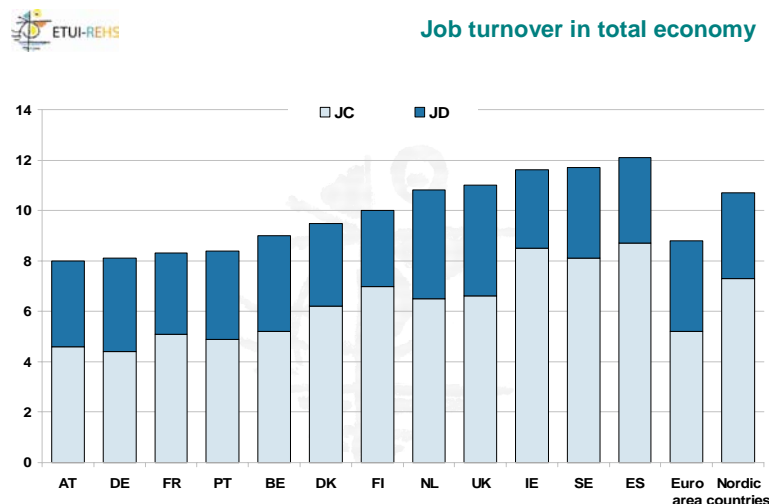
What do the empirical data say on the ability of different economies and labour markets to destroy and create jobs? It is important here to focus on an indicator measuring the pace of change, that is to say the ability of an economy to move workers into new jobs by destroying the old ones and creating new jobs. Compared to the turnaround of workers, job flows are a much better indicator for this. Job flows focus on the issue at hand, on the extent to which firms are able to destroy some jobs, thereby making redundant workers available for the new jobs to be created. Worker flow statistics on the other hand are less focused on this dimension since they also pick up workers leaving one job and entering another already existing job.

When focussing on the job flow indicator, the surprising outcome is that, despite major differences in job protection systems, no significant differences exist between countries concerning job flows (for example Blanchard and Tirole 2003). This is illustrated in Figure 2 (World Bank 2003), which shows that over the 1990s many countries on the level of manufacturing were yearly destroying and creating large numbers of jobs. This includes many European countries with robust systems of job protection such as Italy, France, Portugal, or the Netherlands. It should be noted that the US, with its system of 'free firing' – though the US does have a legal act providing two months' notice to workers that are collectively retrenched – actually registers the lowest rate of job change of this sample of countries. Job creation/destruction is also clearly lower in western Germany than in other European countries, although not so much out of line with the movements in US manufacturing jobs.



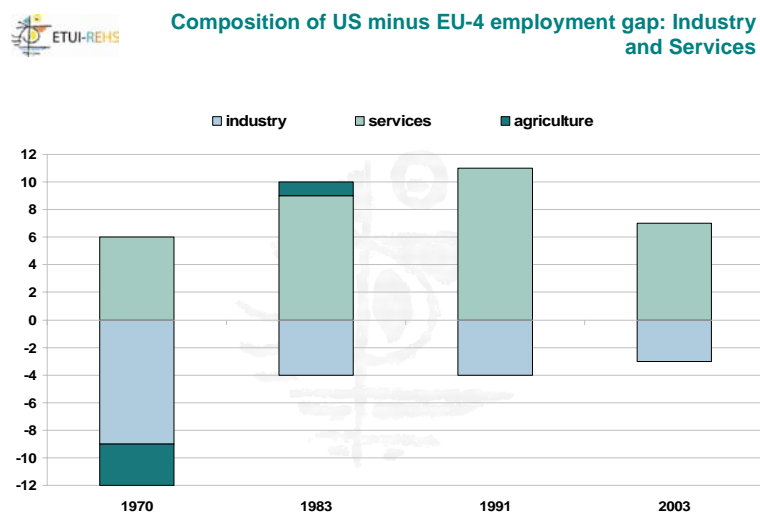
## 1.2. EMPLOYMENT PROTECTION PREVENTING INNOVATION AND RAPID CHANGE? A FALSE ARGUMENT

Figure 3



Source: ECB (2006) Working paper 602

Figure 4



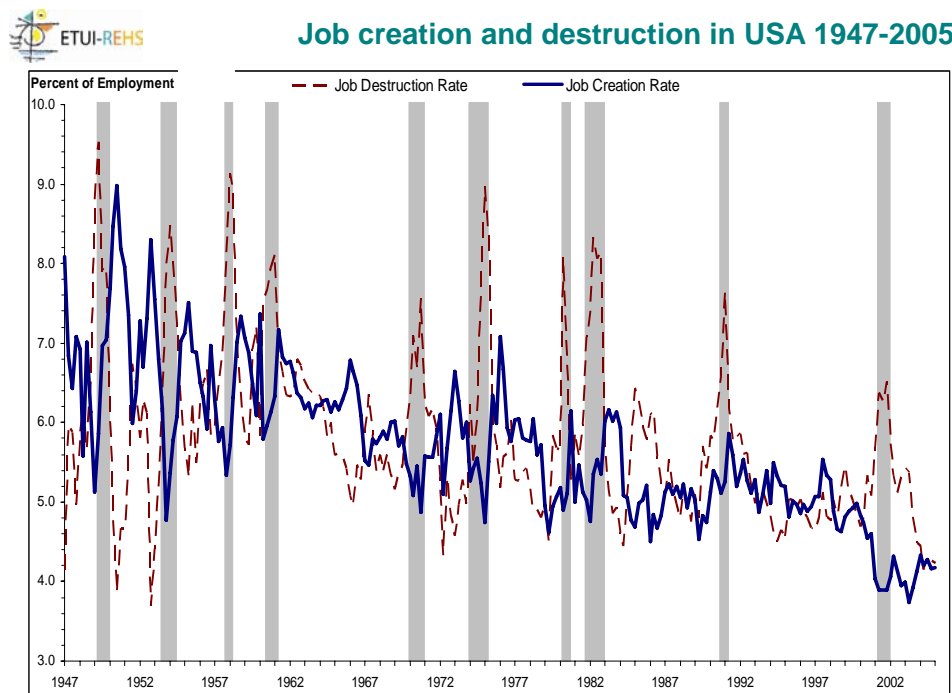
Source: Salverda (2005)

Figure 3 provides a similar picture for different European countries, but this time for the level of the whole economy and for the 1992-2001 period. Again we note that rates of job destruction and job creation are rather similar across countries: around 3 to 4% of all jobs are being destroyed each year in the different EU15 countries, the equivalent of about 7 million jobs a year. The theory that rigid job protection is stifling the dynamics of job destruction and creation is not supported by these data. Countries with a rather high level of EPL (Spain, Sweden, the Netherlands, Italy) have a similar rate of job destruction, while at the same enjoying high rates of job creation (8.6% job creation a year in the so-called 'rigid' Spanish labour market!). Low-EPL countries such as the UK are not performing substantially better and some can even be said to be underperforming (job destruction limited to 3.3% in Denmark).

Another piece of empirical evidence pointing to the fact that the European labour market is less hampered than is usually believed by a major difficulty in allowing structural change can be found in Figure 4 which splits up the differences in the evolution of the employment rates in the US and the EU4 on the basis of industry and services. The Figure points to the conclusion that change in European industry has been much faster than in the US. In the 1970s, Europe registered an employment rate in industry 10 points higher than in the US. In 2003, this positive gap had shrunk to 3%. In other words, the process of job loss in industry went a lot faster in Europe, pointing to the great flexibility of the work force in European industry. Over the same period, Europe was able to match the growth of jobs in the US-services sector. In the US, the employment rate in services grew from 38 to 54% whereas in Europe it also increased by 15 points, from 32 to 47%. In fact, these long-term trends testify to a high degree of capacity of change in Europe, not to a rigid labour market protecting existing jobs at any price.

## 1.2. EMPLOYMENT PROTECTION PREVENTING INNOVATION AND RAPID CHANGE? A FALSE ARGUMENT

Figure 5



Source: Storrie (2006)

Finally, Figure 5 shows job creation and destruction trends in the US (Storrie 2006). Seen over a longer period and correcting for the impact of the business cycle, there is a trend for the dynamics of job flows to fall in the US. Figure 5 casts very considerable doubt on the idea that labour markets are confronted with an ever increasing rate of change. In the practice of the US, globalisation and the so-called ‘new-economy’ miracle of the US in the latter half of the 1990s have gone hand in hand with a structural fall in the dynamics of job flows.

How can we explain this seeming paradox between the existence of robust job protection on the one hand and dynamic labour markets on the other? Blanchard and Tirole (2003) stress the fact that job-flow statistics are measured on an annual basis, in contrast to worker-flow figures which are on a quarterly basis. Therefore, EPL may indeed constrain firms in adjusting their work force within a period of one to three months while not hampering firms in retrenching workers and destroying jobs over a slightly longer period. In this way, many EPL systems already strike a certain balance between flexibility and security by providing workers with some job security for a couple of months while at the same time allowing firms the flexibility of being able to fire workers and cut jobs within the time frame of one year. ‘A job for life’ is a nice slogan but it is not the reality for many workers in Europe.

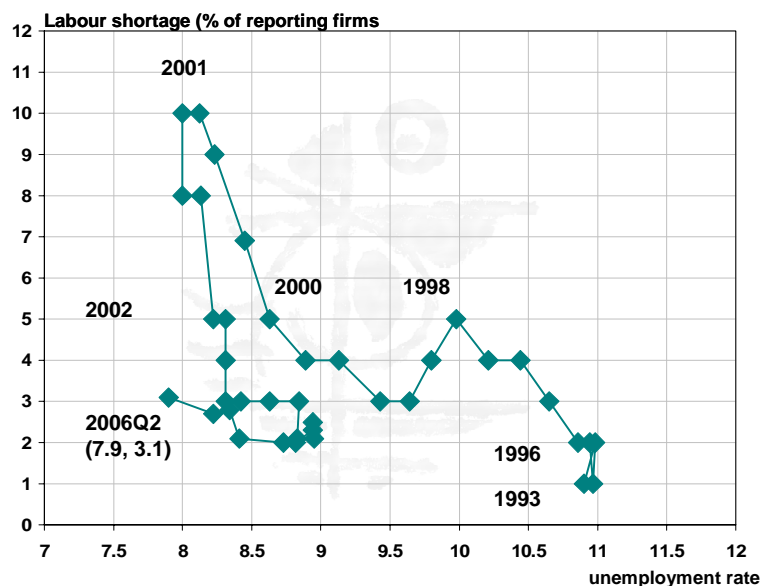
## 1.3. EMPLOYMENT PROTECTION AND JOBS FOR GROUPS AT RISK

### EPL: INSIDERS VERSUS OUTSIDERS?

Figure 6



#### No shortage of skilled labour in euro area



Source: European Commission (2006k)

A third line of attack claims that EPL is benefiting those who already have a job (the 'insiders') but is discriminating against the unemployed 'outsiders'. By excluding them from entering regular employment, a segmented labour market is created. Basically, the argument here is that unemployment should be shared amongst all workers by having lower job tenure and higher worker turnover leading to shorter spells for the unemployed. Put differently, all workers, and not particular groups of workers, should bear the burden of unemployment.

However, this line of argument, according to which unemployment should be 'socialised' by allowing employers to organise a carousel of workers taking up each others' jobs over time, is in flagrant contradiction with the idea of mass unemployment in Europe being structural because of a qualifications mismatch between supply and demand and systems of wage protection (minimum wages, collective bargaining) preventing wages from 'clearing' the bottom of the labour market. Obviously, one can not have it both ways. Claiming that disadvantaged groups will be hired if job protection rules are substantially softened and at the same time arguing that employers will not take disadvantaged groups on board because wages are too high in relation to their productivity is not a consistent policy approach.

How to make better sense of this? Again, one needs to look at what is actually happening on European labour markets. To start with, Figure 6 shows that the number of firms in the euro area reporting difficulties with finding skilled staff is limited to 4% and this has been the case since 2002. Figure 7 will report later on the share of workers who are of the opinion that they are overqualified for the job they are doing. It appears that one third of the European workforce finds itself in a job that is not up to its level of skills and qualifications, a share that has gone up in a rather spectacular way from 7% in 2000 to 30% in 2005 (European Foundation for Working and Living conditions 2006). What is happening on the European labour market is that, due to a general lack of jobs, skilled workers are taking up lower skilled jobs, thereby bumping those workers with relatively lower skills workers from the employment ladder and into unemployment.

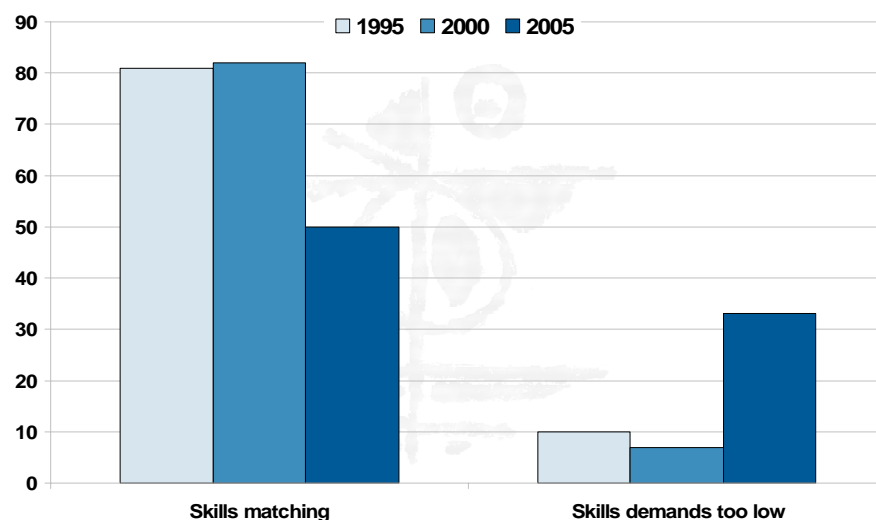
## 1.3. EMPLOYMENT PROTECTION AND JOBS FOR GROUPS AT RISK

### EPL: INSIDERS VERSUS OUTSIDERS?

Figure 7



**Skills mismatch: share of workers reporting skills matching or over-skilling**



Source: Auer et al. (2005)

Is loosening up employment protection a real solution to this? Clearly it is not. Creating more 'air' in the labour market and having higher worker turnover by loosening up job protection will certainly pull workers' bargaining position down even further. But the crucial problem of increasing the number of jobs is not being addressed. To do this, we need active macro-economic policy boosting aggregate demand. In this way, employers will be driven to increase the total number of jobs on offer. And with the number of job openings exceeding the available reserve of prime-age males /skilled unemployed, firms will be forced to make better use of workers' skills. Skilled workers will move again back up the employment ladder into more skilled jobs, thereby opening job opportunities for lower skilled workers and so-called risk groups. The real solution to the problem of labour market segmentation is not to make all workers into 'outsiders'. Instead, the problem needs to be solved by using macro-economic policies to create more jobs, alongside human capital policy investing in workers' skills.

## 1.4. THE COST OF NON-PROTECTION OR PROTECTION OF JOBS AS A 'BENEFICIAL CONSTRAINT'

### JOB TENURE AS CRUCIAL FACTOR FOR PRODUCTIVITY AND INNOVATION

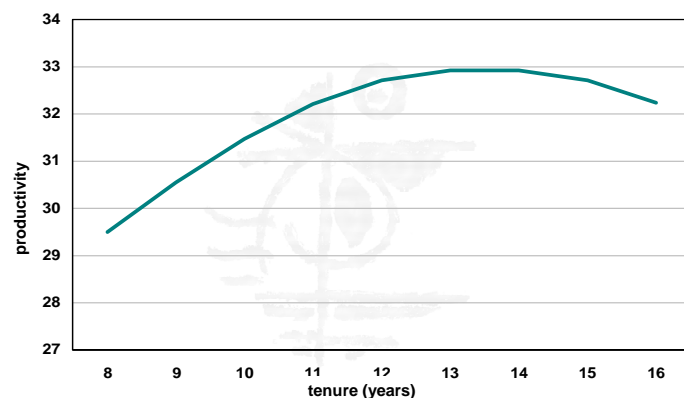
After looking at the shortcomings of 'external flexibility', what about the costs? 'Free firing' systems imply costs for the economy, especially in terms of lower productivity and lower innovation:

- There is a strong link between job protection, job tenure, training of workers and productivity (Figure 7). At intermediate levels of job tenure (between one and 14 years) productivity increases with tenure. Short job tenure (under one year) on the other hand is quite detrimental for productivity. Workers with tenure under 6 months are sometimes only 24% as productive as workers with over two years of tenure.
- One crucial element here is that job tenure is crucial to allow firms to recoup the investment they make in workers' training. Investment in workers' training only pays off over time through increased productivity. To the extent that job protection increases tenure, firms are provided with a framework that is more conducive to investment in training their workforce. Job protection also provides management with incentives to invest in human capital and innovation. If firms face non-trivial costs when firing workers, then firms will seek to reduce the likelihood of incurring these costs. Firms can do so by training and upgrading the skills of their workforce in order to build a quality workforce that is able to engage in innovation and internal functional flexibility when the firm appears likely to run into problems. In this way, business incentives are getting biased in favour of innovation and productivity instead of simple 'cost-cutting' strategies. Studies indeed confirm the fact that job protection incites employers to provide their staff with more training. For example, Marinescu (2006) examined the UK experience with reducing in 1999 the probation period for employment contracts from two years to one year. It appeared that workers with a tenure of between 1 and 2 years received substantially more training after this reform of the job probation period (Marinescu 2006).

Figure 8



Job tenure and productivity



Source: Marinescu (2006)

- Moreover, workers will not innovate themselves out of their own job. Workers will resist workplace innovation and improvements in workplace productivity if they are not sure of their jobs, in the absence of a minimum guarantee that the employer cannot fire them on the spot. A related argument is about 'tacit' knowledge which refers to knowledge which is only transferable by 'learning by doing' instead of regular training courses. Workers will not be willing to share such tacit knowledge with each other if they can be fired today by the colleagues they trained yesterday.
- Finally, job protection also prevents business from going for the 'easy-way out' by engaging in job and cost-cutting strategies that are not sustainable in the longer run. Instead, it forces firms to look into more innovative solutions to the competitiveness problem at hand. One example here is how Air France and British Airways reacted to the crisis in air passenger traffic in 2001/2002. Whereas BA fired its workers, Air France retained them and used the dip in activity to retrain workers to manage a new ICT-system. When business picked up, Air France was in a perfect position to react to increased activity with great efficiency. British Airways, on the other hand, had difficulties in responding and, at one point in time, even experienced a worldwide crash of their informatics system.

The widespread claim that labour markets in Europe are not flexible enough and that job protection systems are blocking structural adjustment does not stand up to reality. The facts show that employment protection legislation does not stand in the way of firms engaging in a process of ‘creative destruction’ of jobs in Europe. In practice, job protection systems in Europe guarantee only a job security that is limited in time, thereby preserving the possibility for business to implement substantial job cuts over a time period which remains on average limited to one year.

At the same time, these job-protection systems do prevent firms from falling into the extreme of a totally ‘free-firing’ strategy. Accordingly, job protection in Europe plays a key role in influencing management strategies in favour of boosting training, productivity, innovation and high-performance workplaces.

This implies that the nature of the ongoing ‘flexicurity’ discussion should be completely reversed. With flexibility for firms not being a problem on the European average, attention should shift to the security dimension for workers. A new balance between flexibility and security is indeed necessary but this new balance should mainly be about increasing the security dimension for workers. One way to do this is to complement existing job protection systems by adding additional rights for workers reflecting the agenda of upward mobility, as is done for example in the collective bargaining practice of Nordic countries (see for example ETUC 2006). It should be clear that this represents a policy agenda that is completely different from the idea of simply scrapping job protection.

## 2. MACROECONOMIC DEVELOPMENTS AND POLICY ISSUES

This chapter starts by giving an overview of recent economic trends in the European Union, providing a background against which some of the substantive policy areas dealt with in other chapters of the report can be evaluated.

At long last the economic news coming from Europe, and especially the euro area, is more positive. Economic growth is relatively strong, if unspectacular, in western Europe and remains dynamic in central and eastern Europe. We consider briefly the reasons for this and question the sustainability of the upturn, not least in the light of expected increases in interest rates by the European Central Bank (ECB). Does the upturn mean that painful structural reforms are finally paying off? Have such reforms been behind the successes on the labour market achieved by some EU countries in recent decades? Our analysis suggests not. While global imbalances – between the USA, Asia and also the EU – have been much in the news, we revisit the issue of competitive imbalances within the common currency area, making a link with the ‘macro versus structural reform’ debate.

With Bulgaria and Romania joining the EU at the start of 2007, the chapter provides an overview of these countries’ economic situation and likely development trends. At the same time as these countries acceded to the EU, Slovenia joined the euro area – but not Lithuania which had also hoped to introduce the single currency this year. We analyse the reasons for the decision to accept the one and reject the other.

### Themes

- 2.1. Overview of macroeconomic developments
- 2.2. Does the ECB have to abort the recovery to prevent rising inflation?
- 2.3. Are structural reforms behind the upturn or rather demand-side factors?
- 2.4. Welcoming Bulgaria and Romania to the EU economy
- 2.5. Enlargement of the Eurozone
- 2.6. Conclusions

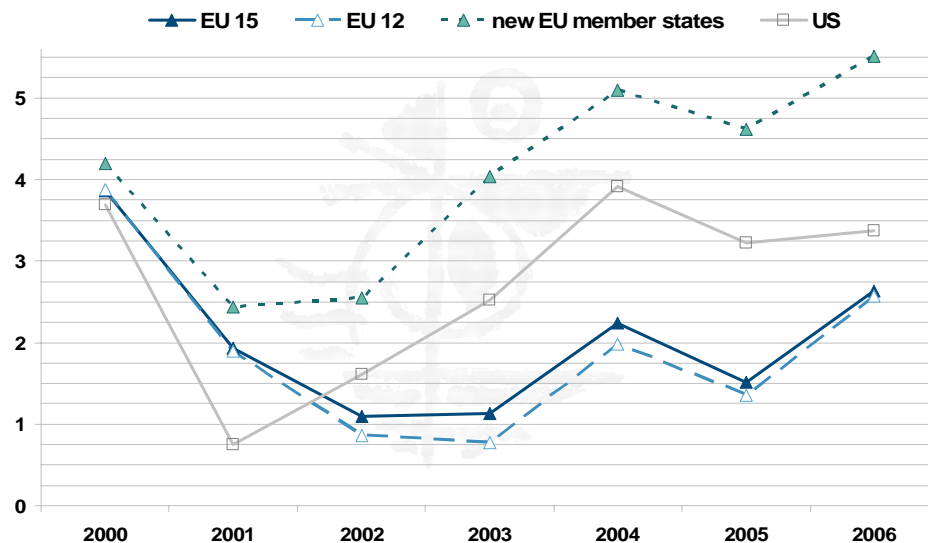
## 2.1. OVERVIEW OF MACROECONOMIC DEVELOPMENTS

### AT LAST STRONGER ECONOMIC GROWTH, BUT HOW SUSTAINABLE?



**Growth performance in the EU and the US**  
(real GDP, annual change, %)

Figure 1



Source: AMECO

After five full years of sluggish economic activity, western Europe – both the EU15 and the euro area – achieved growth of 2.6% in 2006. This is around, or even slightly above, what most observers consider to be ‘potential’ growth. The recovery that began in 2004, but was derailed already in the following year (see last year’s Benchmarking report), appears to be back on track. Productivity has picked up with the cyclical upturn, but even so, growth of 2.6% is sufficient to expand employment – the employment rate rose by a full percentage point between 2005 and 2006 – and bring down unemployment: the unemployment rate came down from 8.6% and 8.4% in the EU25 and EU12 respectively to 7.7% and 7.6% (November 2005 to November 2006). These labour market trends should have a positive effect on household incomes and, consequently, also on private consumption, which has been the weak point in many euro-area countries in recent years (see also below).

This positive development reflects still strong global demand growth (particularly in Asia) and the lagged effects of an extended period of low interest rates. Towards the end of the year oil prices also fell substantially from record levels. A number of one-off effects also played a role (not least the imposition of a three-percentage point hike in VAT in Germany, almost one third of the euro area economy), leading to increased spending towards the end of 2006.



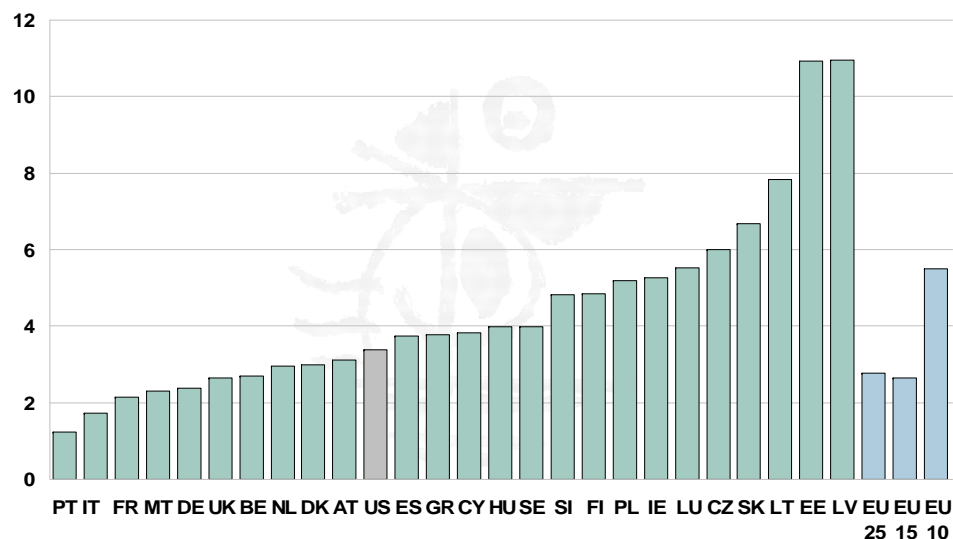
## 2.1. OVERVIEW OF MACROECONOMIC DEVELOPMENTS

### AT LAST STRONGER ECONOMIC GROWTH, BUT HOW SUSTAINABLE?

Figure 2



Real GDP growth (% , 2006)



Source: AMECO

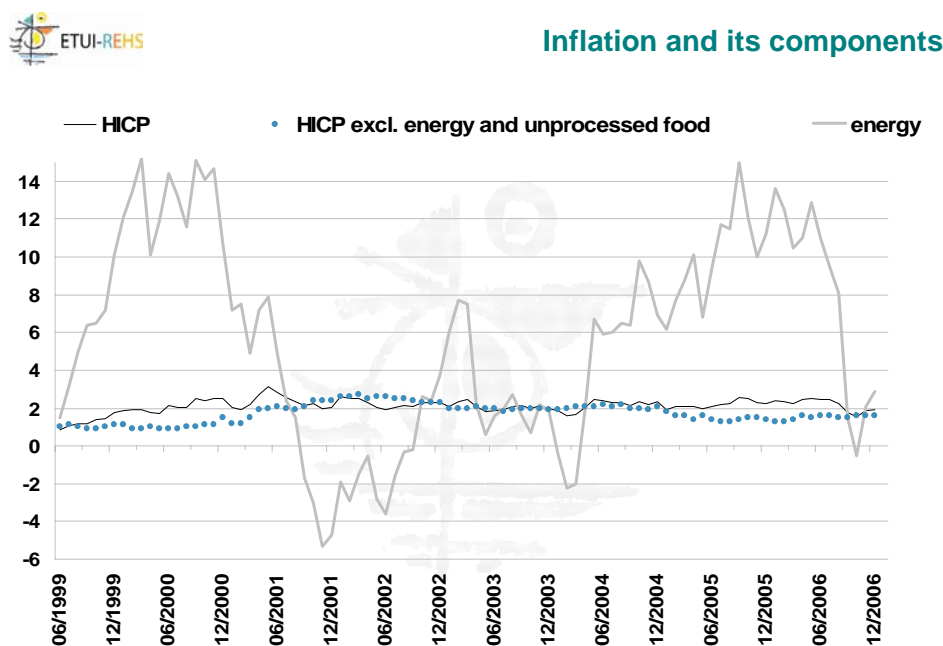
The new member states (NMS) have followed the basic cyclical pattern of the western European economies in recent years, but at a consistently higher level: the gap of around 3 percentage points has been maintained, with the 10 NMS together recording growth in excess of 5 ½ %. The largest of them, Poland, appears to have finally caught up with its neighbours in terms of GDP growth. Figure 2 shows the extent of growth-rate differentials within Europe, with only small changes in the rankings compared with the two previous years. The eight central and east European NMS, led by the Baltic states and the Czech and Slovak Republics, continue to outpace all but a few of the old member states. Poland has overtaken Hungary, where growth has slipped significantly. In western Europe changes have been rather minor, with Germany and the Netherlands improving their relative position at the expense of France and the UK. Italy and Portugal continue to bring up the rear.

The downswing of 2005, after the brief upturn in 2004, cautions against naïve optimism that (western) Europe is now on a stable and strong growth path. Indeed all the signs are that growth will slow already in 2007 (for a full forecast see IMK and ETUI-REHS 2006). The first reason is that the world economy is losing steam. In particular the US will show a marked dampening of economic activity. The repeated hikes in interest rates by the US Federal Reserve are taking their toll. The real estate boom will come to an end: the question is whether house prices and construction activity will ease back or whether there will be a crash, which would hit both investment and consumption activity hard. Weaker US growth will impact negatively on euro-area export performance. On top of this come domestic factors. The restrictive fiscal policy stance adopted by some euro-area countries (notably Germany and Italy) will dampen economic activity. Furthermore, trade imbalances among euro-area member states will persist and may negatively affect some economies like Spain that already have severe current account deficits. Last but not least, the ECB has left its accommodative course and raised interest rates six times to 3.5%; further rate hikes seem imminent. As a result growth is expected to decline to around 2% in 2007.

## 2.2. DOES THE ECB HAVE TO ABORT THE RECOVERY TO PREVENT RISING INFLATION?

### THE IMPORTANCE OF READING MORE THAN HEADLINES

Figure 3



Source: AMECO

The year 2007 started with strong warnings from ECB President Trichet about the need for continued wage moderation as the economy picks up. The Bank expressed concern about higher energy prices and also indirect tax increases feeding into wage settlements and so into prices, raising headline (HICP) inflation. In 2006 the ECB once again missed its inflation target of 'close to but below 2%'; the annual average figure was 2.3%. At the same time economic growth is currently strong and both credit and M3 (roughly notes and coins plus bank deposits) – watched closely by the ECB, although no longer by other central banks – has been expanding rapidly. Thus the ECB seems set to continue its policy of raising rates to 'neutral' levels, thereby threatening the recovery. Are these fears justified? A closer look suggests they are not.

Unemployment is only just starting to fall from high levels and it is the prime task of economic policy in Europe to ensure that this process continues. This can be achieved, and interest-rate hikes avoided, because inflationary pressures and risks are substantially less serious than they appear at first sight. Firstly, the slight overshooting of headline inflation in 2006 is due primarily to the drastic rise in energy prices during 2006, a rise that has already been substantially reversed (Figure 3). Given the extent of the oil shock, an inflation rate of 2.3% is an excellent result, the Bank has maintained credibility, and expectations are well anchored. Core inflation – inflation excluding energy and unprocessed food, which is used, for example, by the US central bank as its preferred inflation measure – has consistently been below the ECB target since the end of 2004. It has picked up only marginally in the course of the year 2006, and at 1.6% at year's end remains comfortably below the ECB target.

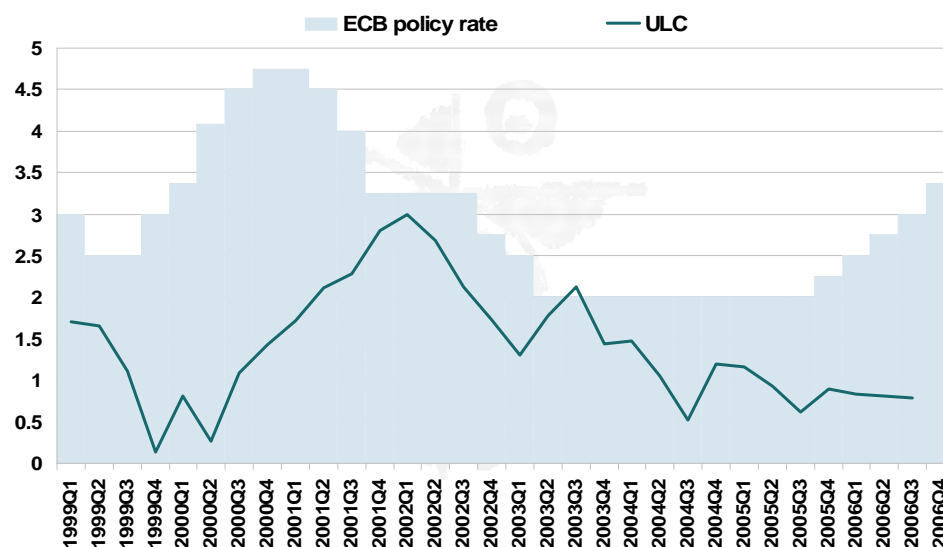
## 2.2. DOES THE ECB HAVE TO ABORT THE RECOVERY TO PREVENT RISING INFLATION?

### THE IMPORTANCE OF READING MORE THAN HEADLINES

Figure 4



#### Unit labour costs



Source: European Central Bank

Last but not least, nominal unit labour costs – the indicator of the extent to which wages are exerting upward pressure on prices – are a key indicator. The graph shows how the previous phase of rate hikes (from late 1999) led a phase of rising nominal ULCs. This was in principle a correct response by the Bank, although the extent of the tightening was, in retrospect at least, excessive. In the current situation, however, ULCs are considerably below 1% and actually declining. Taken by itself this points, if anything, to disinflation, and indeed even a risk of deflation (negative inflation). This is indicative of the very considerable labour market slack in many euro-area countries and also of the extent of price and wage competition resulting from globalisation and Europeanisation, and the threat of company relocation (Galgóczi *et al.* 2006). In such a context a cycle of rate-hikes is not called for. There is considerable scope for wages to rise faster as unemployment comes down, all the more so as productivity is also picking up as economic activity strengthens and investment increases.

Thus the ECB has no cause, in terms of its price stability mandate, to raise interest rates further until clearer signs of domestic wage and price pressure emerge. If, instead, the central bank allows itself to be led by monetary indicators whose link to future inflation is tenuous at best, there is a real risk that the recovery will be aborted, unemployment will remain high, with serious knock-on effects in terms of welfare, fiscal consolidation, etc.

## 2.3. ARE STRUCTURAL REFORMS BEHIND THE UPTURN OR RATHER DEMAND-SIDE FACTORS?

### THE NEED FOR A TWO-EYED VIEW



Main success periods to be explained

COUNTRY/PERIOD	YEARS	P.P. FALL IN UNEMPLOYMENT RATE VS. EU15
AT 1992-1994	3	2.3
DK 1992-1997	6	4.8
ES 1995-2005	11	7.7
FI 1994-1999	6	4.6
GR 2001-2005	5	5.1
IE 1992-2000	9	10.3
NL 1992-1998 (INTERRUPTED)	7	3.2
SE 1998-2002	5	2.7
UK 1993-1998	6	4.5

Source: own calculations based on AMECO data

Figure 5

Europe's persistent failure to grow strongly and reduce unemployment has typically been explained by a widespread failure to implement the necessary – but 'painful' – structural reforms. Clearly this argument is becoming untenable given the decent growth rates now achieved by many European countries, even those with allegedly 'sclerotic' labour markets. Some commentators claim that this shows that structural reforms are 'finally' working, a line of argument that has the political advantage of being superficially irrefutable – when growth is poor it is due to a lack of structural reforms, when good to the effect of those that have been implemented – but that provides little help in identifying the reasons for the turnaround. At the European level the broad-based improvement in growth rates identified above clearly points to a cyclical upturn as a delayed response to external and internal demand stimulation. This has little to do with structural reform (*Benchmarking Working Europe* 2006: 18ff.). Another issue is whether, at the member state level, those countries that have conducted structural reforms have enjoyed better growth performance. This is a complex issue that cannot be analysed in full here. We consider first some 'historical' evidence, looking back at those EU15 countries that have successfully achieved substantial reductions in unemployment. Subsequently we consider the growth patterns within the common currency area and examine some of the problems emerging from the growth and competitiveness strategies adopted.

The table summarises national experiences of successful labour market developments. Here 'success' is defined in terms of a sustained reduction in unemployment – three consecutive years or more – compared with the EU15 average; this comparison serves to control for a more general improvement in the European business cycle. These successes are usually 'explained' in terms of a prior period of structural reform – the reform of the unemployment benefit system in the early 1990s in Denmark is a well-known example – or, more vaguely, in terms of a country having 'good' (i.e. market-oriented) institutions that facilitate growth.

## 2.3. ARE STRUCTURAL REFORMS BEHIND THE UPTURN OR RATHER DEMAND-SIDE FACTORS?

### THE NEED FOR A TWO-EYED VIEW

Figure 6



#### Demand-side explanations for labour market success

	Monetary policy	Fiscal policy	External demand/competitiveness
AT early 90s		Expansionary FP 93-95 (2.7 pp CAB)	Unification boom in DE, corporatist wage setting
DK 92-97	Very sharp (-4.3 pp) cut in RSRIR in 1994	Substantial fiscal boost 1993 (-1.7pp CAB)	Wage restraint by social partners
ES 95-05	Sustained and substantial loosening of MP before and after EMU real interest rate reduced in EMU by higher inflation rate		
FI 94-99	MP turned expansionary in 93 and fall of almost 5pp in RSRIR in 94	Discretionary fiscal boost over 2pp of GDP p.a. in early 90s	
GR 00-04	Very sharp (-6 pp) cut in RSRIR in 2001	Expansionary FP around 5 pp of GDP 99-03	
IE	Major falls in SRIR in 1992-1994 (more than 6 pp) and again in 1999, real interest rate reduced in EMU by higher inflation rate	Expansionary FP to offset 2001 downturn	Social partner agreements, wages lagging behind productivity
NL 92-92	Expansionary MP 92-87		Social partners agreed wage moderation
SE 98-02	Slight monetary stimulus 98	Discretionary fiscal stimulus (more than 3pp GDP)	Prior huge currency devaluation
UK 93-98 (and weakly in late 90s)	Sustained if limited boost in monetary conditions from start of 1990s	Substantial discretionary FP boost 1991 and 1992 less pronounced but steady fiscal expansion 1999 to 2004	Sharp depreciation of GBP 93 following ejection from ERM

Note: RSRIR = real short-run interest rate (allowing for the change in the rate for the EU15), CAB = cyclically adjusted budget position

Source: own calculations based on AMECO data

The demand side is usually left out of the analysis, or there is an implicit assumption that it is some sense 'optimal' or that (e.g. under monetary union) it is the same for all member states and thus cannot explain success in one country if others, such as Germany, have failed.

To remedy this we explicitly consider indicators of macroeconomic policy, namely, changes in the real short-run interest rate (again with respect to the EU15 average) and in the cyclically adjusted government balance, a measure of how restrictive or expansionary government taxation and spending policies were. In a less rigorous way the impact of external demand was taken into account by looking at exchange rate movements (especially sharp devaluations) and specific factors that raised external demand. The results, summarised in the table, suggest that, contrary to the conventional wisdom, demand-side factors played a significant role in driving labour market improvements in European countries. Conversely, Belgium, Germany and France, which did not enjoy a period of labour market success as defined here, did not experience stimuli from sufficiently sustained or strong monetary or fiscal policy. (The indicator chosen, which is relative to European average developments, has the drawback of placing larger countries, at a disadvantage for, when their unemployment rates fall, they tend to pull down the EU average, making it harder for them to record a 'success' in this sense). In the case of Germany expansionary fiscal policy tended to be procyclical, reducing its impact on reducing unemployment.

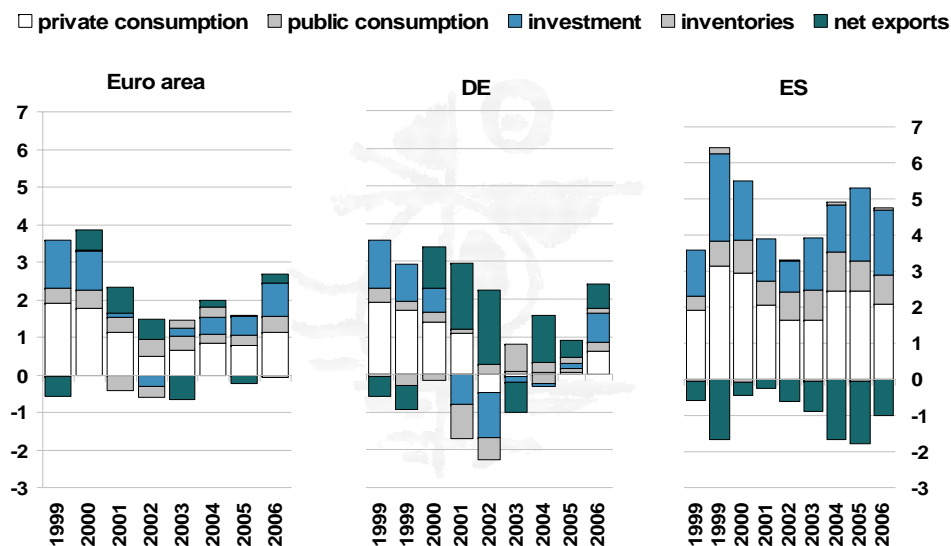
This is not to say that structural reforms were not important. This analysis leaves it open whether or not structural reforms helped sustain the growth process once it got under way. But it seems clear that, by themselves, they are not sufficient to kick off a period of sustained investment and growth that significantly reduces unemployment. That requires a conscious decision in favour of an expansionary policy and/or – especially in small open economies – fortuitous external developments or currency devaluation.

## 2.3. ARE STRUCTURAL REFORMS BEHIND THE UPTURN OR RATHER DEMAND-SIDE FACTORS?

### RAISING COMPETITIVENESS WITHIN EMU: A GOOD WAY TO STIMULATE GROWTH?



#### Growth contributions



Source: AMECO

Figure 7

The three panels of Figure 7 show the contributions made to real GDP growth by domestic demand (private and public consumption, investment and changes in inventories) and external demand (net exports) for the euro area and for two polar cases, Germany and Spain. Looking at the euro area, we see how the collapse in investment and also de-stocking by companies drove the economy down in 2001 and 2002. The recovery in 2004 was derailed by currency appreciation which hit net exports in 2005. The strengthening of the recovery in 2006 has been rather broad-based, with improvements in both consumption and investment and a renewed turnaround in net exports.

The figures for Spain and Germany show cross differences at national level, however. Germany's growth over the period has, until 2006, been heavily dependent on exports: only in that year did private consumption and investment finally begin to recover from the contraction of 2002, and even then relatively weakly. The (much faster) economic growth in Spain, by contrast, has been driven exclusively by domestic demand: private consumption and investment (which includes, notably, house construction) have been strong and resilient to economic shocks from the global and European downturn. Net exports, by contrast have been an almost equally consistent drag on growth. As a result Spain's current account deficit has widened to around 9% of GDP.

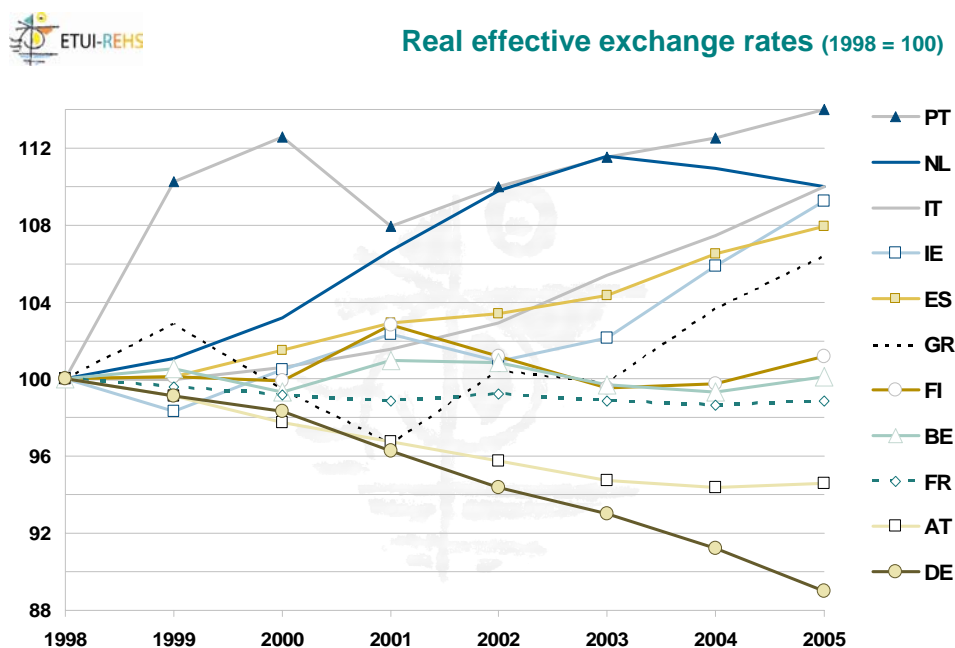
The same developments are evident from Figure 8 showing real effective exchange rates within the euro area. This indicator is based on unit labour costs and shows the development of the competitive position of the EMU countries – which can no longer be offset by changes in nominal exchange rates – since the start of monetary union. Worryingly, we see a continuation of trends identified in previous Benchmarking reports. Austria and, especially, Germany persistently improve their competitive position: their wage developments lag behind productivity growth. The reverse is true of a number of EMU countries, especially from southern Europe, including Spain. Of all the countries, only the Netherlands and, just, Austria seem to follow a trajectory which one would initially expect, namely that an initial movement upward or downwards from the average is subsequently corrected through competitive pressures.



## 2.3. ARE STRUCTURAL REFORMS BEHIND THE UPTURN OR RATHER DEMAND-SIDE FACTORS?

### RAISING COMPETITIVENESS WITHIN EMU: A GOOD WAY TO STIMULATE GROWTH?

Figure 8



Source: AMECO

This poses worrying questions – discussed more fully in last year's report – about the stability of EMU and the lack of effective adjustment mechanisms.

How does this analysis, though, relate to the above debate about structural reform versus demand-side explanations? Germany (the largest EMU country) has been undergoing an extended period of wage moderation (going back to the mid-1990s in fact) that has improved its competitiveness dramatically. More recently this has been exacerbated by 'structural reforms' that have further reduced workers' bargaining power and further reduced wage pressure. For many years, however, this has had no positive impact on overall demand and thus growth and jobs, because it came at the price of chronically weak private consumption and also investment. After many years of 'pain' the competitiveness effect finally appears to be coming though, and the labour market situation in Germany is improving. However, this is at the cost of a substantial loss of competitiveness in other EMU countries (such as Spain) that will sooner or later force them to reduce demand, thus slowing down the European economy once more. The conclusion is that wage moderation and structural reform do not, by themselves, bring jobs for many years (in large countries at least) and when they do they contain an important beggar-thy-neighbour element, seen from the perspective of the European (or euro-area) economy as a whole.

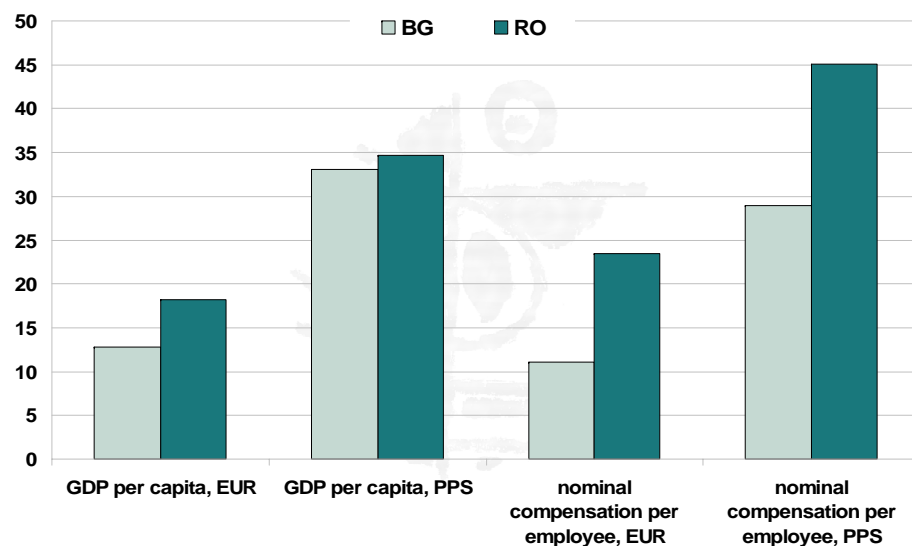
Spain, by contrast, has enjoyed buoyant domestic demand-driven growth, on the back of the sharp fall in interest rates when it entered EMU. This has engendered a housing boom that has had wealth effects that have stimulated consumption (as in the US). Meanwhile above-average inflation has meant low real interest rates, further fuelling growth. It is not evident that structural reforms – most of which occurred back in the 1980s when the labour market and other institutions inherited from the Franco regime were gradually dismantled – have played any significant part in this story. However, the loss of competitiveness and rising current account deficits mean that this process is ultimately unsustainable.

## 2.4. WELCOMING BULGARIA AND ROMANIA TO THE EU ECONOMY

### THE EU27: HALF A BILLION CITIZENS AND CONSUMERS



Macro indicators, EU25 = 100, 2006



Source: AMECO

Figure 9

1 January saw the accession of Bulgaria and Romania to the European Union, adding around 30 million (8 and 22 million respectively) to the EU population. The EU is now the home of half a billion people, a fact that is often forgotten in discussions of the emergence of large economies such as China, India and Brazil. In economic terms, the accession of these two countries marks in many respects a repeat, on a smaller scale, of the 2004 enlargement. The new members are, on the one hand, relatively poor, but are on a rapid growth trajectory that is expected to lead to gradual convergence. The 'vital statistics' of the two countries are presented in the two charts.

Most striking is the very low per capita GDP – the most basic measure of living standards. In euro terms the figures are just below and above 15% for Bulgaria and Romania respectively. However, this changes considerably when allowance is made for the lower price level in the two countries: measured in purchasing power standards (PPS) income levels are around a third of the EU25 average. The income gap is, in short, very substantial, greater than between the 10 new member states and the EU15 in 2004. The figures for wage levels are rather similar in both euro and PPS terms. It is noticeable, however, that, despite rather similar per capita income levels, workers seem to enjoy considerably higher wages in Romania than Bulgaria.



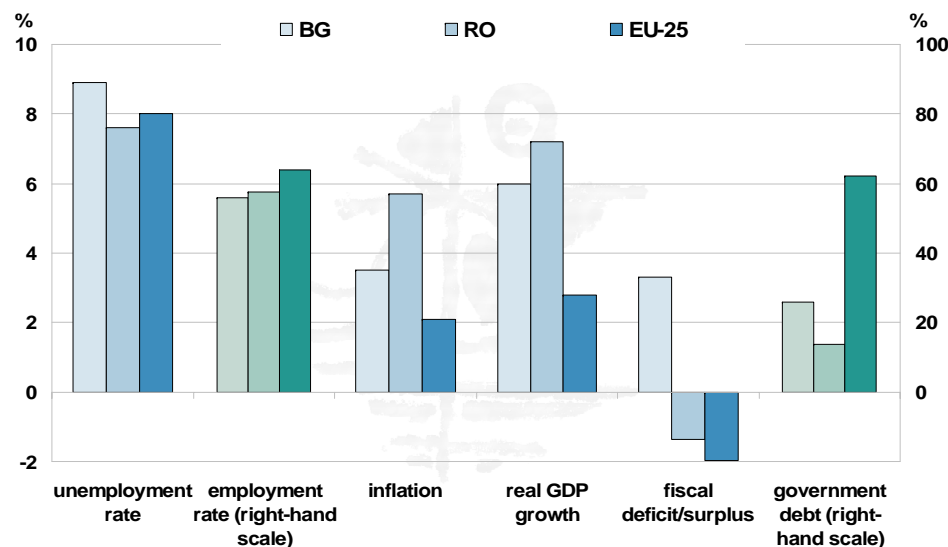
## 2.4. WELCOMING BULGARIA AND ROMANIA TO THE EU ECONOMY

### THE EU27: HALF A BILLION CITIZENS AND CONSUMERS

Figure 10



Macro indicators vs EU25



Source: AMECO

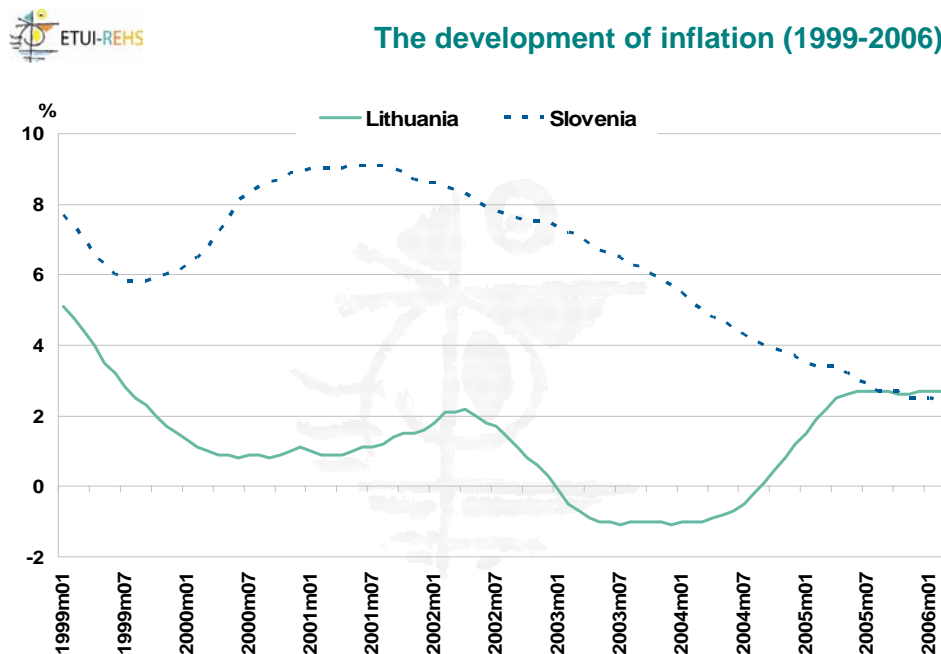
On the other hand, Bulgaria and Romania are growing at around 6 and 7% respectively. Growth is relatively steady and is expected to continue, so there are grounds for optimism regarding steady convergence. Given the dynamic growth process and the lower price level, inflation in Bulgaria is low at around 3.5%, while it is above 5% in Romania. In the former case this reflects a currency board arrangement. In terms of fiscal policy, Bulgaria is actually posting budget surpluses. This has earned the country praise from the European Commission (2007: 13) but it makes little economic sense for a country in Bulgaria's situation (including low outstanding government debts) to be running budget surpluses. On the contrary, the state should be investing in the public infrastructure in order to promote the economic development of the country and provide the basis for sustained productivity growth. The same is true of Romania: it is running a minor deficit but has extremely low government debt. Both countries meet the Maastricht criteria, but these are not economically relevant, though they may be so politically, to such countries.

Of much greater concern is the labour market situation. It is true that official unemployment is close to the EU25 average and has been falling in both countries. However, this understates the degree of underemployment. The employment rates are very substantially below the European average and it will be a major challenge for the two countries to raise these rates, in the context of expected major restructuring from older industries and agriculture to more modern forms of industrial and service production. The interplay of two factors will play an important role in shaping the short-term labour market perspectives. On the one hand, the countries are experiencing a growing deficit of skilled labour in certain sectors – construction, IT, some services, tourism – which is already exerting upward pressure on wages. On the other hand, the impact of EU market competition, coupled with the sub-standard conditions of production processes (in terms of sanitary, health and safety standards, etc.) or product quality is forcing some companies out of business, increasing the inflow of job-seekers on the labour market. This is a challenge for employment and further training policies to address the impact of both factors, prevent declines in current employment levels and start moving towards the goals of the European Employment Strategy.

## 2.5. ENLARGEMENT OF THE EUROZONE

### ENLARGEMENT OF THE EUROZONE: PULLING THE BRAKES

Figure 11



Source: Eurostat (2006)

Estonia, Lithuania and Slovenia were the three new member states that pursued the strategy for an early adoption of the euro starting from January 2007. These countries were the first new EU member states to join the ERM II at the end of June 2004. However, as recent developments show, the only new EU member state whose application was accepted and which adopted the euro in January 2007, is Slovenia. Estonia decided to put off joining the Eurozone by one year, to 1 January 2008, citing higher than expected inflation figures, while Lithuania's bid to join the Eurozone in 2007 was turned down by the EU Commission on the grounds that its inflation rate (2.7% on average in the 12 months to March 2006) is marginally above the 2.6 % benchmark.

Latvia had earlier announced a postponement of its planned entry due to higher inflation. The Visegrad group (V4) was anyway on a slower track and recent outlooks reckon with further postponement (Slovakia being the only V4 member to expect EMU membership this decade).

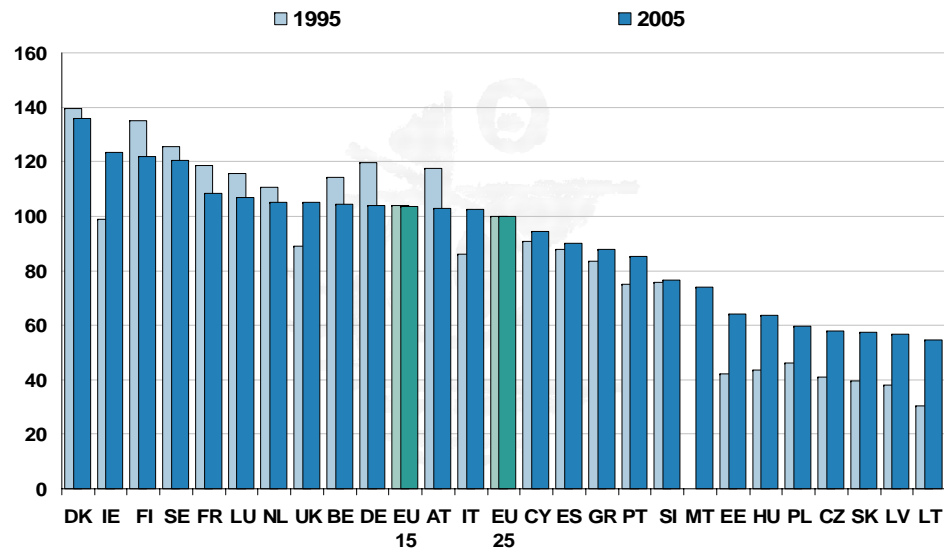
## 2.5. ENLARGEMENT OF THE EUROZONE

### THE MESSAGE OF THE COMMISSION'S DECISION ON LITHUANIA

Figure 12



#### Comparative price levels (EU25=100), 2005



Source: Eurostat (2006)

The decision to reject Lithuania's application creates the impression that the EMU does not welcome fast growing catching-up countries. In fact, the GDP growth of 7.5% in 2005, while keeping inflation down to a reasonable level, should be viewed as a fine achievement and seen as a real success of enlargement and convergence.

If it is cause for concern that new entrants might prove unable to sustain the level of performance achieved at the time of entry, then no amount of toughness or rigidity applied at the entry would represent a guarantee. It is clear that the Commission does not acknowledge the specifics of the new member states (such as their lower price levels), while it too uses 'inappropriate' criteria in a rigid way and also resorts to 'implicit' criteria (forecast, GDP/capita). One of the most unfortunate aspects of the decision is the way in which the controversial argument about the non-performance of the inflation criterion apparently serves to conceal the real reason, namely, the Commission's concern that a fast growing transformation country like Lithuania might be unable, in the future, to stick to the criteria. But future projections were not declared to be part of the entry criteria and the decision gives the impression that the Eurozone is not prepared to welcome fast-growing poorer countries.

The European economy is finally showing signs of a dynamic recovery after a long period of stagnation. Previous Benchmarking reports have argued that this stagnation was unnecessarily long, drawn out by a failure to coordinate counter-action by monetary and fiscal policy. Now that growth has arrived and that the labour market situation is improving, the key issue is to sustain the recovery at current rates or slightly faster, permitting a lasting and substantial fall in unemployment and fiscal consolidation through growth.

The signs are, however, that growth will weaken again in 2007. It is vital that the ECB refrain from choking off the recovery. Fiscal policy-makers should focus on allowing growth to replenish the fiscal reserves, while enabling counteraction to be taken at national level to prevent any weakening of the growth dynamic.

Meanwhile additional public investment in the Lisbon priority areas (innovation, research and development, environmental stability, lifelong learning, etc) will be needed to strengthen longer-run growth potential. After a long period of wage restraint and a falling wage share, workers and unions should see higher nominal and real wage increases. These can confidently be expected to be non-inflationary in the context also of rising productivity growth.

Meanwhile the process of economic convergence in Europe continues at a steady pace, a trend that will continue with the accession of Bulgaria and Romania. The euro area has been expanded to take in Slovenia, but not Lithuania, a decision that is difficult to justify on economic grounds.

On average the labour market situation improved somewhat during 2006. The EU25 unemployment rate fell from 9.1% (in the second quarter of 2005) to 8.1% (in the second quarter of 2006) while the employment rate has grown by 1% since 2005 to a current level of 64.5%. These improvements have in part been due to the growth of non-standard forms of employment such as part-time work, fixed-term employment and self-employment. Part-time employment strongly contributed to employment expansion between 2004 and 2005, accounting for almost two thirds of the rise in overall employment; fixed-term employment was associated with about 46% of the increase in employment among employees (European Commission 2006f: 24). Nevertheless the labour market situation remains critical in some member states and also for specific labour market groups such as young people, women, immigrants, and the elderly. Not only are these groups more likely to have high unemployment and/or low employment rates but they are also overrepresented in non-standard forms of employment.

The increasing importance of non-standard forms of employment, through their active promotion by governments in the light of persistent unemployment and underemployment, has given rise to the question of how far these employment situations are associated with less security (job security, employment security and social security) and higher segmentation potential than standard forms of employment (full-time, indefinite, dependent) (compare for example European Foundation 2003; Grimshaw *et al.* 1997). More flexible labour markets are also promoted by the European Employment Strategy. Guideline 21 of the integrated guidelines for growth and employment (2005-2008) explicitly calls for promoting flexibility (modern forms of work organisation, employment-friendly labour costs) combined with employment security and reduced labour market segmentation. The importance of cushioning frequent transitions brought about by more diverse and irregular working patterns is emphasised (Council of the European Union 2005). Flexibility is thus to be complemented by security ('flexicurity').

### Themes

- 3.1. Unemployment rates have been decreasing on average...
- 3.2. Non-standard employment
- 3.3. More disadvantages for specific labour market groups
- 3.4. Tackling labour market disadvantages through active labour market policies
- 3.5. Conclusions

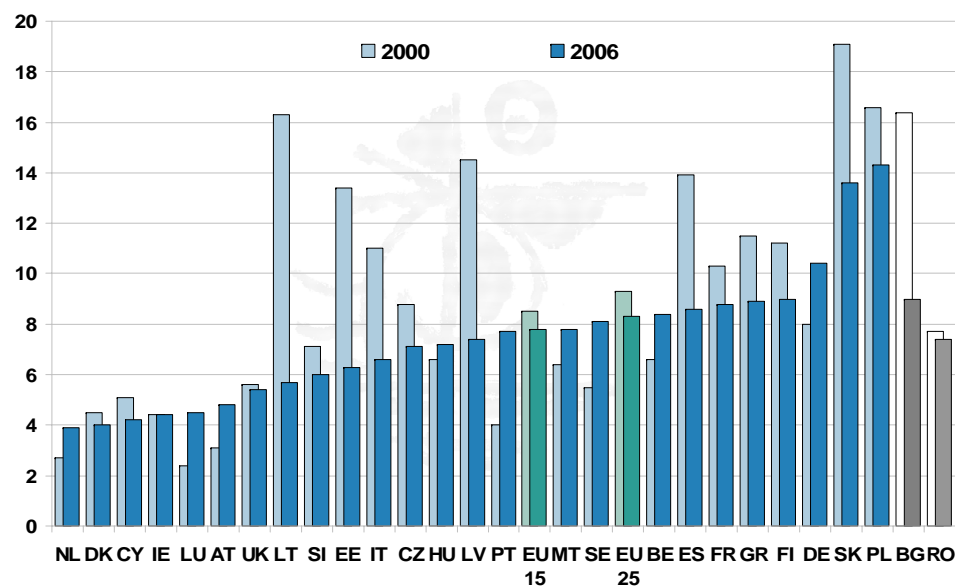
### 3.1. UNEMPLOYMENT RATES HAVE BEEN DECREASING ON AVERAGE... ...BUT REMAIN HIGH IN CERTAIN COUNTRIES...

Figure 1



#### Comparison of unemployment rates: 2000 and 2006

(% labour force aged 15/64)



Source: Eurostat (2006, 2nd quarter data).

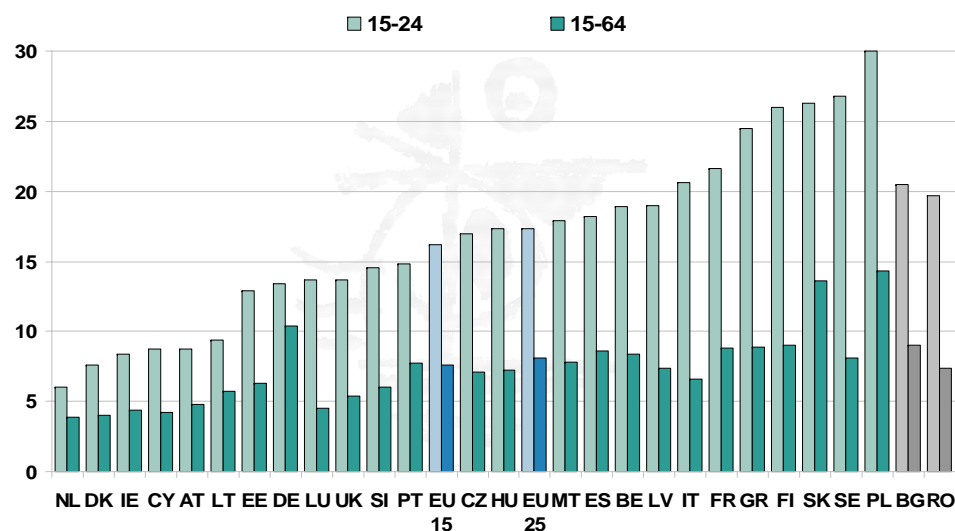
Unemployment has now been decreasing for two years in a row. In 2004 the EU25 average was 9.4%; in 2006 it was down to 8.1%. The EU15 unemployment rate is still somewhat lower than the EU25 rate but, in comparison to the last 5 years, differences have considerably decreased. Nevertheless, unemployment remains a serious problem in a number of countries and for specific labour market groups. In Germany, Slovakia and Poland unemployment rates in 2006 were comparatively high, namely, 10.4%, 13.6% and 14.3% of the labour force (Figure 1). While in Slovakia and Poland unemployment was five years ago considerably higher even than this, in Germany it has increased during this period. Six member states – the Netherlands, Denmark, Cyprus, Ireland, Luxembourg and Austria – had unemployment rates below 5% in 2006. The data used throughout this chapter is for the 2nd quarter. Unless specified otherwise the figures and results presented in the text refer to the labour force aged between 15 and 64 years.

### 3.1. UNEMPLOYMENT RATES HAVE BEEN DECREASING ON AVERAGE... ...AND AMONG SPECIFIC LABOUR MARKET GROUPS

Figure 2



#### Youth unemployment rates compared to total unemployment rates, 2006 (% of labour force aged 15-24 and 15-64)



Source: Eurostat (2006, 2nd quarter data).

In all member states but four (Ireland, UK, Latvia and Germany) unemployment is higher among women than men. Differences between men and women are very pronounced in Luxembourg, Italy, the Czech Republic, Greece, Spain and Malta (not shown here).

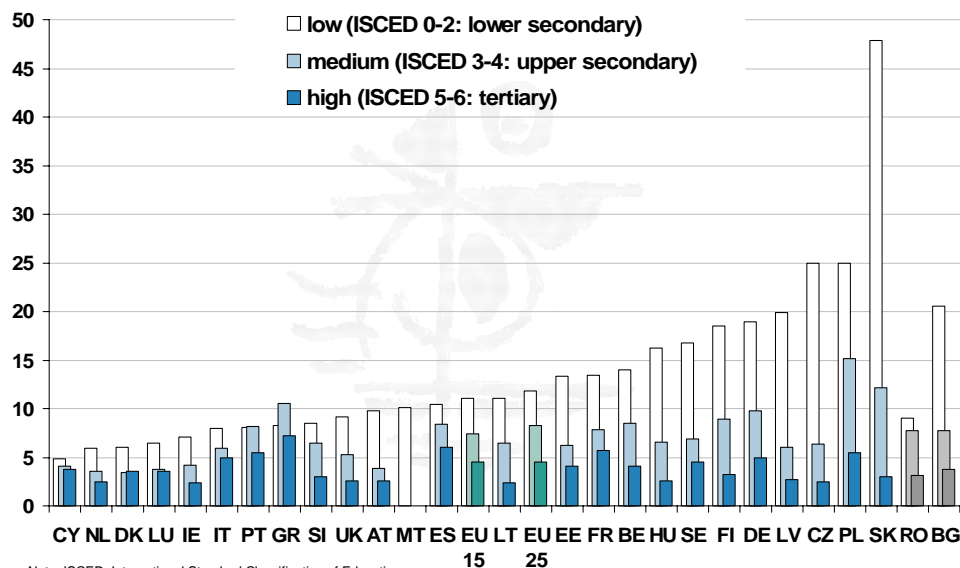
Differences in unemployment rates are even more pronounced if we distinguish between different age groups. Unemployment rates are in most countries lowest among elderly workers (50-64 years) and are in all countries highest among young people (15-24 years). Youth unemployment rates are lowest in the Netherlands and Denmark and very high at above 25% of the labour force in Finland, Slovakia, Sweden and Poland (Figure 2). Indeed, youth unemployment is in most countries at least twice as high as overall unemployment and in some countries it is even three times the overall unemployment rate (Luxembourg, Italy, Finland and Sweden). Only in Germany, the Netherlands and Lithuania are youth unemployment rates relatively close to overall unemployment rates. Young women are more affected by unemployment than young men.

### 3.1. UNEMPLOYMENT RATES HAVE BEEN DECREASING ON AVERAGE... ...AND AMONG SPECIFIC LABOUR MARKET GROUPS

Figure 3



#### Unemployment rates by educational level, 2006 (% of labour force aged 15-64)



Note: ISCED: International Standard Classification of Education

Source: Eurostat (2006, 2nd quarter data).

High intra-country differences in unemployment rates are also evident if we look at people with different education levels. With a few exceptions (namely, Portugal and Greece) in all countries people with the lowest educational attainment (lower secondary education or less) are much more likely to be unemployed than people with upper or post secondary education and people with tertiary education (Figure 3): unemployment rates for university graduates are on average below 5%, while they are on average 12% for people with the lowest educational attainment. The distribution of unemployment between the different educational levels is relatively close in Greece, Cyprus and Portugal, while differences in unemployment between the lowest and highest skilled are very pronounced especially in the eastern European new member states. Unemployment rates of people with no more than lower secondary education are highest in the Czech Republic and Poland, with about 25% of the labour force, and most especially in Slovakia, with 47.9%.

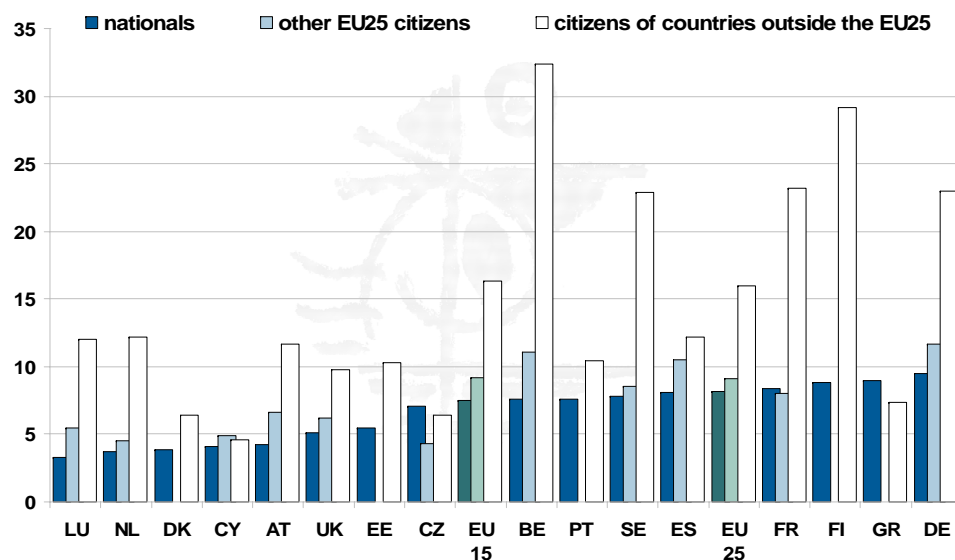


### 3.1. UNEMPLOYMENT RATES HAVE BEEN DECREASING ON AVERAGE... ...AND AMONG SPECIFIC LABOUR MARKET GROUPS



**Unemployment rates by citizenship, 2006**  
(% of labour force aged 15-64)

Figure 4



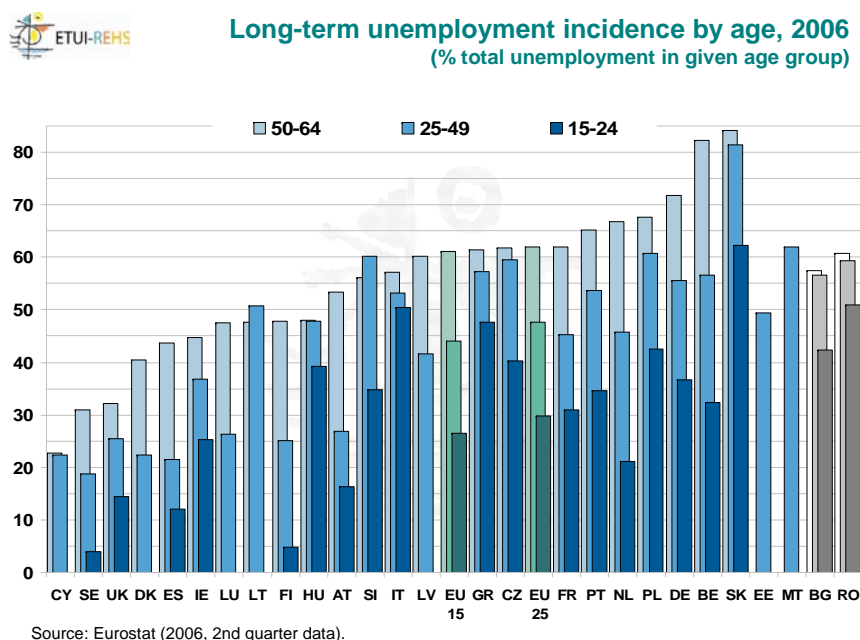
Source: Eurostat (2006, 2nd quarter data).

A further risk group in relation to unemployment is immigrants, and especially citizens of countries outside the EU25. While unemployment rates of other EU25 citizens are on average only slightly higher than those of nationals, citizens of countries outside the EU25 have on average twice the unemployment rates of nationals (Figure 4). A few countries provide exceptions to this rule; in Cyprus, the Czech Republic and Greece differences between nationals and non-nationals are small or even in favour of non-nationals.

In general, the data situation for migrant workers is deficient. First of all, up-to-date data broken down by nationality is unavailable for some member states and is incomplete for others. Secondly, the variables are considered to be of inferior quality, in particular because the survey coverage of the foreign-born population is usually poorer than that of locals (Hardarson 2006). Thirdly, it would be more policy-relevant to distinguish between people with a migration background and those with no such background rather than merely looking at their nationality as is the case at present. Eurostat is currently working on an ad hoc module on the labour situation of migrants and their immediate descendants that will be implemented in the 2008 data collection but will probably not be available before the end of 2009 or the beginning of 2010. It has the objective of improving the EU Labour Force Survey coverage of foreign-born persons.

### 3.1. UNEMPLOYMENT RATES HAVE BEEN DECREASING ON AVERAGE... ...AND AMONG SPECIFIC LABOUR MARKET GROUPS

Figure 5



Long-term unemployment, which is usually defined as unemployment lasting for at least 12 months, can be used to detect the persistency of unemployment. Here, long-term unemployment is expressed as a percentage of total unemployment (long-term unemployment incidence). Elsewhere, it is often expressed as a share of the labour force (long-term unemployment rate).

In Belgium, Greece, the Czech Republic, Germany, Poland and Slovakia the long-term unemployment incidence is higher than 55%; in Sweden, Cyprus, Denmark, Finland, Spain and the UK, on the other hand, it is below 25% (not shown). The long-term unemployment incidence is to some extent related to the overall unemployment rate but is also strongly influenced by labour market policies and institutions. Strict employment protection legislation is often thought to increase long-term unemployment while a high intensity of active labour market policies is seen to contribute to lower long-term unemployment rates (OECD 2004; European Commission 2006f: 153-158). Additionally, (long-term) unemployment can be lowered artificially by transferring unemployed people to work-related labour market measures or by transferring them to other benefit systems such as social assistance, invalidity benefits or early retirement schemes (compare Carcillo *et al.* 2006).

The risk of remaining unemployed for more than 12 months increases strongly with age in almost all countries (Figure 5). In all but three member states the incidence of long-term unemployment lies above 40% for the older workforce (no data on elderly for Estonia and Malta). In Belgium and Slovakia it is above 80% for this group. Long-term unemployment among young people is, with a few exceptions in the new member states and Southern Europe (HU, IT, GR, CZ, PL, SK), relatively low (no data on youth for seven countries).

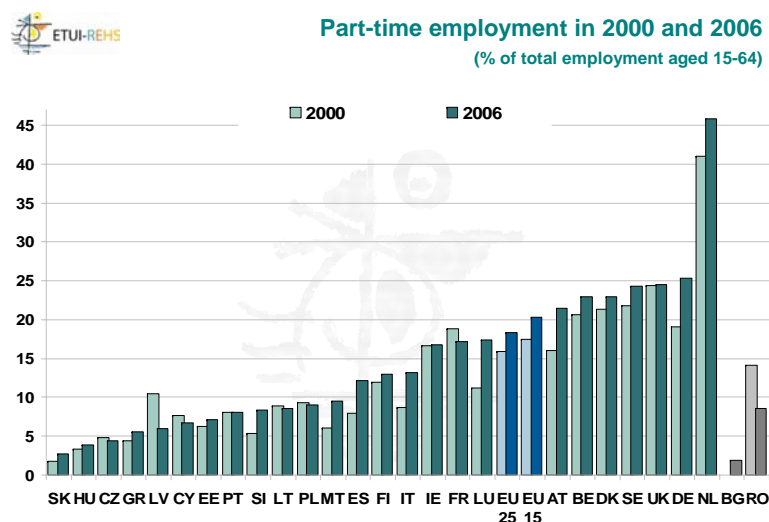
The above analysis shows that unemployment especially affects specific labour market groups such as the low qualified, young people, and migrants. While older workers have relatively low unemployment rates their share in long-term unemployment is disproportionally high. High segmentation of unemployment calls for specific labour market measures to target these groups. Recent strategies to offer earlier and more individualised labour market services are a movement in the right direction.

## 3.2. NON-STANDARD EMPLOYMENT

### ...PART-TIME EMPLOYMENT HAS BEEN A VERY IMPORTANT FACTOR IN EMPLOYMENT EXPANSION

Non-standard forms of employment are promoted on the European level and by national governments in order to fight (long-term) unemployment and increase employment rates of specific labour market groups. The following forms of contract are usually associated with non-standard employment: part-time employment, fixed-term and casual employment, temporary agency work and specific forms of self-employment, for instance dependent self-employment. Non-standard employment contracts are often associated with less job security, fewer career possibilities, and lower income, as well as restricted access to fringe and social benefits. The degree of precariousness of non-standard employment forms varies not only between countries but also between different labour market segments. Flexicurity – a topic currently high on the agenda – is supposed to enhance flexibility for employers (adaptation of working hours and work organisation, easier to hire and fire) and in some instances also for employees, while at the same time granting security (employment rather than job security) to employees. Between the second quarter of 2000 and the second quarter of 2006 part-time employment increased by 2.4% on average and is currently 18.3% (Figure 6). There are strong differences in this respect between new and old member states.

Figure 6



Part-time employment is much less widespread in the new member states than in the old ones; in none of the 10 new member states does part-time employment exceed 10%. Part-time employment has traditionally been low also in the southern European member states and this is still the case although considerable growth in part-time employment could be observed in both Spain (+4.1%) and Italy (+4.5%) between 2000 and 2006. Among the new member states growth has been considerable in Slovenia and Malta albeit from low levels; on the other hand, part-time employment in Latvia fell steeply from 10.5% to 6%. The Netherlands has by far the highest part-time employment rate; it exceeds 45% of total employment and has been growing by 4.8% over the last six years. The Netherlands is also the only country where part-time employment rates of men are relatively high with 22.1% in total employment (not shown). Except for the Netherlands, part-time employment rates of men are higher than 10% only in Denmark (11.8%) and Sweden (10.5%). Part-time employment therefore remains a women's domain. More than 40% of working women have part-time jobs in Austria, the UK, Belgium, Germany and the Netherlands (74.6%).

Given that their share in part-time employment is so much greater, the following section will focus on women. The average hours of female part-timers range from 18 in Germany to about 26 in Sweden (not shown). Generally, average part-time working hours decreased in the majority of countries between 2000 and 2006. Low part-time hours are problematic not only because of lower monthly incomes but also because in some countries marginal employment of this kind grants no or only restricted access to social security benefits (compare for example Dingeldey 1998).

The age profile of part-time employment varies strongly from one country to another. The EU25 average part-time employment rate is somewhat lower among middle-aged women than among young and older female workers. While in some countries (mainly continental ones) part-time employment is used mainly as a means of combining work and care activities, in the absence of encompassing childcare facilities, as well as for phased-in early retirement, in other countries (especially the Scandinavian ones) the combination of part-time work and studies is important. The Netherlands has very high part-time employment rates for women in all age groups.

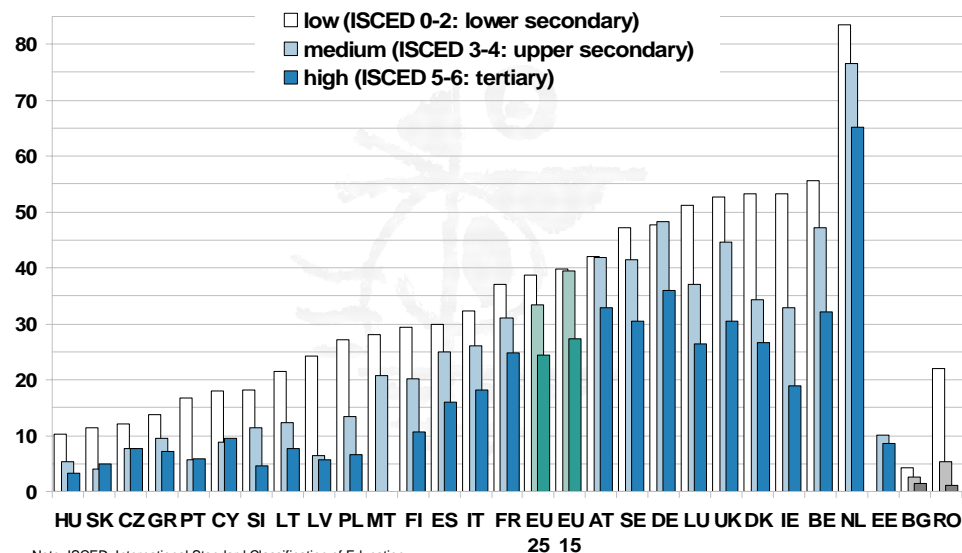
## 3.2. NON-STANDARD EMPLOYMENT

...LOW QUALIFIED WORKERS ARE MUCH MORE LIKELY TO WORK PART-TIME THAN HIGHLY QUALIFIED WORKERS...



**Part-time employment of women by educational level,  
2006 (% of total employment of a given education group aged 15-64)**

Figure 7



Note: ISCED: International Standard Classification of Education

Source: Eurostat (2006, 2nd quarter data). Data for Ireland refers to 2005/1.

Segmentation is once again observable with regard to educational attainment: the higher the educational level the lower the part-time employment rates. This holds true for all countries but Austria and Germany where women with upper secondary and women with lower secondary educational levels have about the same part-time employment rates. On average 38.7% of female workers with the lowest educational attainment work part-time, whereas only 24.4% of women with the highest educational attainment work part-time (Figure 7). In six countries, at least every second low qualified woman works part-time, in the Netherlands the share is 83.6%. The fact that part-time workers are for the most part women with low qualification levels raises serious questions about their ability to earn wages that are sufficiently high to guarantee an adequate income.

An important question in promoting part-time employment is whether this form of employment is exercised voluntarily or not. Involuntary part-time employment is most pronounced among young people and least pronounced among older workers (not shown here). Involuntary part-time employment is a complex issue. In some countries part-time employment might not be voluntarily exercised but might rather be the only possibility considering circumstances such as inadequate childcare facilities. It is therefore useful to take a closer look at self-assessed underlying reasons for working part-time.

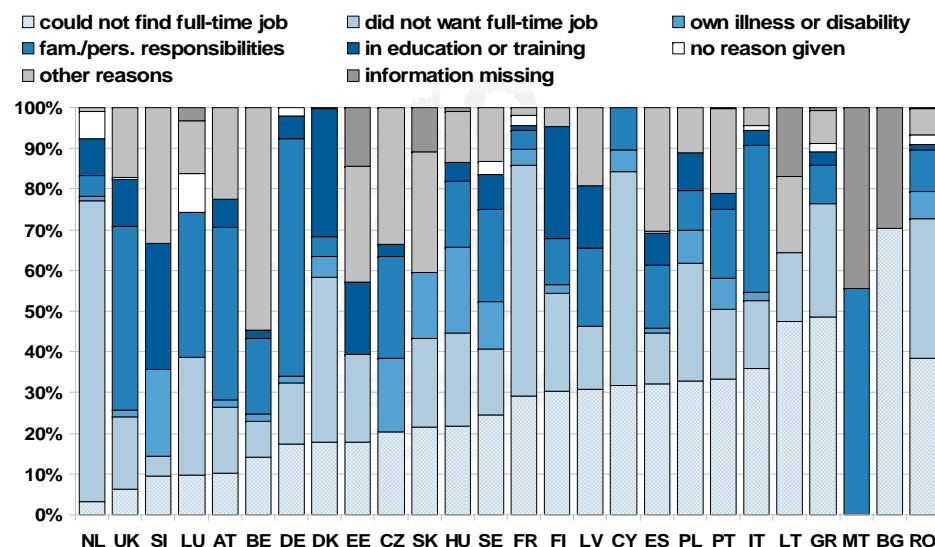
## 3.2. NON-STANDARD EMPLOYMENT

...LOW QUALIFIED WORKERS ARE MUCH MORE LIKELY TO WORK PART-TIME THAN HIGHLY QUALIFIED WORKERS...

Figure 8



### Part-time employment of women by reason in 2005 (% of total, aged 15-64)



Source: Eurostat (2006, 2nd quarter data). No data for Ireland.

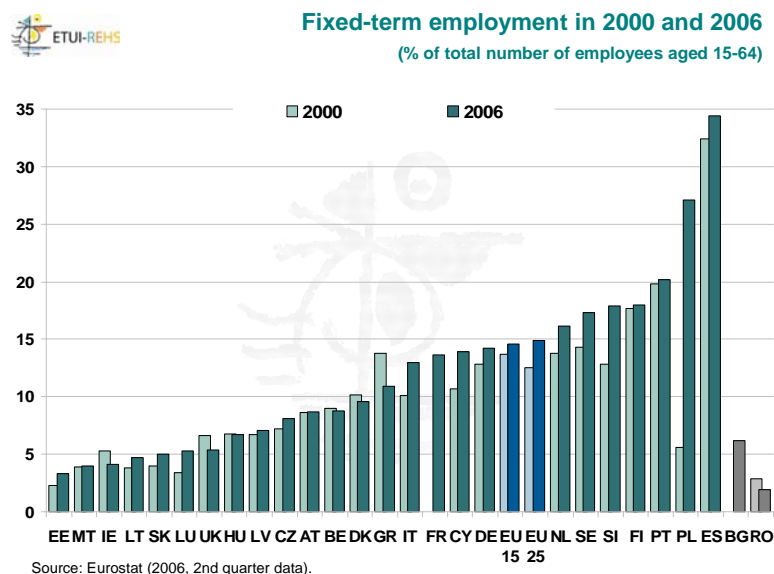
In 2005, in three countries (the Netherlands, France and Cyprus), the majority of part-time employment among women is exercised truly voluntarily ('did not want a full-time job') (Figure 8). Almost three quarters of part-time working women in the Netherlands, the country with the highest part-time employment rates by far, voluntarily work part-time – only about 3% stated as a reason that they were unable to find a full-time job. On the other hand, in as many as ten countries, at least about one third of female respondents took up part-time employment because they could not find a full-time job, this share being highest in Lithuania and Greece. These are all countries with below average part-time employment rates. In six countries – the UK, Luxembourg, Austria, Germany, Italy and Malta – at least one third of women work part-time due to family or personal responsibilities. These shares are especially large in Germany (58%) and Malta (55.5%). Education and training plays an important role in Slovenia, Denmark and Finland, all countries with considerably higher part-time employment rates among young female workers than among the other age groups. Interestingly, own illness or disability plays a significant role only in a number of new member states (Slovenia, Czech Republic, Slovakia and Hungary), and also in Sweden, but to a lesser degree. It might well be that in these countries, part-time contracts are used deliberately (possibly in combination with rehabilitation measures) in order to reintegrate ill or disabled people into the labour market.

High country differences in the extent and perception of part-time employment point to the fact that the situation of part-time workers – for instance concerning income (discrimination), social security rights, and the like – varies strongly between European countries.

## 3.2. NON-STANDARD EMPLOYMENT

### ...FIXED-TERM EMPLOYMENT HAS ALSO BEEN GROWING ON AVERAGE...

Figure 9



Between 2000 and 2006 the share of fixed-term employment increased by 2.4% on a EU25 average (Figure 9). Over this period fixed-term employment increased strongly in Luxembourg, Italy, Cyprus, the Netherlands, Sweden, Slovenia and especially Poland. The latter country saw huge increases in fixed-term employment from a rate of 5.6% in 2000 to a rate of 27.1% in 2006, affecting all age groups and the youngest one (15-24) most strongly. Workers with upper secondary qualifications most frequently hold fixed-term contracts in Poland. The labour code of 2002 had lifted some restrictions on the use of fixed-term contracts (no maximum duration nor maximum number of contracts) and only very lax rules were in place until Poland's accession to the EU in 2004. According to Portet (2005), at the legal level, a number of provisions limit the impact of the new 2004 regulation and employers tend to use strategies to circumvent these new stricter rules.

Fixed-term employment rates have long been highest in Spain where the liberalisation of fixed-term employment in the 1980s, coupled with strict protection of workers with regular contracts, has led to temporary employment accounting for most employment growth. For a number of years the Spanish government has been trying to counter these developments by relaxing employment protection legislation on permanent contracts and offering incentives to firms to transform fixed-term contracts into open-ended ones. The latest reform that was negotiated by the social partners and came into force in July 2006 is aimed at limiting the repeated renewal of employment contracts within the same firm and gives new incentives to firms to create permanent contracts (Castellanos 2006).

There are high country differences in fixed-term employment with rates ranging from below 5% in Estonia, Malta, Ireland, Lithuania and Slovakia to more than 15% in the Netherlands, Sweden, Slovenia, Finland, Portugal, Poland and Spain. Country differences in fixed-term employment rates are commonly explained by regulations in force for regular contracts and the relative differences in employment protection legislation between regular and temporary contracts. Stricter rules applicable to permanent contracts may tend to increase the incidence of temporary work and to limit the extent to which temporary contracts will be converted into permanent ones (OECD 2004). Furthermore, fixed-term employment has a strong business cycle component. According to European Commission (2006f: 41), the recent increase in the share of fixed-term employment may largely reflect a cyclical rather than structural effect.

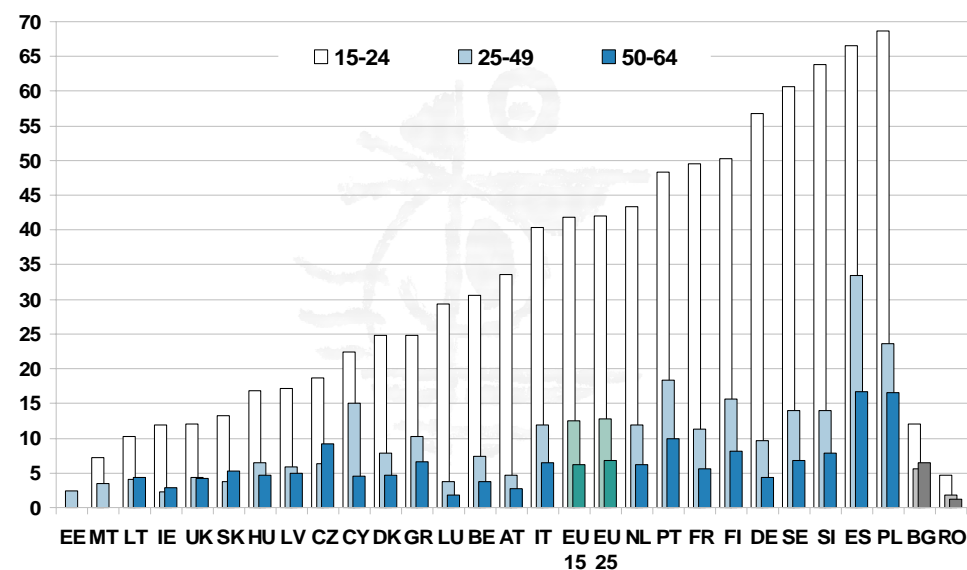
## 3.2. NON-STANDARD EMPLOYMENT

...ESPECIALLY LOW OR MEDIUM QUALIFIED PEOPLE AND YOUNG PEOPLE HOLD FIXED-TERM CONTRACTS...

Figure 10



### Fixed-term employment by age group, 2006 (% total number employees in age group)



Source: Eurostat (2006, 2nd quarter data).

Women are in most countries more likely than men to hold a fixed-term contract. Especially large differences are evident in Malta, Cyprus and Finland. Segmentation by educational level is once again evident. On average people with low or medium educational levels have bigger shares in fixed-term employment than people with tertiary education.

In most countries, the older people are, the less likely they are to work on the basis of a fixed-term contract: the fixed-term employment rate of workers between the ages of 15 and 24 is 42% at the EU25 level; it is 12.8% for the middle age group and 6.7% among older workers (Figure 10). In six countries – Finland, Germany, Sweden, Slovenia, Spain and Poland – more than every second young person holds a fixed-term contract. The important question is whether fixed-term employment will remain a transitional experience for young people or will turn into a more permanent situation. Just to name a few examples, Denmark and especially the United Kingdom are usually among the countries with comparatively high (short-term) upward mobility for temporary workers (OECD 2002c; European Commission 2004b; Debels 2004), while the function of temporary jobs as a trap is manifest in Spain (Amuedo-Dorantes 2000). In Germany, at least where young employees are concerned, temporary jobs seem to act as stepping stones rather than traps (McGinnity *et al.* 2005).



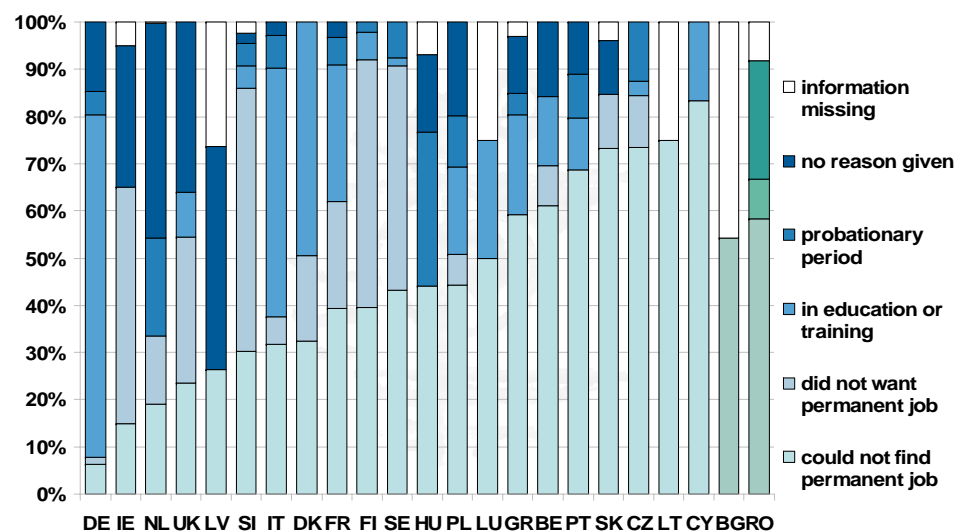
## 3.2. NON-STANDARD EMPLOYMENT

...ESPECIALLY LOW OR MEDIUM QUALIFIED PEOPLE AND YOUNG PEOPLE HOLD FIXED-TERM CONTRACTS...

Figure 11



**Fixed-term employment by reason for young people,  
2005 (% of total, aged 15-24)**



Source: Eurostat (2006, 2nd quarter data). No or incomplete data for Austria, Estonia, Spain and Malta.

Looking at the reasons stated by young people for taking up fixed-term employment we see that education and training (apprenticeship contracts) play a major role only in Germany, Italy and Denmark. Only in Ireland, Slovenia and Finland did the majority of young fixed-term workers not want a permanent contract (Figure 11). In eight EU countries at least every second young fixed-term worker took up fixed-term employment involuntarily because s/he could not find a permanent job; in Slovakia, the Czech Republic, Lithuania and Cyprus this is true of about three quarters of young fixed-term workers. Looking at the whole age range (15-64 years) the share of fixed-term workers who could not find a permanent job grows even more; in all but four countries of the sample more than 40% of respondents stated this as their reason for taking up fixed-term employment (not shown).



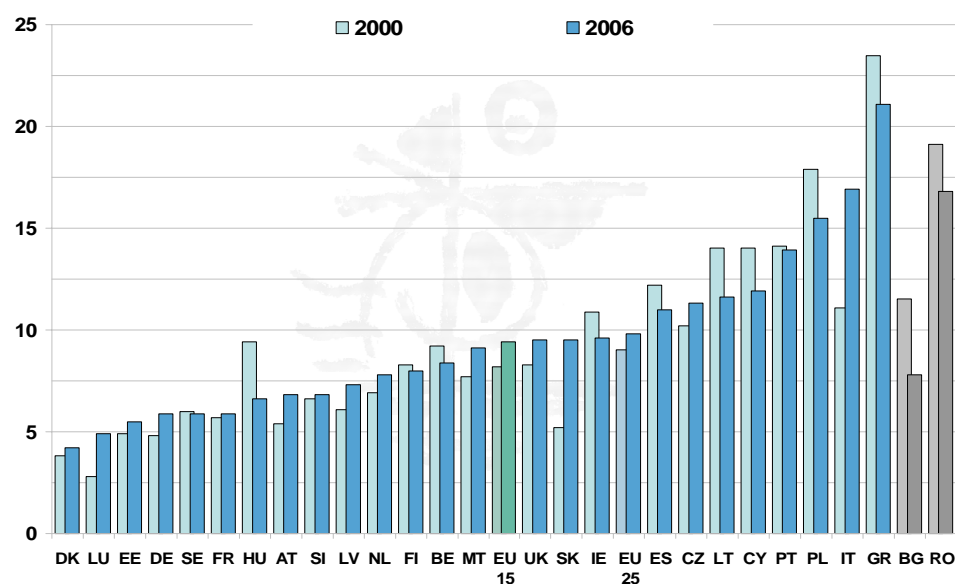
## 3.2. NON-STANDARD EMPLOYMENT

...SELF-EMPLOYMENT HAS GROWN ON AVERAGE BUT THERE IS A NUMBER OF COUNTRIES WITH DECLINING SELF-EMPLOYMENT RATES

Figure 12



### Self-employment 2000 & 2006 (% of employment aged 15-64)



Source: Eurostat (2006, 2nd quarter data).

Self-employment has also been increasing on average over the last few years and at present the EU25 self-employment rate is 9.8% (Figure 12). Trends on this indicator are quite diverse – in a number of countries self-employment declined between 2000 and 2005, most notably in Hungary, Lithuania, Cyprus, Poland and Greece, the latter four having had very high self-employment rates in 2000. On the other hand self-employment increased in many countries, most strongly in Luxembourg (from very low levels), Slovakia (from relatively low levels) and Italy (from relatively high levels).

Self-employment is by far highest in Greece, with about 21%, but it is also higher than 15% in Poland and Italy. In Poland and Greece the agricultural sector is still very important; a lot of self-employment is found in this sector.

## 3.2. NON-STANDARD EMPLOYMENT

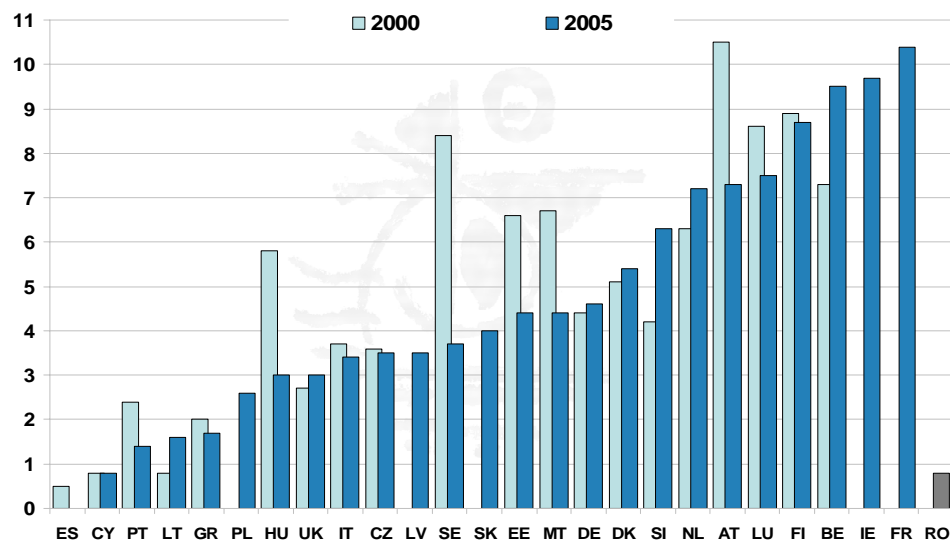
### ...SHIFT WORK AND TELEWORK HAVE BEEN DECREASING IN A NUMBER OF COUNTRIES BUT REMAIN HIGH IN SOME

The quality of employment will depend not only on the form of contract but also on circumstances such as the distribution of working hours or the working environment. Only two indicators are examined here, namely, shift work and telework. A substantial proportion of employed people in the EU work shifts or work outside the usual working hours (night or week-ends).

Figure 13



#### Population in employment usually working from home: 2000 and 2006 (% of total employment)



Source: Eurostat (2006, 2nd quarter data).

Shift work which adds a stress component to employment has in most countries been decreasing somewhat between 2001 and 2005. Regular shift work ranges from as low as 5% in Denmark to as high as 35.3% in Poland and also exceeds 25% of total employment in three additional new member states: Slovakia, Czech Republic and Slovenia. In Sweden and Finland it comes close to 25%. It is not a new phenomenon but rather associated with industrial employment. With the decline of the industry sector employment in favour of service sector employment, it can be expected to decrease still further.

Telework decreased quite sharply in Portugal, Hungary, Sweden, Estonia, Malta and Austria between 2000 and 2006 (Figure 13). In Slovenia and Belgium, on the other hand, it increased considerably during this period. In general, it ranges from below 2% of total employment (in Cyprus, Portugal, Lithuania and Greece) to more than 8% (in Finland, Belgium, Ireland and France).

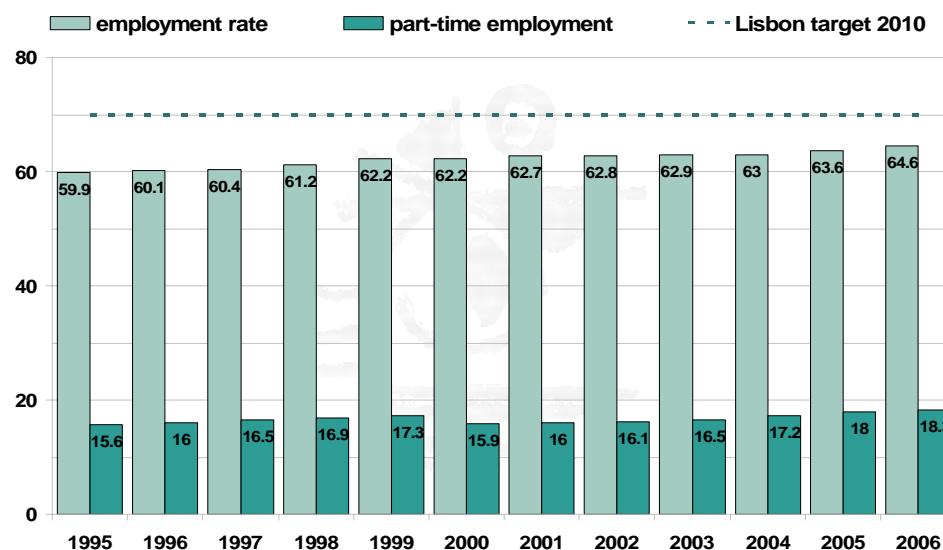
In most countries women are somewhat more likely to perform telework than men; gender differences are most pronounced in Cyprus, Portugal, Greece, the UK, Slovenia, (higher shares of women than men) and Ireland (much higher shares of men than women). The underlying reasons for telework are likely to vary between countries, sectors and employers. Furthermore, regulations governing this form of work will vary from one country to another. In 2002 the EU social partners reached agreement on an autonomous framework agreement on Telework. Its implementation takes place at national level in accordance with the procedures and practices specific to management and labour in the member states (see chapter on European social dialogue). If this form of work is freely chosen it can be used in order to combine care work with employment for instance. On the other hand, employers can also use it in order to save on administrative and overhead costs such as electricity or heating.

### 3.3. MORE DISADVANTAGES FOR SPECIFIC LABOUR MARKET GROUPS

#### EMPLOYMENT RATES ARE INCREASING ...



**Employment rates (% of pop. aged 15-64) and part-time employment (% of total employment)**



Source: Eurostat (2006, 2nd quarter data). Note: Data until 1999 refers to EU15 countries, data from 2000 onwards refers to EU25 countries.

Figure 14

The groups over-represented in (long-term) unemployment and non-standard employment are also disadvantaged in relation to employment rates.

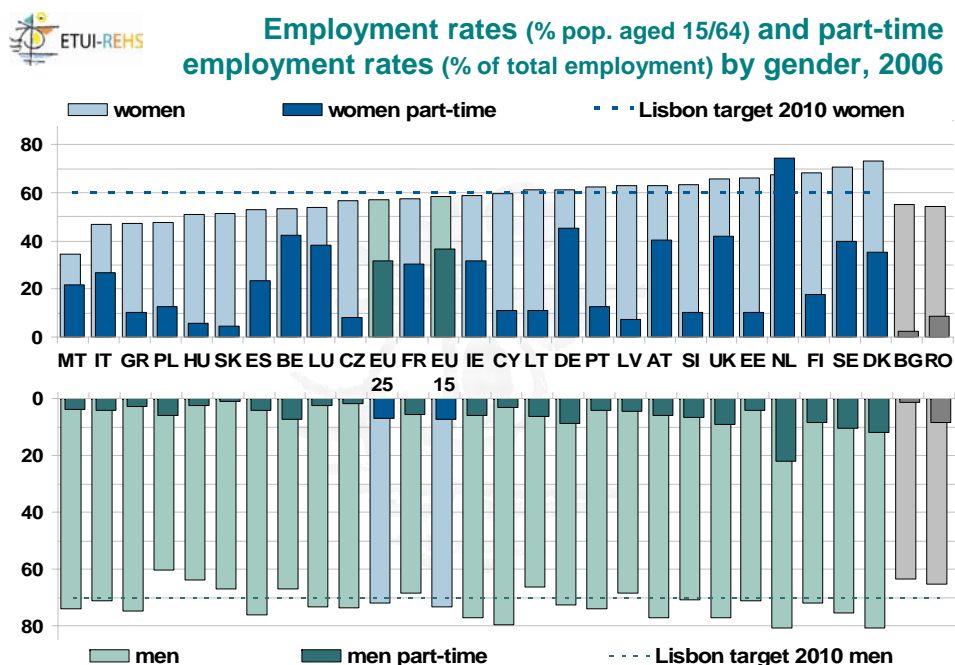
Employment rates have been growing in the EU since the mid-1990s from a level of about 60% (EU15) to a level of 64.6% in the second quarter of 2006. In part this was due to growth in part-time employment (Figure 14). As to regional differences in employment rates, trends are not consistent; regional differences decreased between 1999 and 2005 in some countries, most notably in Sweden, the UK and Spain, while they increased in other countries such as Austria and Slovakia; regional differences remain highest in Italy (not shown).

The intermediate Lisbon target of an employment rate of 67% in 2005 has not been reached and in spite of the constant increases, member states are still a long way from the Lisbon 2010 target of an employment rate of 70%. To come close to this target expansion of employment in a number of labour market subgroups would be necessary, namely among older workers, women, youth and the low qualified. This can take place through a range of support measures such as encompassing provision of childcare, establishment of an age-friendly working environment, as well as training and active labour market policies with close links to the workplace.

### 3.3. MORE DISADVANTAGES FOR SPECIFIC LABOUR MARKET GROUPS

...BUT THEY ARE STILL CONSIDERABLY LOWER AMONG WOMEN...

Figure 15



Source: Eurostat (2006, 2nd quarter data).

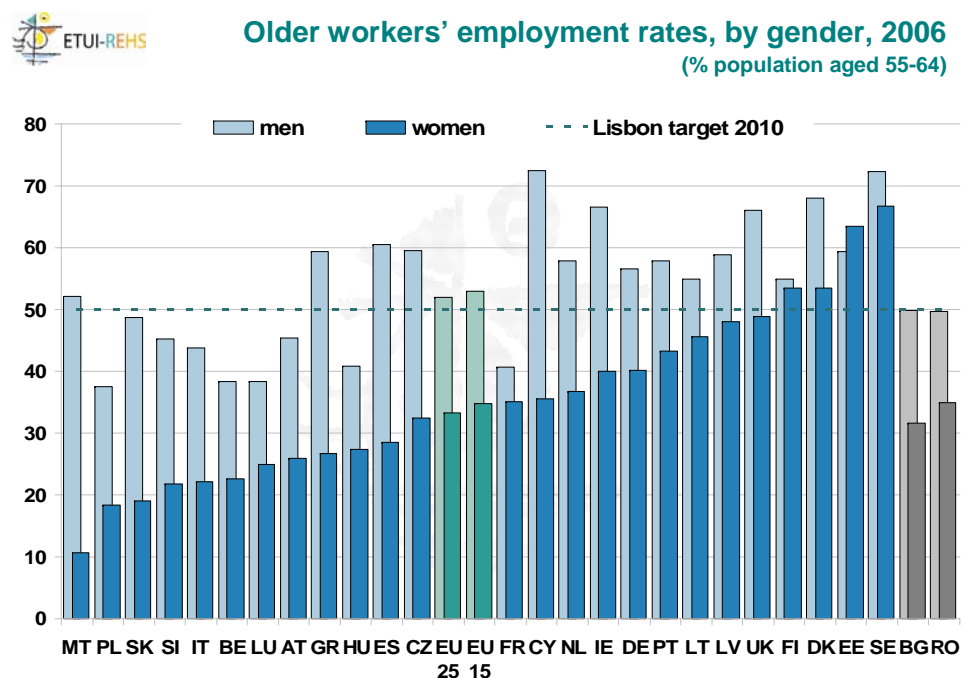
Employment rates for women have increased by 3 percentage points since 2000 (European Commission 2006f). Nevertheless the gender gap in employment rates is still about 14.5%. Only half the countries have a female employment rate of at least 60% in 2006 – the overall 2010 female employment rate target (Figure 14). In Malta, Italy, Greece and Poland employment rates of women remain below 50% and in another four countries they remain below 55%. Especially the Scandinavian countries, but also the Netherlands, the UK and Estonia, perform well when it comes to women's employment rates. As can be seen in Figure 15 high part-time employment among women is not a precondition for a high female employment rate. Both Estonia and Finland have low part-time employment rates for women and high employment rates, whereas Belgium and Luxembourg have relatively low women's employment rates in spite of their high part-time employment rates.

It is noteworthy that among women from countries outside the EU25 – in contrast to migrant men – average employment rates are very low. Differences are especially strong in countries with high overall employment rates of women, notably Finland, the Netherlands and Sweden, but also in Belgium, France and Germany (not shown).

### 3.3. MORE DISADVANTAGES FOR SPECIFIC LABOUR MARKET GROUPS

#### ... OLDER WORKERS

Figure 16



Though the employment rates of the older section of the working population (55-64 years) have increased in recent years, these rates are still too low. To redress this situation, the Stockholm European Council added the additional target of increasing the employment rates of this category to 50% by 2010. Figure 16 shows that a special focus has to be put on women in this age group whose average employment rate is only 33.3% (compared to 51.9% for men in the same group). Only Sweden, Estonia, Denmark and Finland have employment rates of elderly women of more than 50% and it will be of prime importance to assess how these countries keep older people in the labour market. The participation of the 55-64 age group in lifelong learning activities may give a first hint. The average EU25 participation in non-formal education among this group was 8.5% in 2005, while shares in Denmark, Finland and Sweden were 37.7%, 29.4% and 44.3% respectively. Common European trends to increase employment participation of older members of the working population have been measures that limit the possibilities to make use of early retirement provisions, abolition of gender differences and general increase in the statutory retirement age.

### 3.3. MORE DISADVANTAGES FOR SPECIFIC LABOUR MARKET GROUPS ...AND THOSE WITH FEW QUALIFICATIONS

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Another group that has to be targeted in order to increase employment rates are those with few qualifications. While employment rates of people with tertiary qualifications exceed 80% in all countries except France and Italy (where rates are nonetheless close to this figure), employment rates of people with the lowest educational level (ISCED 0-2) are below 40% in eight countries (Slovakia, Czech Republic, Poland, Lithuania, Hungary, Estonia, Latvia and Belgium). The employment rate among persons in this skills category ranges from a low of 14.5% in Slovakia to 66% in Portugal (not shown).

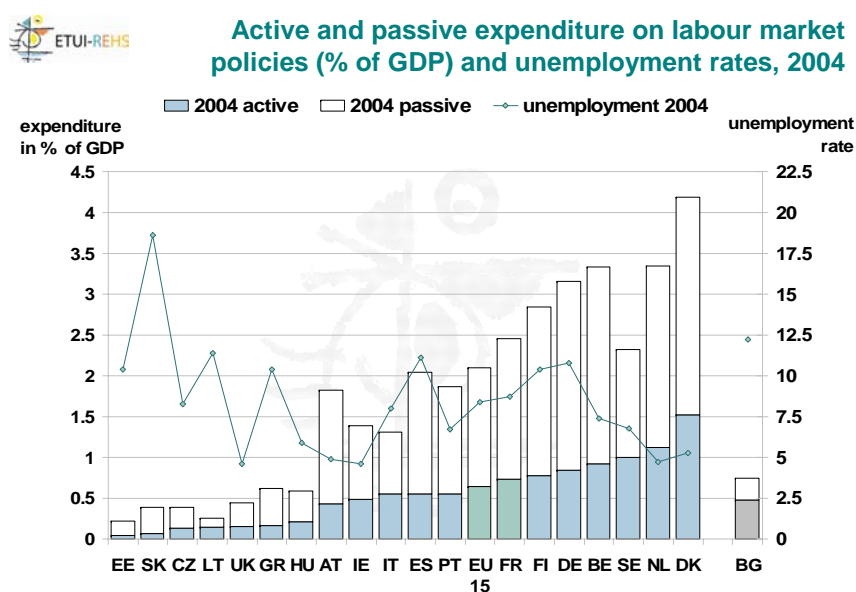
A worrying fact is that while the employment rate for highly skilled EU nationals was around 83% on average in 2005, it was only about 67% for highly skilled non-EU nationals; the difference is especially pronounced for high-skilled females (European Commission 2006f, 74).

An important challenge will thus be to improve the employment opportunities of those with low skills but also of highly skilled non-EU nationals. This can be achieved through a range of measures; one possibility is to improve skills. According to the European Commission (2006f: 39), the skill structure has lately been improving. Between 2000 and 2005 the share of people with low skills in the working-age population declined from 36.2 % to 32.8 % while the share of the medium-skilled rose from 46.3 % to 47.3 % and the share of the highly skilled from 17.6 % to 19.9 %. The growing skill requirements of labour markets have in many countries led to significant increases in the proportion of young people who obtain a tertiary qualification. Among 25–34 year olds, women on average have spent more time in formal education than men and they are also more likely to have completed upper secondary education than men (OECD 2006b: 27-43).

### 3.4. TACKLING LABOUR MARKET DISADVANTAGES THROUGH ACTIVE LABOUR MARKET POLICIES

#### COUNTRY DIFFERENCES IN OVERALL EXPENDITURE ON LABOUR MARKET POLICIES...

Figure 17



Source: Eurostat (2006). Note: Data missing for Cyprus, Latvia, Luxembourg, Malta, Poland, Slovenia and Romania.

Shifting resources from passive labour market policies (income support) to active labour market policies (ALMP) has been recommended by both the European Employment Strategy and the OECD Jobs Strategy. Broadening expenditure on and participation in active labour market policies could constitute a possibility to (re)integrate unemployed or inactive low qualified people, young, elderly (women) and migrants into the labour market. Lately more individualised strategies (profiling and individual action plans), as well as the activating function of ALMPs, have been high on the agenda in most EU member states. The following active labour market policy measures are commonly used: labour market services, training, job rotation and job sharing, employment incentives, integration of the disabled, direct job creation and start-up incentives. Passive labour market measures encompass out-of-work income maintenance as well as early retirement. But have countries followed the recommendations to increase the importance of active labour market policies?

Generally, there are high country differences in the overall expenditure on passive and active benefits and also in the activity grade of expenditure (share of active spending in overall spending). In 2004, active and passive expenditure as a share of GDP ranges from below 0.5% in a range of new member states (Estonia, Slovakia, Czech Republic, and Lithuania) and the UK to more than 3% in Germany, Belgium, the Netherlands and Denmark (Figure 17). Normally one would expect higher spending on labour market policies (especially passive ones) in countries with high unemployment rates but, in fact, there is no clear correlation between the size of unemployment rates and expenditure on passive and active labour market policies. On the contrary, some countries with very high overall spending have comparatively low unemployment rates (Denmark and the Netherlands), whereas countries with high unemployment rates such as Estonia, Slovakia, Lithuania and Greece have very low spending. Passive expenditure is higher than active expenditure in all countries except Lithuania and Bulgaria. It is also relatively close to passive expenditure in Italy and Sweden.

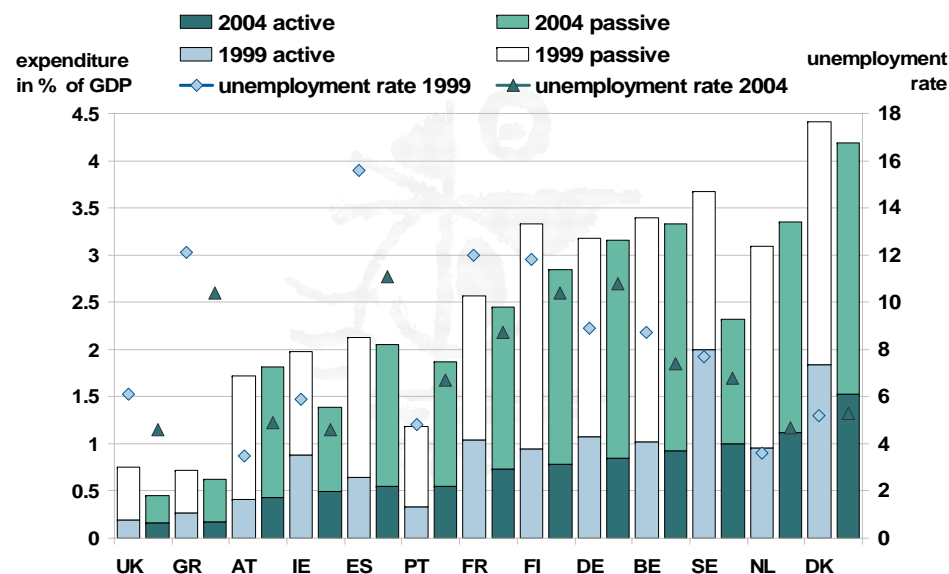
### 3.4. TACKLING LABOUR MARKET DISADVANTAGES THROUGH ACTIVE LABOUR MARKET POLICIES

... SHARE OF ACTIVE EXPENDITURE IN OVERALL EXPENDITURE IS DECREASING

Figure 18



#### Development of active and passive expenditure on labour market policies in EU15 member states (% of GDP)



Source: Eurostat (2006). Note: Data for Luxembourg and Italy is incomplete or missing.

Figure 18 shows that, in a number of countries, expenditure on passive benefits decreased between 1999 and 2004 in line with falling unemployment rates. In Spain and France, on the other hand, falling unemployment rates were accompanied by somewhat higher expenditure on passive benefits which points to improvements in the benefit coverage, level or duration.

In Germany, unemployment increased considerably but this was not followed by an increase in overall spending. Instead active expenditure has been cut in order to free financial means for the necessary increases in expenditure on passive benefits. This typically happens if passive and active benefits are paid from the same sources (contributions, for instance). In times of high unemployment where most active spending would be needed, expenditure is relatively small because the money is needed for the financing of unemployment benefits.

Sweden has for long been associated with high expenditure on and participation in active measures and in 1999 active spending in Sweden was considerably higher than in all the other countries. Between 1999 and 2004 active spending in Sweden almost halved, however, while unemployment rates improved only slightly.



### 3.4. TACKLING LABOUR MARKET DISADVANTAGES THROUGH ACTIVE LABOUR MARKET POLICIES

... SHARE OF ACTIVE EXPENDITURE IN OVERALL EXPENDITURE IS DECREASING

Figure 19



**Activity grade of benefits** (share of active expenditure in total expenditure)

	1999	2004
Austria	23.7	23.6
Spain	30.5	26.9
Germany	33.6	27.0
Greece	37.6	27.0
Finland	28.5	27.4
Belgium	30.2	27.7
Portugal	28.2	29.5
France	40.8	29.7
Netherlands	30.8	33.5
Ireland	44.3	35.4
United Kingdom	26.0	36.0
Denmark	41.6	36.3
Sweden	54.3	43.2

In spite of the recommendations and rhetoric on activation of labour market policy measures in most of the countries (that provide data), a considerably lower share of overall expenditure was used for ALMP measures in 2004 than in 1999 (Figure 19). Decreases in the share of active spending in overall spending were strongest in Sweden (which in 1999 was the only country that spent more on active than on passive benefits), Ireland, France and Greece, whereas the UK considerably increased the activity grade of its expenditure on labour market policies.

Source: Eurostat (2006).

The above analysis showed that labour market disadvantages such as (long-term) unemployment, low employment rates and high shares in non-standard forms of employment are unevenly spread over the population. Youth, women and those with low skills have, on average, lower employment and higher unemployment rates and are more likely than their counterparts to hold non-standard contracts. Older members of the working-age population on average have very low employment rates. While unemployment rates among older workers are relatively low – also due to still existing early exit possibilities such as early retirement – older workers who become unemployed are in many countries very likely to remain unemployed in the long term. Non-nationals, especially citizens from countries outside the EU25, have considerably higher unemployment rates. Employment rates are very low among women from countries outside the EU25.

The uneven distribution of labour market disadvantages calls for labour market policies and other support measures that focus directly on the above-mentioned groups. Multiple barriers to employment have to be tackled by offering encompassing support at an early stage that includes job-search strategies and individually tailored active labour market measures as well as additional support such as guarantees of affordable child-care and intensive counselling (debts, drugs, etc.). The recent consultation on action at EU level to promote the active inclusion of the people furthest from the labour market points in the right direction in this regard (European Commission 2006a). The widely observed decreasing expenditure on active labour market policies in overall expenditure, on the other hand, runs counter to the goals of more inclusive and far-reaching labour market policies.

The development of non-standard forms of employment has to be monitored critically. While these allow specific labour market groups to (re)enter the labour market or, in the case of part-time employment, allow people to combine work with care, training or gradual retirement, they have to be carefully scrutinised as to their segmentation potential. Non-standard employment contracts should, preferably, act as stepping-stones into regular employment. The precarious sides of these jobs that affect job quality – via, for example, low pay, health hazards, deficient social security rights, restricted access to training and lack of representation – have to be assessed and tackled by unions, employers' associations and governments in order to combine flexibility and security in a productive way. In its Joint Employment Report (2005/2006) the European Commission (2006j) urges the member states to give greater attention to sufficiently flexible work contracts, coupled with effective active labour market policies and reliable and responsive lifelong learning systems, as well as to modern social security systems that combine the provision of adequate income support with the need to facilitate labour market mobility.

Encompassing access to lifelong learning and effective active labour market policies, alongside adequate income support, entails costly measures. Both Denmark and the Netherlands – which are commonly cited as good practice examples in terms of achieving flexicurity – spend comparatively large shares of their GDP on active labour market policies and passive benefits, even though their unemployment rates are low.

## 4. WAGE AND INCOME DEVELOPMENTS

Wages are hot a issue in Europe, from several points of view. Wages continue to be a key issue in the debate on relocation (for an overview of this debate, see Galgóczi *et al.* 2006). Wage differences between European countries are often argued to represent an incentive for relocation, and employers also exert pressure on wage negotiations by using the threat of relocation. Pressure is also put on wages by the European Central Bank which is raising interest rates for the Euro area out of fear of wage-induced inflation. At the same time, analysis of wage and productivity developments shows that wage growth is lagging increasingly behind productivity growth, leading to a shift in income from labour to capital (Keune 2006). Also, there is increasing concern about low pay and working poor, meaning that for some groups of workers and their families wages are too low to keep them out of poverty (Peña-Casas and Latta 2004). In this context the minimum wage is currently a major topic of debate in a number of EU countries as well as at the European level. Additionally, wage differences between men and women continue to persist and to raise concerns about labour market segregation and discrimination (Keune 2006).

All these issues pose serious challenges to the social face of Europe. To shed more light on these challenges, this chapter will present recent data concerning wages and income in Europe.

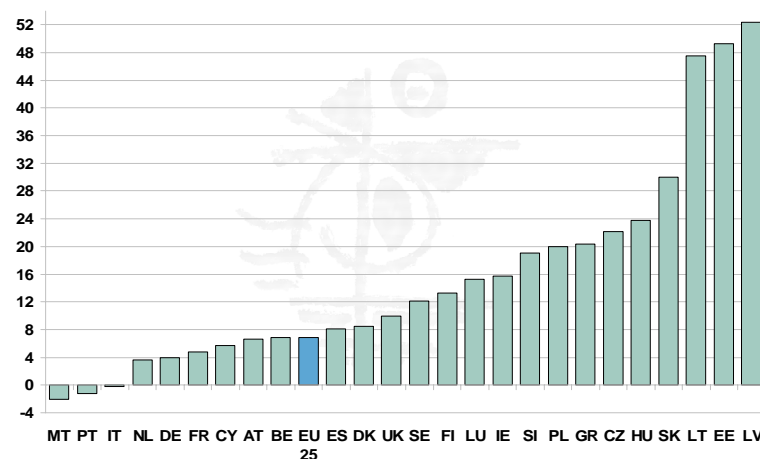
### Themes

- 4.1. GDP and income
- 4.2. Wages and the wage share
- 4.3. The gender pay gap
- 4.4. Working poverty and the minimum wage
- 4.5. Conclusions

Figure 1



GDP per capita, 2006 (at 2000 market prices, 2001=100)

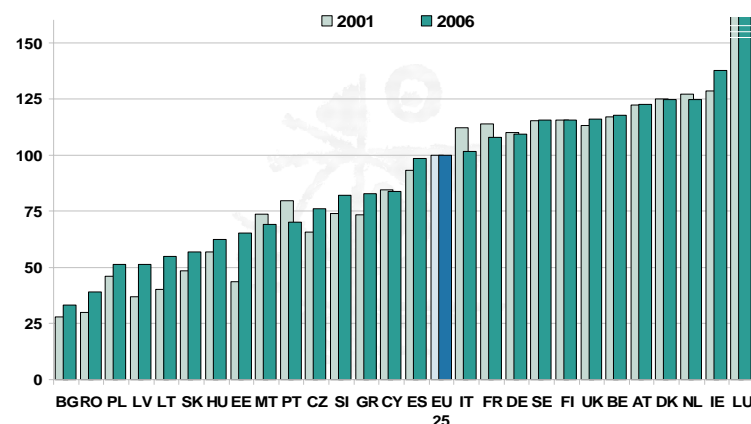


Source: AMECO

Figure 2



GDP per capita in PPS, 2001-2006 (EU25=100)



Note: Values Luxembourg: 2001: 214.6; 2006: 253.2

Source: Eurostat (2006b)

One of the main characteristics of the European economy in recent years has been a slow overall growth, combined with major differences between countries. The accumulated growth of Gross Domestic Product (GDP) per capita between 2001 and 2006 amounted to a mere 6.8% for the EU25 (Figure 1). Growth over this period was particularly low in most of the countries of the Eurozone, including negative growth in Portugal and Italy, and less than 1% yearly growth in France, Germany and the Netherlands. Exceptions in the Eurozone are Luxembourg, Ireland and Greece, where growth over these five years was above 15%. But also in non-euro Denmark and the UK growth over this 5-year period remained below 10%. On the contrary, it is in the central and eastern European member states that growth has really been substantial, ranging from 19.1% in Slovenia to 52.4% in Latvia. This points to a certain convergence between the western and eastern parts of the EU.

This convergence also emerges from the comparison of GDP per capita data corrected for purchasing power (Figure 2). Compared to the average of the EU25, all central and eastern European member states, as well as new members states Romania and Bulgaria, improved their relative position between 2001 and 2006. The relative improvement was especially strong in the Baltic countries and Romania, but also Poland, the Czech Republic and Slovenia improved their relative position by more than 10%. On the contrary, especially Portugal, Italy, Malta and France, but also Germany, the Netherlands, Cyprus and Denmark, saw their relative positions deteriorate. For example, while Italy was still 12% above the EU25 average in 2001, in 2006 this has diminished to 1.5%. However, in spite of some convergence, differences within Europe remain large.

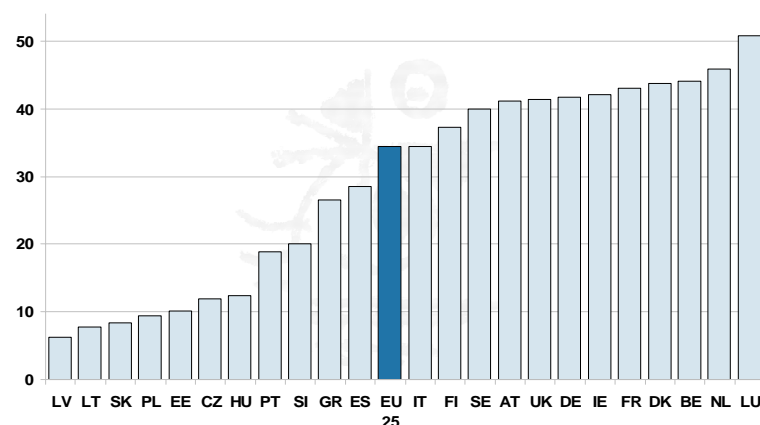
## 4.2. WAGES AND THE WAGE SHARE

### WAGE MODERATION AND A SHIFT OF INCOME FROM LABOUR TO CAPITAL

Figure 3



Yearly compensation per employee, 2006 (1000 Euro)

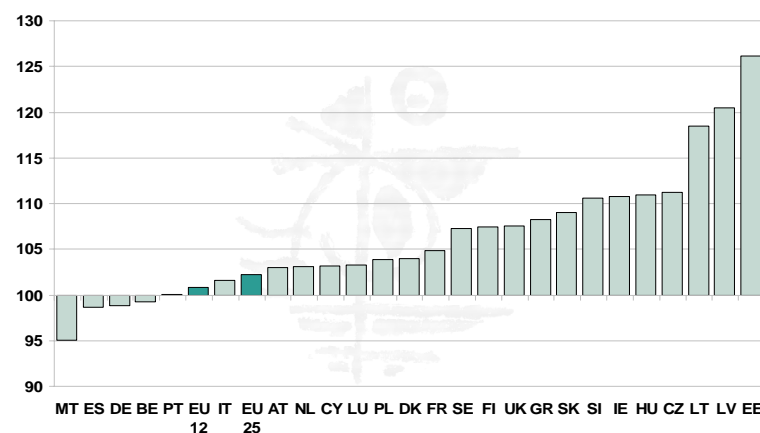


Source: AMECO

Figure 4



Real compensation per employee 2006 (2003=100)



Note: Real compensation per employee, deflator private consumption; total economy; national currency.

Source: AMECO

Large differences within Europe also emerge when comparing the compensation of employees (i.e. wages plus employer contributions) in euros (Figure 3). The relative position of the countries roughly follows that of GDP per capita, with some exceptions (for example, in France GDP per capita is only just above the EU25 average while employee compensation is almost 25% above the EU25 average). Again differences between countries are large. For example, yearly compensation in the Netherlands is 3.7 times that in Hungary, and yearly compensation in France is 4.6 times higher than in Poland. It is these differences in employee compensation that cause major worries in the western European countries, where it is often feared that they form an incentive for relocation, even though wages are only one of a number of factors influencing relocation processes (Galgóczi *et al.* 2006).

Figure 4 presents the development of real employee compensation between 2003 and 2006. The first striking feature here is that in four countries (Malta, Germany, Belgium and Spain) developments have actually been negative, following largely from negative wage developments. More in general, on average, in the EU25 and particular in the Eurozone wage developments have been extremely meagre. Average real growth of compensation was only 2.2% for the EU25 and less than 1% for the Eurozone over these three years. This reflects low growth in the Eurozone, but also strong pressure for wage moderation by the ECB, employers and governments. However, the argument that wages in the Eurozone threaten to cause inflation does not seem to make much sense, given their actual development. On the other hand, real compensation has increased by over 10% in six of the central and eastern European member states as well as Ireland, all fast growing economies. The major exception to this trend has been Poland, where fast economic growth has not been accompanied by similar wage growth as in the other central and eastern European member states. Still, in general terms, the differences in compensation growth point to a narrowing of the wage gap between old and new member states even though this gap is still large.

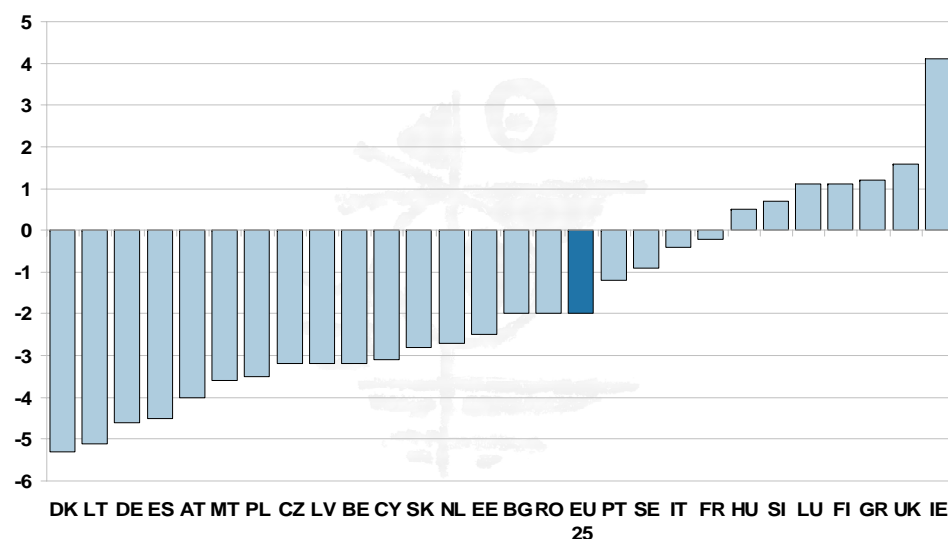
## 4.2. WAGES AND THE WAGE SHARE

### WAGE MODERATION AND A SHIFT OF INCOME FROM LABOUR TO CAPITAL

Figure 5



Wage share in GDP 2003-2006 (% change)



Note: Compensation per employee as percentage of GDP at market prices per person employed.

Source: AMECO

In spite of major differences in wage growth, a common feature of 20 out of 27 countries in Figure 5 (EU25 plus Bulgaria and Romania) is that the wage share in GDP declined between 2003 and 2006, the continuation of a longer term trend of a shift in income from labour to capital. Indeed this decline concerns most old and new member states and points to the fact that wage growth structurally lags behind productivity growth. In the EU25, in this three-year period, the wage share declined by 2%. It declined most strongly in Denmark and Lithuania (by more than 5%) and in Germany and Spain (by around 4.5%). Of the few countries where the trend was the reverse, in Ireland alone was it strong, just over 4%. This is probably related to the fact that the strongly growing Irish economy has created a lot of jobs for immigrants in low-productivity service jobs. Something similar could be argued for the (much smaller) increase in the UK.

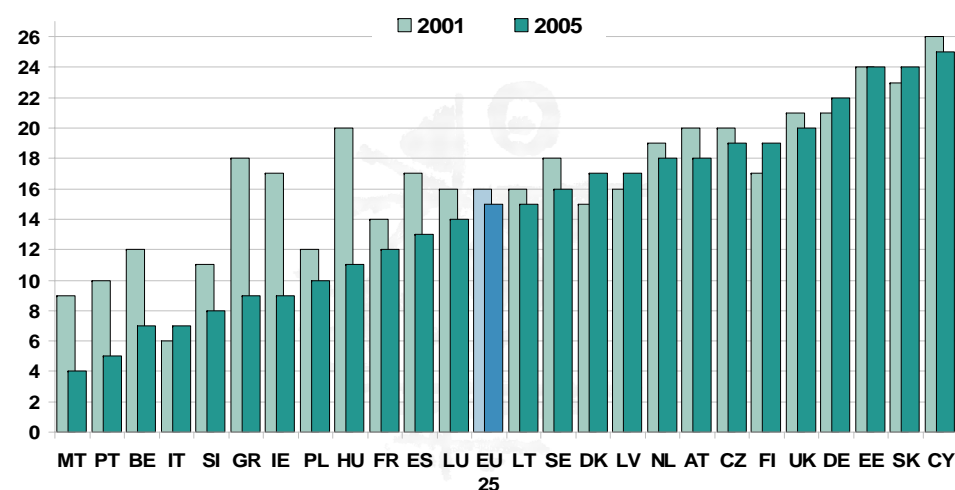
## 4.3. THE GENDER PAY GAP

### LITTLE PROGRESS IN CLOSING THE GENDER PAY GAP

Figure 6



Gender pay gap (gross hourly earnings) 2001-2005



Note: Gender pay gap is given as the difference between average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. The population consists of all paid employees aged 16-64 that are 'at work 15+ hours per week'.

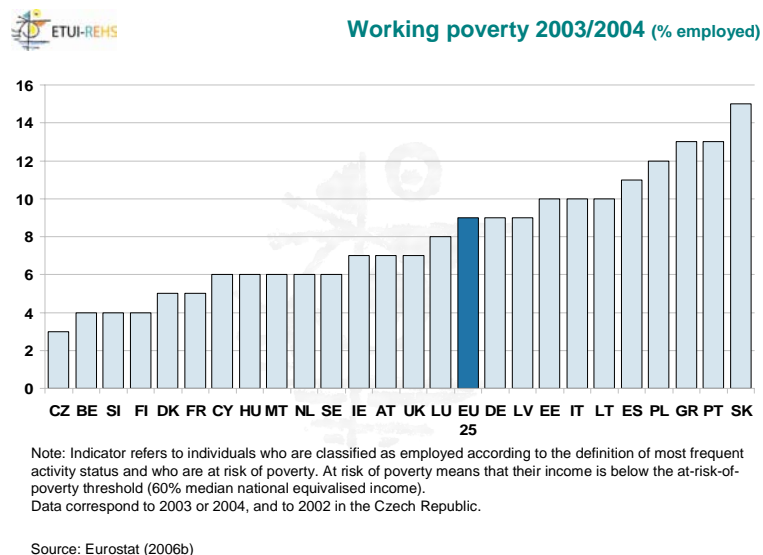
Source: Eurostat (2006b)

Where the gap between the wages of men and women (working more than 15 hours per week) is concerned, in the period 2001-2005 it declined by 1 percentage point in the EU25, from 16% to 15% (Figure 6). In most EU countries a decline could be observed, sometimes a quite substantial one. For example, in Hungary and Greece, the gap decreased by 9 percentage points and in Ireland by 8 percentage points. At the same time, however, in six of the EU25 countries the gender pay gap increased over this period, if only slightly: it grew by 2 percentage points in Denmark and Finland and by one percentage point in Germany, Italy, Latvia and Slovakia. Hence, overall improvements in reducing the gender pay gap, a major political goal voiced around Europe by governments and trade unions, remain slow and progress is actually negative in some countries.

## 4.4. WORKING POVERTY AND THE MINIMUM WAGE

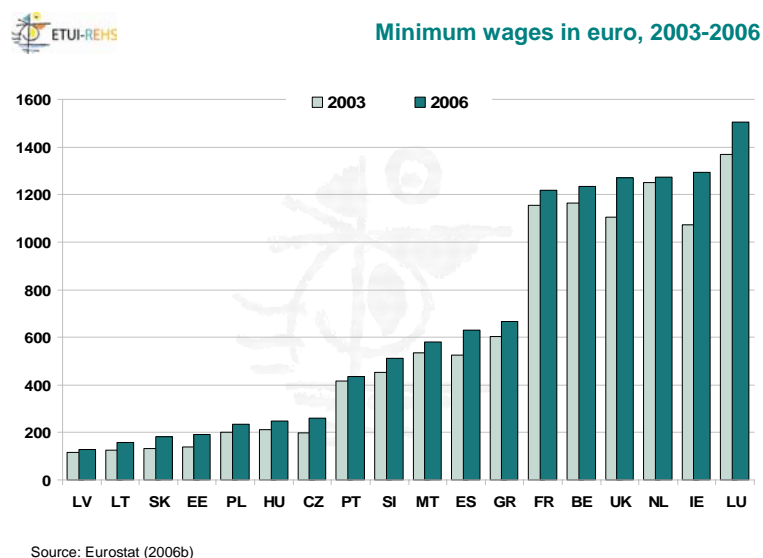
### WORKING POVERTY REMAINS AN IMPORTANT PROBLEM

Figure 7



Working poverty also remains substantial in Europe. In the EU25, 9% of people who are employed are also classified as poor, according to Eurostat definitions (Figure 7). This means that their wages, together with any other sources of income available to the household, are not sufficient to keep them and the other members of their household out of poverty (with poverty here referring to an income below 60% of the median national equivalised income). This problem is especially important – i.e. affecting more than 10% of employed persons – in Portugal, Spain, Greece, Poland and Slovakia. Working poverty is particularly low (i.e. below 5%), by contrast, in the Czech Republic, Belgium, Slovenia and Finland.

Figure 8



One of the instruments that can help to avoid low pay is the minimum wage. Enormous differences prevail around Europe (in the countries that have a legal minimum wage), with the minimum wage in 2006 ranging between 129 euro in Latvia and 1503 euro in Luxembourg (Figure 8). In euro terms the minimum wage increased in all these countries in 2003-2006. In absolute terms this increase was by far the highest in Ireland (220 euro, more than the entire minimum wage in the Baltic countries or Slovakia), the UK (163 euro), Luxembourg (134 euro) and Spain (105 euro). However, in percentages the biggest increases over this period were achieved in Estonia (39.1%), Slovakia (37.6%) and the Czech Republic (31.2%). The Netherlands is the only country where minimum wage growth was very limited over this period with an increase of only 1.9%.



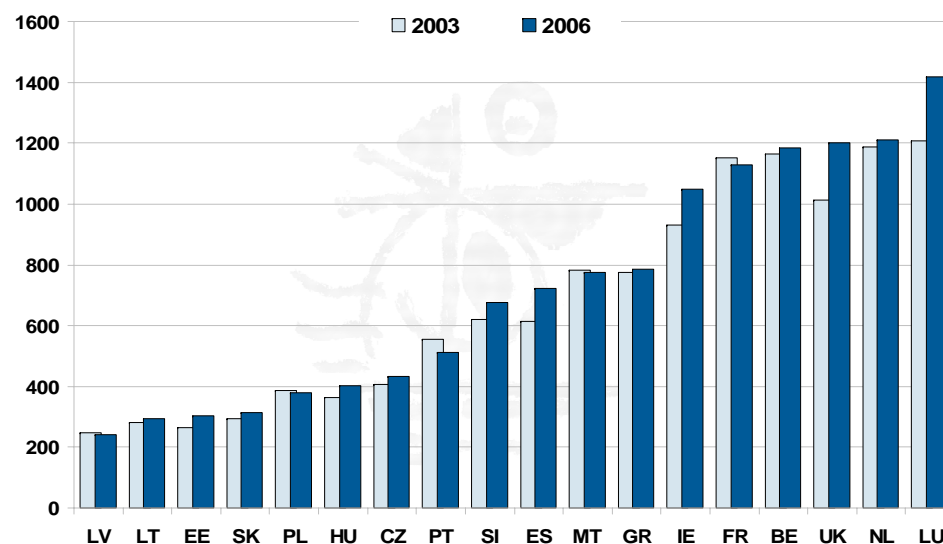
## 4.4. WORKING POVERTY AND THE MINIMUM WAGE

### WORKING POVERTY REMAINS AN IMPORTANT PROBLEM

Figure 9



Minimum wages in PPS, 2003-2006



Source: Eurostat (2006b)

The picture looks slightly different when considering the minimum wage corrected for purchasing power (Figure 9). First of all, the differences between countries become smaller since prices are in general somewhat lower in the lower income countries. Secondly, in purchasing power terms the increases of the minimum wage in 2003-2006 are highest in an entirely different set of countries: the UK (18.8%), Spain (18%) and Luxembourg (17.4%). In these countries minimum wage growth clearly had an equalising effect, catching up with average wages. Also, and more importantly, in five countries the minimum wage actually lost purchasing power (Latvia, Poland, Portugal, Malta and France). Hence, in these countries the protective function of the minimum wage deteriorated. Also, the growth of the purchasing power of the minimum wage in the Netherlands, Greece and Belgium was extremely limited as it remained below 2%.

Large income differences continue to prevail in the EU, even though a slow reduction of these differences can be observed, especially when comparing the western and eastern parts of the EU. The same can be said about wages: wage differences between countries remain large, but wage growth is in general much faster in the low-wage countries. Ireland (high wages and high wage growth) and Poland (low wages and low wage growth) are the major exceptions to this trend. The fact that wages will continue to differ substantially across Europe in the years to come also means that wages will continue to be a potential driver of relocation processes as well as an argument used by employers in high-wage countries to use the threat of relocation to argue for wage moderation and other concessions.

A more common feature of wage developments in Europe is that, with few exceptions, wages grow at a slower pace than productivity and that the share of wages in GDP is declining.

This points towards a shift in income from labour to capital and towards difficulties for workers and trade unions to get productivity improvements translated into similar wage improvements. Indeed, there continues to be strong pressure for wage moderation, in particular in the Eurozone, where real wage growth is very slow and, in countries like Germany and Spain, even negative.

Where wage differences between men and women are concerned, on average, the gender pay gap remains substantial in the EU (15%) and reduces only very slowly. Working poverty also remains substantial with an average of 9%, although large differences exist between countries. In a number of countries significant growth in the purchasing power of the minimum wage may have helped to reduce working poverty. In others, however, a reduction of the purchasing power of the minimum wage can be observed, to the detriment of the weakest on the labour market.

## 5. SOCIAL PROTECTION AND FLEXICURITY

Social protection and, more broadly, social policies are at the heart of discussion of the European Social Model, and it is becoming quite clear that, even if social policies are not a competence of the European Union, and any proposal for European-level binding initiatives is subject to unanimity voting, European-level action can nonetheless have a considerable impact on national social policies via various direct, indirect and/or non-binding initiatives, e.g. directives, judgements of the European Court (ECJ), Open method of coordination (OMC), Stability and growth pact, etc.

EU-wide coordination of social protection and social inclusion has been strengthened in recent years but the European mandate in this sphere remains limited. Under the open method of coordination, common objectives are defined, national action plans outlining the specific policies to achieve these goals drawn up, and good practices exchanged between member states. Key areas of coordination in the field of social protection are poverty and social exclusion (since 2000), adequate and sustainable pensions (since 2001) and high quality access to health care and long-term care (since 2004). As of 2006 the parallel processes on these three areas have been brought together into a new ‘streamlined’ OMC on social protection and social inclusion.

The review of the Lisbon strategy in spring 2005 reaffirmed that strengthening social protection and fostering social inclusion are key priorities. Accordingly, it stipulated a closer interaction between the OMCs on social protection and social inclusion and policies on employment and growth (cf. European Communities 2006e). The 2005 Joint Report on Social Protection and Social Inclusion places strong emphasis on the interaction between social inclusion and employment, while the current discussion intended to promote forms of ‘flexicurity’ refers extensively to the essential role of social security in establishing security for a more flexible labour market.

This chapter will first take a closer look at the evolution and composition of social security expenditure in the EU member states; it then will briefly outline the role of social protection in the discussion on ‘flexicurity’.

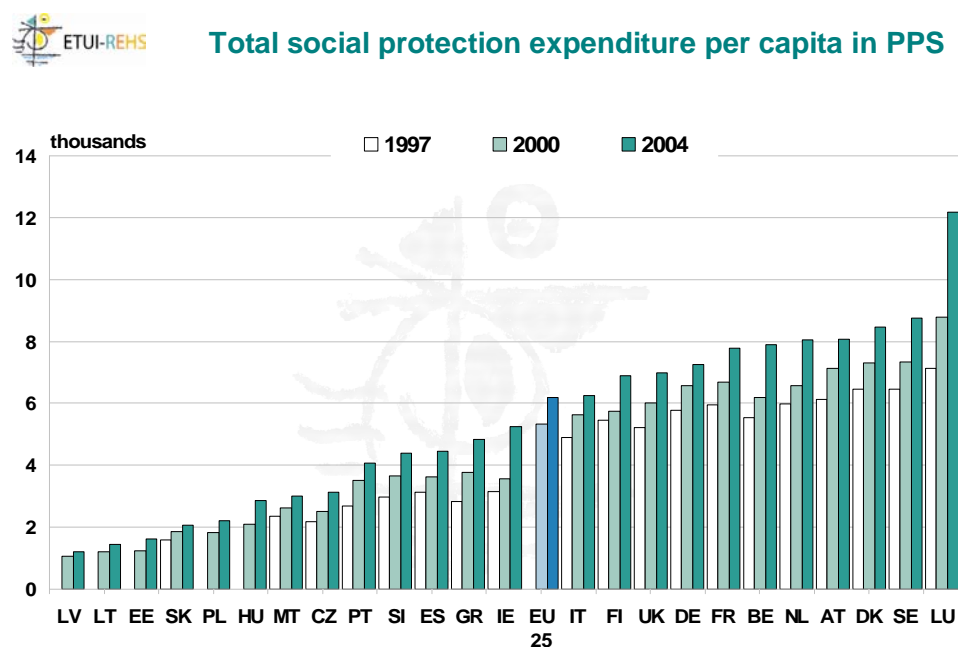
### Themes

- 5.1. The trend of social expenditure
- 5.2. The different functions of social protection benefits
- 5.3. Flexicurity and social protection
- 5.4. Conclusions

## 5.1. THE TREND OF SOCIAL EXPENDITURE

### MORE SOCIAL EXPENDITURE PER CAPITA, BUT NOT AS PERCENTAGE OF GDP

Figure 1



Source : Eurostat : ESSPROSS database

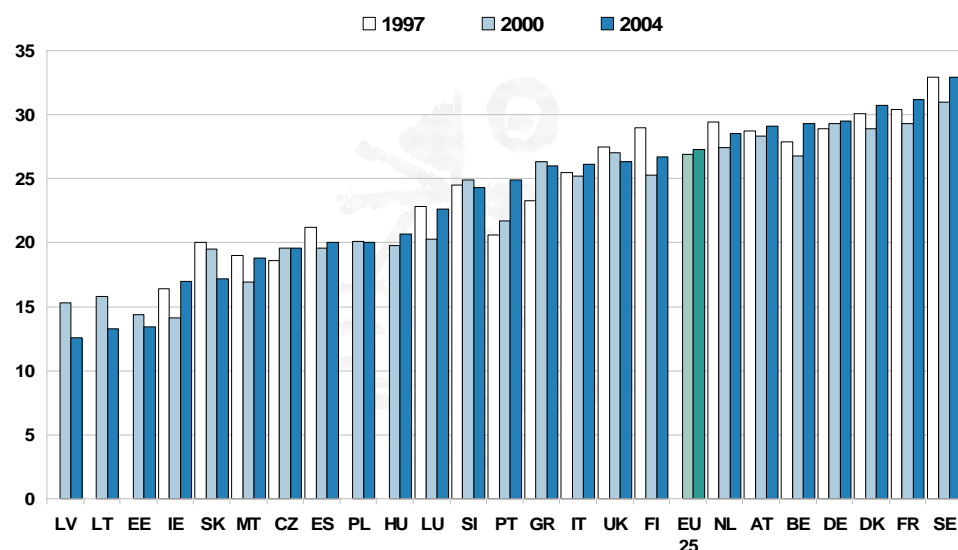
Figure 1 shows the large differences in per capita expenditure on social protection in the EU25 on a scale from 1 to 10. Per capita spending expressed in purchasing power standards (PPS) gives an indication of the level of social investment provided by the social protection system. The countries can be grouped into three clusters, with Luxembourg, Sweden, Denmark, Austria, the Netherlands, Belgium and France at the higher end and Latvia, Lithuania, Estonia, Slovakia, Poland, Hungary, Malta and the Czech Republic at the lower. The trend observed in last year's Benchmarking report, namely that social protection expenditure per capita is not decreasing or even compressed, can be confirmed by this year's Benchmarking report. Throughout the European Union more money has been invested in the population, but the increase in spending is not evenly spread since, with a few exceptions, the countries already spending larger amounts had higher increases in absolute terms between 2000 and 2004 than the countries spending less. With regard to percentage increase, there is no clear picture across the different countries, with the highest percentage growth in social spending between 2000 and 2004 being observed in Ireland, Luxembourg and Hungary, and the lowest in Germany, Italy and Slovakia.

## 5.1. THE TREND OF SOCIAL EXPENDITURE

### MORE SOCIAL EXPENDITURE PER CAPITA, BUT NOT AS PERCENTAGE OF GDP



**Total social protection expenditure as percentage of GDP**



Source : Eurostat : ESSPROSS database

Figure 2

Differences between EU member states in terms of per capita spending on social protection are extremely large, and these differences are reflected in the percentage of GDP used on social protection expenditure, though the range is somewhat lower with a 1:2 ratio between the lowest and the highest spenders. This represents a very considerable difference in the resources used to provide social protection across the EU member states. Grouping countries, we find more or less the same classification as in Figure 1, with the Nordic countries, France and Belgium at the higher end and the Baltic States, Ireland and Slovakia at the lower. However, the strong division observed between ‘old’ and ‘new’ member states with regard to per capita spending no longer applies once we look at the percentage of a country’s resources that is spent on social protection. In the lower range of countries, those spending less than 20-30% of GDP on social protection, we find more ‘new’ than ‘old’ member states, so that Figure 2 shows not only that the ‘new’ member states invest less of their resources in social policies but also, quite starkly, that has the ‘new’ member states have a lower GDP they hence have less revenue to invest in social policies. Furthermore the observation from last year’s benchmarking report, that since the beginning of the 1990s, as the economic situation improved, there has been a trend towards stabilisation or even reduction of the share of GDP spent on social security, is confirmed once again this year. In other words, the percentage of GDP spent on social protection is counter-cyclical (see *Benchmarking Working Europe* 2005), and since economic cycles and growth rates vary across EU member states, this may partly explain the differences in shares of GDP spent on social protection. In countries that are faring well, one might therefore expect the rate to decrease, while in countries faring badly one might expect the share to rise as the GDP growth rate decreases and the proportion of people seeking benefits increases.

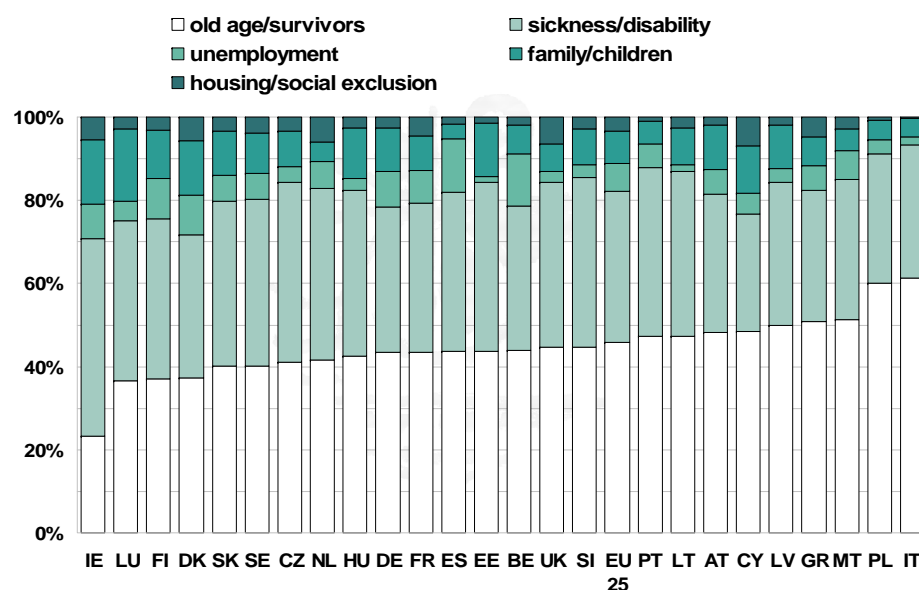
Thus, the question of whether the ‘catch-up’ effect of social provisions, which has been the ‘rule’ so far in the European integration process, will be repeated in the current enlargement continues to be pertinent. This question has its roots in the observation that, while countries spending a low share of GDP on social protection, but with high growth rates, might be expected to build up and consolidate their social protection systems, this is not the case in the three Baltic countries, Slovakia and Malta. In addition to spending a relatively low share – in European terms – of their GDP on social protection, these countries, in contrast to most other EU25 countries, actually saw this share decrease. Though there has been a modest increase in spending per capita, this has not been as high as the increase in GDP.

## 5.2. THE DIFFERENT FUNCTIONS OF SOCIAL PROTECTION BENEFITS

### PENSIONS ACCOUNT FOR THE MAJOR SHARES



**Social benefits by function group in 2004**



Data source: Eurostat, ESSPROS database.

*Figure 3*

With a share of about 46%, old age and survivor benefits accounted for by far the major share of total social protection expenditure in 2004. The next largest share of expenditure was on sickness, health care and disability, a category that averaged 36.3% of total expenditure. Family and child benefits on average accounted for about 7.8%, while the average spent on unemployment benefits was 6.5% of total benefits. Housing and social exclusion took the smallest share with an average of 3.4%. Though there were hardly any differences between the EU25 and the EU15 averages, Figure 3 shows that on some indicators strong country differences can be observed. For instance, expenditure on old-age and survivor benefits is very low in Ireland, a situation attributable at least in part to its population profile which is the youngest in Europe with about 29% of the population aged under 20 in January 2003, the EU25 average being 22.8 % (compare Eurostat 2006c). Poland and Italy, on the other hand, spend a very large share of their social protection budget on the elderly. In Italy, 25% of the population were aged 60 and over in January 2003, compared with an average of 21.6% in the EU25 countries (cf. Eurostat 2006b). Health expenditure exceeded old-age and survivor benefits in Ireland and was very high also in the Czech Republic. Cash family benefits actually accounted for more than 70% of total expenditure under this function group. Family and child benefits were especially high in Luxembourg but also well above the average in Ireland, Denmark and Hungary.

## 5.3. FLEXICURITY AND SOCIAL PROTECTION

### A COMPLEX ISSUE

The term 'flexicurity' originates partly from the word 'flexibility' and partly from 'security'; and while we may have a fairly clear picture of what kind of flexibility we would or would not wish to promote on the labour market, the ideas about what security we need to support flexible labour markets would seem to be less advanced. However, it goes without saying that a part of the security which is required to support a flexible labour market should derive from social protection systems; this, however, leaves open the question of exactly what role social protection systems can play in the provision of security and how this provision should be combined with a more encompassing system of economic growth and social cohesion. Currently this highly complex issue is being limited to the matter of providing active labour market policies that will enable unemployed persons to find new jobs (see chapter on employment), and ensuring that all individuals have access to and participate in lifelong learning (see chapter on lifelong learning). Yet the issue is also one of how to provide adequate pensions, as well as services that enable those with family responsibilities to remain simultaneously available on the labour market, to receive adequate income support while searching for a new job, or during periods of up-skilling or while caring for relatives at certain stages in life. And these opportunities must be available not only to standardised individuals working full-time on permanent contracts, but to a wide variety of individuals with very different labour market and family profiles. This creates challenges for social security systems with regard to eligibility criteria, access to benefits and amount of benefits for flexible workers. It is important to give thought to the exact nature of the compromise in an agreement on provision of security, and hence also social security, to flexible workers. It is a fact that, at the present time, social protection schemes do not provide the same level of security to flexible workers as to full-time, permanent 'male-breadwinner' workers; and indeed that social protection schemes actually, to a certain extent, generate insecurity by encouraging jobs that pay less than the minimum wage and creating hybrid-status jobs, while also making the granting of social benefits conditional on acceptance of a job or socially useful activity (Vielle and Walthery 2003).

This highly important issue is one on which there exist, unfortunately, very few comparable data. This section will accordingly be based on available material for a selection of countries only.

The issue of pensions is rarely mentioned in the context of flexicurity as it might not be a key component in assuring the mobility of workers. However, pensions are what people rely on for an income once the labour market participation period of their lives is over and, unfortunately, the many pension reforms across the European countries have not fully taken into account the fact that very few people will work their entire lives with the same employer on a full-time basis. Pension entitlements, access and replacement rates are greatly affected by the various types of flexibility that are so actively encouraged, e.g. working hours, transitions between employers, sectors, and occupations. Issues that are important in this setting are the eligibility criteria, the replacement rate and minimum pension amount, as well as the period of work required to qualify for a full pension. These conditions will vary across EU member states as well as across types of employment, e.g. self-employment, wage- or salary-earner, and working-time, and across the pension systems within countries, e.g. flat-rate, earnings-related, defined-benefit, and defined-contribution systems. Currently the biggest challenge in the public pension system lies in the way hours of work are dealt with in establishing full-pension eligibility and qualifications. In several EU member states, for example, Sweden and Spain, account has already been taken of a situation where a large proportion of workers no longer work full-time, but, for a variety of reasons, part-timers still encounter difficulties in acquiring a reasonable pension. Some EU member states still do not grant access to the pension system to those working below a certain threshold of hours per week/month/year or earning less than a certain amount, e.g. in Germany 'mini-jobs' do not contribute to the pension system. In other countries access is hampered by the very long qualifying period often measured in full-time equivalent hours. In Greece, for example, the number of years of full-time work required to gain access to the pension system is so high as to make it extremely difficult for part-time workers to acquire eligibility. Furthermore, in countries where the entire pension is earnings-related, it is very important to have a generous minimum pension as otherwise part-timers risk falling below the poverty line. The issue becomes even more complex in relation to the matter of changing job status, in the sense, for instance, of moving between employment in the public and private sector, or moving between the status of self-employed and dependent worker. Here, very often, the pension system is not the same in the two cases and as, in some member states, the qualifying period for eligibility and full pension is not cumulative, the worker frequently loses out due to mobility between different forms of employment status.

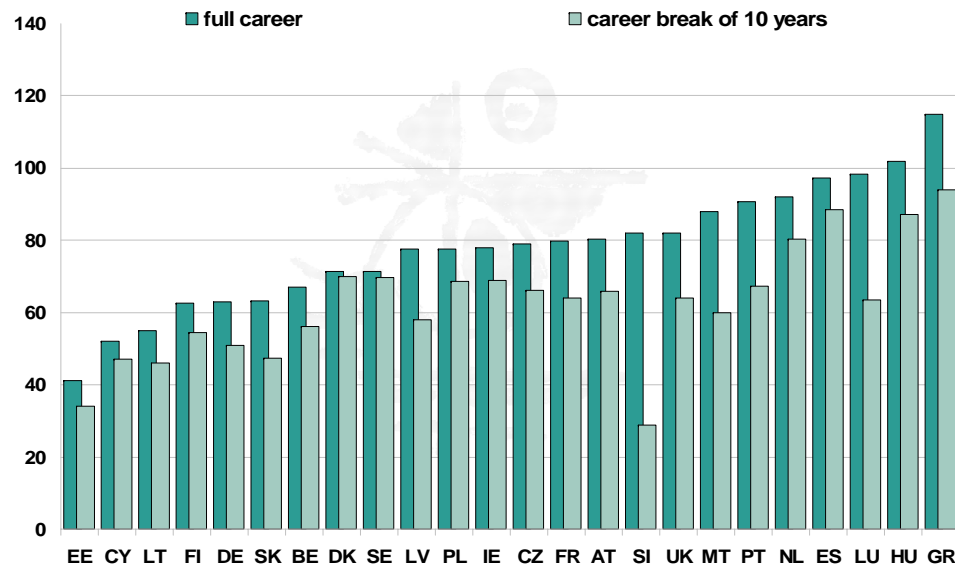
## 5.3. FLEXICURITY AND SOCIAL PROTECTION

### HOW TO DEAL WITH PERIODS OUT OF WORK

Figure 4



Total net theoretical pension replacement rates 2004/5



Source: Indicators Sub-Group of the social protection committee (2006)

Leaving the labour market, to care for children, for example, is another very common life event that has a negative impact on the pension replacement rate. In a flexible labour market absence taken from paid work in order to care or to learn should be accounted for in the pension system in order to embrace the concept of ‘combination security’ and enable the individual to combine an active and productive working life with a private life.

However, as Figure 4 shows, leaving the labour market for a period of 10 out of 40 years has a very significant impact on the pension replacement rate in certain countries. The way forward is shown by Denmark and Sweden, where workers taking a career break to care for children are only lightly penalised in terms of their subsequent pension entitlements.

The above effects are to some extent compounded in the case of fully funded second-pillar pensions, insofar as pension provisions are not always transferable between employers, there is no minimum provision, and, generally speaking, no account is taken of periods of non-labour market participation. Furthermore, workers in a defined benefit scheme will suffer a loss in that the ‘final’ salary with an employer will not be the same as it would have been had the employee remained with that employer right up to retirement. This loss has been computed by the OECD (2005) and it was found that, in the UK, the overall pension of an employee who has two jobs over the career is already 16% lower than that of a comparable individual who had only one job; with more than five different employers the loss rises to 25%.

Hence the public and private pension systems face a tremendous challenge in order to ensure that there is no discrimination between the ‘theoretical’ worker employed by the same employer on a full-time basis for 40-45 years, and the reality of today’s labour market. Over the past 30 years efforts have been made to lift older people out of poverty by providing them with a reasonable pension but this threat of poverty in old age recurs as an issue to be tackled if workers are to be enabled to change their jobs, working hours and employment status without being penalised.



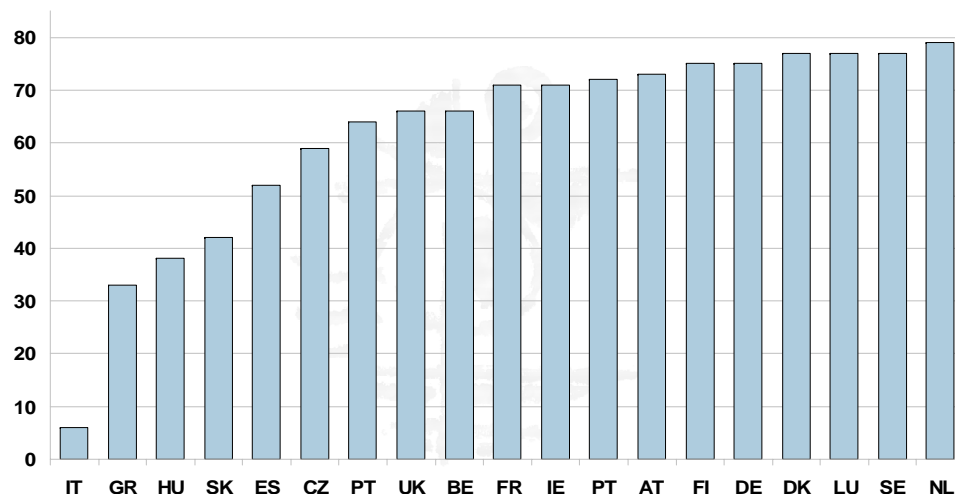
### 5.3. FLEXICURITY AND SOCIAL PROTECTION

#### UNEMPLOYMENT BENEFITS NEED TO BE ADAPTED

Figure 5



**Average of net replacement rates over 60 months of unemployment** (2004, average for four family types and two earnings levels, in %)



Source : OECD (2006)

An adequate level of unemployment benefits is an intrinsic component of a flexicurity system. Unemployment benefits should be adequate to enable individuals to search the labour market for a suitable job, thereby fostering an efficient match between the worker and the job. Unfortunately, however, although flexibility has become the reality of many European workers, unemployment systems have not completely integrated this dimension into their operation and hence it is precisely those workers who need the most support that are left behind. Unemployment benefit systems have undergone far-reaching reforms in many countries, mostly in the sense of stepping up controls on the unemployed, restricting the duration of unemployment benefits and, albeit to a lesser extent, with regard to the actual replacement rates represented by benefits. Eligibility criteria are further components that have undergone reform.

In evaluating whether or not an unemployment benefit system is suitable for the provision of security on a flexible labour market, several elements are crucial, including the following: whether periods previously spent in work are calculated as full-time equivalent; whether hours worked are computed per day/week/month/year; whether there is a wage floor on eligibility to contribute to the system; consideration accorded to periods spent on various forms of leave from the labour market; access for self-employed and civil servants; mode of accounting for activation spells; computation of replacement rate and computation of the duration of the period eligible for unemployment benefits. Figure 5 displays the figures for average net replacement rates over 60 months of unemployment including social assistance where relevant. It shows the huge differences across the EU member states, with a peak of close to 80% replacement rate in the Netherlands, Sweden, Luxembourg and Denmark and a low of below 40% for Hungary, Greece and Italy. The institutional settings vary even more across the European countries, taking more or less account of flexible workers. The UK, the Netherlands, Sweden and Denmark have, to a certain extent, embedded flexible forms of work in their system in order to ensure that the workers in question are not discriminated against, while other countries have so far failed to do this.

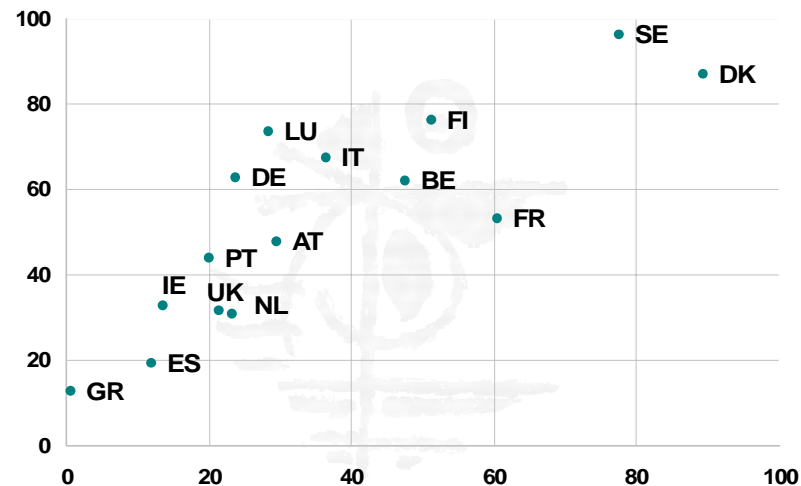
### 5.3. FLEXICURITY AND SOCIAL PROTECTION

#### COMBINING PRIVATE AND FAMILY LIFE

Figure 6



Correlation between care and parental leave index



\* The index on childcare comprises data on coverage rate, opening hours, cost, number of children per carer.

\*\* The index on parental leave comprises data on the proportion of the leave which is job and seniority protected, the proportion which is paid, the flexibility in the take-up, the child-age limit and the replacement rate. The higher the index the better.

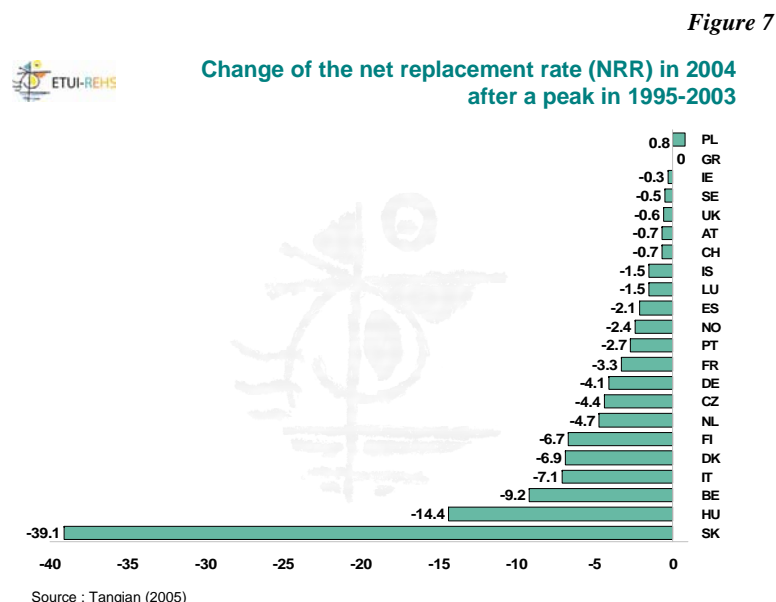
Source: De Henau (2006)

Last year's Benchmarking report addressed the issue of family policies. Accordingly, in this issue we will only briefly reiterate the issue of providing the necessary services and benefits in order to enable women and men to have a family and participate in the labour market. This issue is even more important in the context of combining flexibility and security, insofar as flexibility may in some cases hinder family formation, e.g. fixed-term contracts, while it can also, on the other hand, favour family formation, worker-friendly flexible working time and leave schemes.

What is shown by several studies is the very beneficial effect on fertility rates and female employment rates that can be exerted by carefully devised childcare and leave schemes. Figure 6 displays two indices for the EU15. The first index summarises the availability and quality of child care (x-axis) and the second index summarises the attractiveness of parental leave schemes with regard to labour market attachment. The correlation clearly shows that the consideration of labour market attachment and need for flexibility in order to reconcile childcare and professional life requires at least a two-dimensional approach. Parental care leave needs to be formulated with respect to labour market attachment and conceived as a complement to childcare. In other words, combination security does not require good leave schemes alone but other types of service as well, in this case available and good quality child care. This strategy is clearly followed by Sweden and Denmark as well as, by Finland, France and Belgium.

Though there does not appear to be a downward spiral with regard to social security spending in the EU25, there is a worrying trend of low spenders failing to expand their social security systems despite high growth rates, and this has to be monitored.

In the discussion on ‘flexicurity’, social security is one of the key elements in providing security, and this chapter has picked up on a few of the issues that need to be dealt with, namely pensions, unemployment benefits and certain elements of combination security. The literature and theoretical replacement rates show us that there are wide variations in the way these elements are taken into account across the EU. They also indicate that labour market flexibility has not been completely – and in some cases is very far from having been – embedded in the systems. As such, the creation of more flexible labour markets and the spectre of corporate restructuring is bound to create insecurity for as long as pension and unemployment systems fail to cater for the needs of persons caught up in these processes.



Combination security does not require carefully tailored leave schemes alone but also other services that enhance the ability to combine private and professional life. In the case of combining children and work, parental leave schemes are important but they are not sufficient; child care is just as important, if not more so. These two aspects of provision complement one another and, in appropriate combinations, can enable parents to devise viable solutions.

Andranik Tangian (2005) reaches the same conclusion. Currently the increased flexibility of the labour market is not being followed up by reforms in those parts of the social security system that create one type of security, namely income security. He states that, even though reforms to the unemployment system have not been severely restrictive, his own computation nonetheless displays a clear worsening with regard to net replacement rates, entailing the conclusion that the current deregulation of labour markets is not being offset by the system responsible for providing the income security. This deterioration is caused not by cuts in the system but rather by a change in the composition of the employment pattern on the labour market which is not accounted for in the unemployment benefits system. Hence in the discussion on flexicurity the main focus currently should be how to consolidate the social security system in a manner that takes account of shifting employment patterns.

## 6. WORKERS' SATISFACTION WITH TRAINING OPPORTUNITIES

In line with the European Union's goal of becoming the world's most competitive knowledge-based economy, the objective of ensuring a stable learning framework providing equal opportunities for all is at the forefront of policy-making efforts. Combining the spheres of learning and working is a major challenge for the sustained development of the European Union member states.

In recent policy-making discourse, improvement of not only the quantity but also the quality of jobs has reemerged as a key focus. A vital pillar in this context is the opportunities offered by the workplace for pursuing learning for professional development. From a policy perspective, it is relevant to assess not only how much training takes place within the EU, but also how training opportunities are distributed and how they are perceived by the population. Insofar as the workplace (whether public enterprise or private company) is one important site for formal continuous learning throughout the EU member states, this chapter will focus on employees in an attempt to derive insights on the degree of satisfaction experienced by the European population in relation to their training prospects.

Given that a significant amount of the investment in continuous learning in the workplace is typically borne by the company, as well as the fact that the selection of employees to be trained continues to rest largely with employers, it is still the interests of firms that guide patterns of learning provision in this context. The selectivity characteristic of training provision persists in an imperfect labour market, and is shaped by the amount of economic benefit that the firm expects to derive from the training investment. Accordingly, as the data seems to confirm, younger employees have better access to training than older ones, and the better educated have an advantage over the lower-skilled. In view of the shift of occupations towards those requiring a frequently updated specialised set of skills complemented by a broad knowledge base of transferable and interpersonal skills, reskilling and adaptation of the labour force need to be carefully managed.

Policy-makers and the social partners need to be well aware of developments and trends in the distribution of learning, in order to detect gaps in training provision and address instances of inappropriate selectivity.

Therefore continuous benchmarking and evaluation have become an absolutely indispensable prerequisite for implementing this change. In this context the population's satisfaction with training opportunities across European countries is a valid indicator of where more effort could be made.

(We gratefully acknowledge the support from the European Foundation for the Improvement of living and working conditions, Dublin, to produce a part of this chapter within a wider European project on job mobility and job satisfaction under the umbrella of the European Year of Mobility 2006).

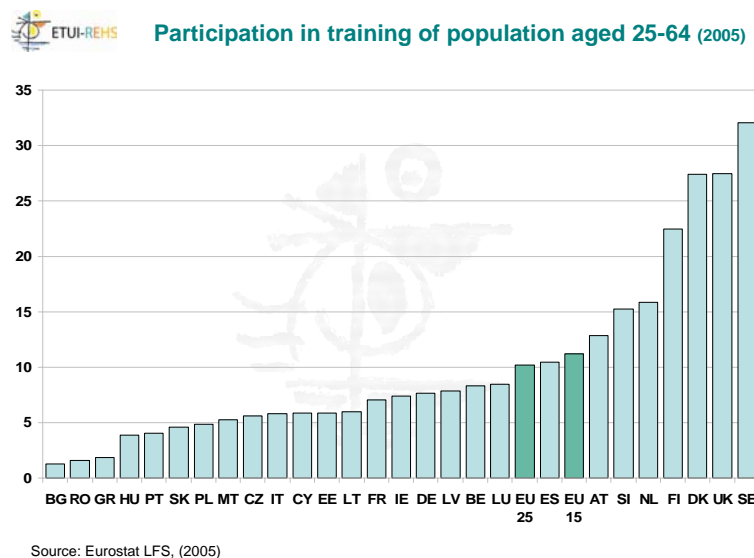
### Themes

- 6.1. Participation in training
- 6.2. The importance of employee satisfaction with training opportunities
- 6.3. Satisfaction with training opportunities by age, gender and educational level
- 6.4. Satisfaction with training opportunities and work characteristics
- 6.5. Macroeconomic indicators influence satisfaction with training opportunities
- 6.6. Conclusions

## 6.1. PARTICIPATION IN TRAINING...

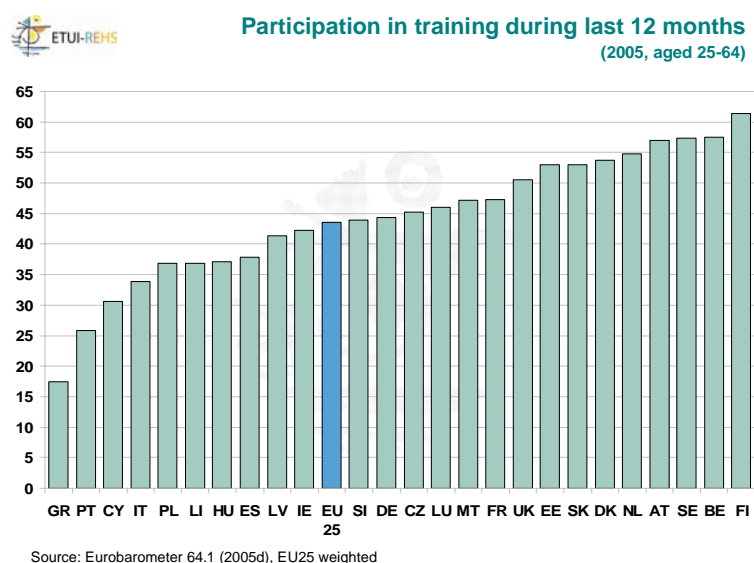
### ...LARGE DISCREPANCIES IN TRAINING REMAIN AMONG MEMBER STATES

Figure 1



According to the most recent Eurostat Labour Force Survey data, participation in learning on the EU25 level (four weeks prior to the survey) has reached 10.2%, still approximately 5% lower than the EU-wide Lisbon goal for 2010 of 15% (and at least 10% for individual countries), with only eight member states meeting Lisbon standards. The figure for the EU15 is one percentage point higher. Country differences are very significant, with participation ranging from as low as 1.8% for Greece to 32.1% in Sweden. Bulgaria and Romania, which joined the Union on 1 January 2007, display the lowest participation rates in the scale, of 1.3% and 1.4% respectively. At the other end of the scale, the Nordic countries (Sweden and Denmark), together with the UK, are at the fore, all with participation of above 20%. There are several discernible groups, confined within ranges of roughly 4-5%. The first covers the range between 1 and 6% (13 countries, Bulgaria to Lithuania on Figure 1), the second that between 7% and 11% (six countries, France to Luxembourg), with the third lying between 13% and 16% (four countries, Spain to Netherlands), and the last one between 23% and 32% (four countries, Finland to Sweden). The distribution is therefore highly skewed, with several high-performing countries “pulling” the benchmark higher. Much effort will accordingly be required to align the whole Union with the Lisbon goal.

Figure 2



The participation in training on basis of the Eurobarometer 64.1 data gives a more optimistic picture of participation in training within the European Union. The survey was implemented by means of personal interviews in the EU25 in September 2005 and is nationally representative of people aged 15+. The satisfied are taken to be those who report themselves as being either “very satisfied” or “fairly satisfied” with their training opportunities. As people report on the last 12 months, the level of participation in general is much higher in this data as compared to the LFS data, but observed variability is still large. Slightly different results in the order of European countries emerge: Finland still has a high participation rate (61%), whereas the United Kingdom (51%) and Denmark (54%) show lower rates according to Eurobarometer data. Belgium (58%) and Austria (57%) are now among the countries at the fore. Greece (17%) and Portugal (26%) still show the lowest participation rates (the two new member states are not included) while Hungary (37%) is, according to this data source, performing better.

## 6.2. THE IMPORTANCE OF EMPLOYEE SATISFACTION WITH TRAINING OPPORTUNITIES...

### ...DISSATISFACTION INDICATES UNDERPROVISION

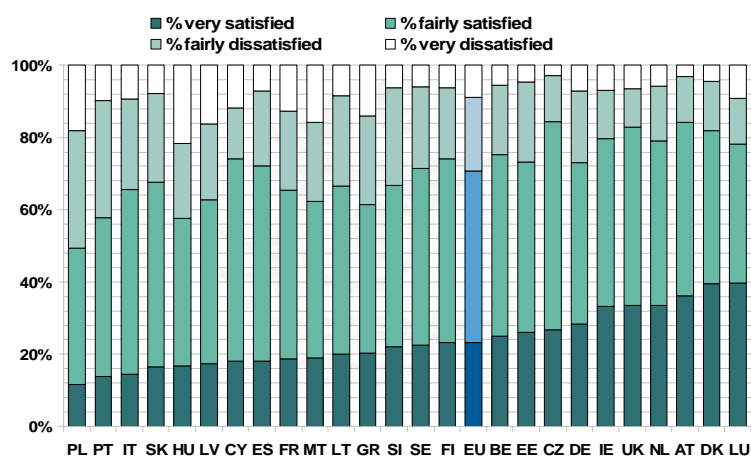
Information on the general satisfaction of employees with their training opportunities may serve to provide an important benchmark of the extent to which national training arrangements meet the needs of the employed. It can give some impression of the possible discrepancy between supply of and demand for training for the employed. Figure 3 charts the overall levels of satisfaction with training opportunities of employees aged 15+ in the EU25.

Reported satisfaction levels are generally high, which is a positive sign, though possibly distorted by people's general tendency to report a relatively high level of satisfaction with their work. Moreover, it is important to bear in mind that a figure of 75% satisfied can, in one sense, be considered relatively low (insofar as it means that 25% of employees were unable to obtain the training they wanted in terms of quantity, quality, or both).

Figure 3



Satisfaction with training opportunities of employees by country (% 2005)



Source: Eurobarometer 64.1 (2005d), EU25 weighted

The single most important conclusion that can be drawn from the previous two figures, however, is that a longstanding baseline question of training policy may be coming a step closer to a solution, namely, whether it is employees who lack motivation to engage in training or it is the system that is unable to accommodate their requirements, thus driving participation down. It would seem that workers in the EU are indeed aware of their need for training and their dissatisfaction demonstrates that, while there are undermotivated employees, system-wide improvements can help bring about positive change.

There is a high degree of variability (around 35%) on the EU level. Figures range from as little as 49% satisfied in Poland to almost 85% in the Czech Republic, with the EU average standing at approximately 71%. The lower end of the distribution is occupied by Poland, Hungary, Portugal and Greece and the higher by Ireland, the UK, Denmark, Austria and the Czech Republic. The distribution of countries is relatively balanced, with no discernible pattern to distinguish between new and old member states. However, it is still noticeable that only two new member states are above the European average.

Furthermore, for most of the new member states that display high overall satisfaction levels, the share of 'very satisfied' is comparatively lower. The figure demonstrates that some states that seem to be performing on the average level (e.g. Germany) have a disproportionately large share of employees who are very satisfied with their training opportunities. To what extent this fact has positive or negative implications depends on the institutional context of the country in question. For example, in the case of Germany, a relatively high share of dissatisfied employees combined with a relatively high proportion of very satisfied ones, may signify a rigid and segmented training system in which internal labour markets persist. On the other hand, in Denmark and the UK a very high share of satisfied employees, a large portion of whom also report a very high degree of satisfaction, may indicate a flexible and generally well performing system, able to cater relatively well to the needs of employees.



## 6.3. SATISFACTION WITH TRAINING OPPORTUNITIES BY AGE, GENDER AND EDUCATIONAL LEVEL

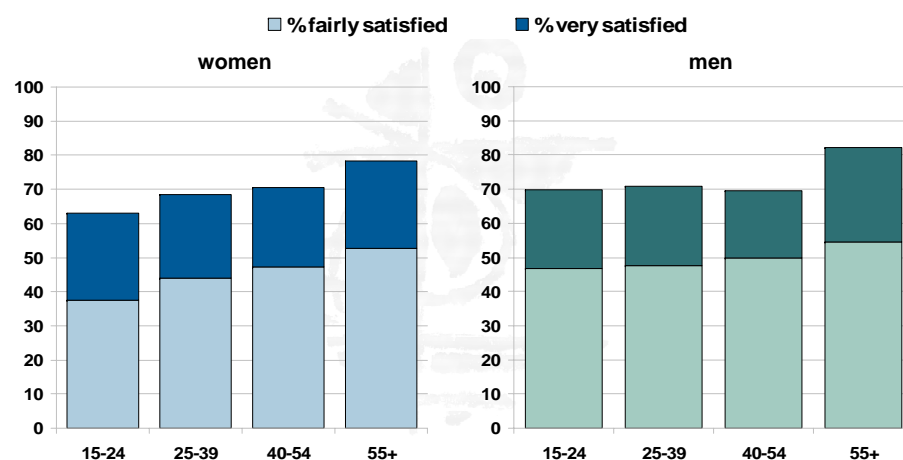
### ...THE BENEFITS OF AGE

The reliability of satisfaction with training opportunities for the employed as an indicator of mismatch between training supply and demand can be judged by its distribution among the groups known to be affected by the persistent selectivity that is a characteristic of training on the European level. In the process of this examination, some interesting conclusions can be drawn concerning the source of the selectivity (in terms of individual-level vs. institutional-wide sources).

Figure 4



Satisfaction\* with training opportunities by age & gender (2005, EU25)



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted

There is a clear, strong and positive correlation between satisfaction with training opportunities and age. This may be due to several sources, among them tenure effects (i.e. better quality of jobs at a higher age), a grinding-down effect (Kohn and Schooler 1973), i.e. employees tend to lower their expectations as they gain experience in the job and to become more satisfied with the objectively available opportunities, or self-selection effects in the case of the oldest age group (i.e. only the most qualified people remain in the labour market and therefore the positive effect of education is wrongly assumed to be an age effect). However, it is evident that the shape of the relationship is very different for women and men. For female employees, the relationship is linear – satisfaction increases with age. This suggests the prevalence of tenure, self-selection, and grinding down of expectations. For males, on the other hand, the relationship is U-shaped, consistent with what has been referred to in literature as the ‘honeymoon-hangover effect’ (Boswell *et al.* 2005). This effect refers to the fact that employees will tend to be initially very satisfied with their first job experience, in all its aspects. Later, as they progress through their careers, gain experience, and become aware of objectively prevailing conditions, this initial positive attitude will tend to fade. Finally, at an older age, they no longer have such high expectations and thus begin to report a higher degree of satisfaction.

For females, growth of almost 15% is registered with age, while for males the percentage is lower, around 12%. However, it is notable that males are consistently more satisfied with their training opportunities. This may seem paradoxical, since there are no significant differences between males and females in terms of training participation. However, men and women are unequally distributed over jobs, and training participation is more probable in some jobs than in others. It may thus be that even more women would like to take part in training but do not have the requisite opportunities. Women’s poorer opportunities for career advancement may translate into a higher demand for training.

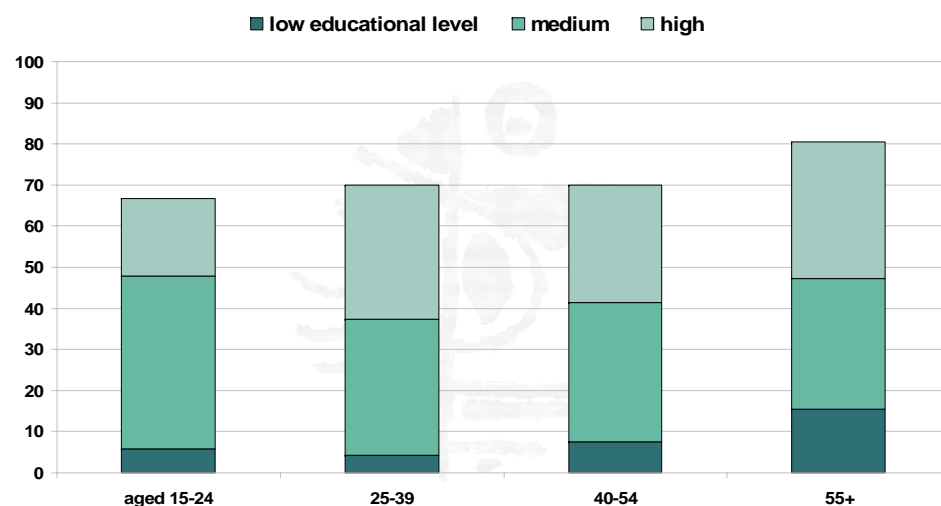
## 6.3. SATISFACTION WITH TRAINING OPPORTUNITIES BY AGE, GENDER AND EDUCATIONAL LEVEL

...ARE NOT THAT CLEAR-CUT

Figure 5



### Satisfaction\* with training opportunities by age & education



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted

For the young, the below-average level of satisfaction with training opportunities may signal a serious problem on the EU level, in terms of the quality of labour-market-entry jobs. There is a strong argument for promoting high-quality first job experiences, especially in terms of providing good quality labour market transitions for the young, on the EU level, in order to promote higher employment, better training motivation, and improved chances for the establishment of a high-wage high-skill equilibrium.

In terms of the relationship between satisfaction with training opportunities and age, the following graph contains strong evidence for the self-selection argument. Though less of the over-55 group have been through higher education, there is no significantly lower presence of high-skilled employees in this age group. Thus, the less educated left the labour market earlier. However, the low-skilled seem to form a significantly higher share of the satisfied in the oldest age group, consistent with the suggestion that they may be less willing to train in principle and therefore their training opportunities (which research has shown are objectively much lower for the older low-skilled employees) are more easily perceived as adequate.

The highly skilled seem to form the highest portion of the satisfied in the 25-39 age group, consistent with the time of their entry into the labour force and the honeymoon-hangover phenomenon. In the other age groups a larger percentage of persons with medium education (16-19 years of full-time education) is satisfied. This could be due to higher unfulfilled aspirations of highly skilled persons concerning the quality, quantity or both of training measures.



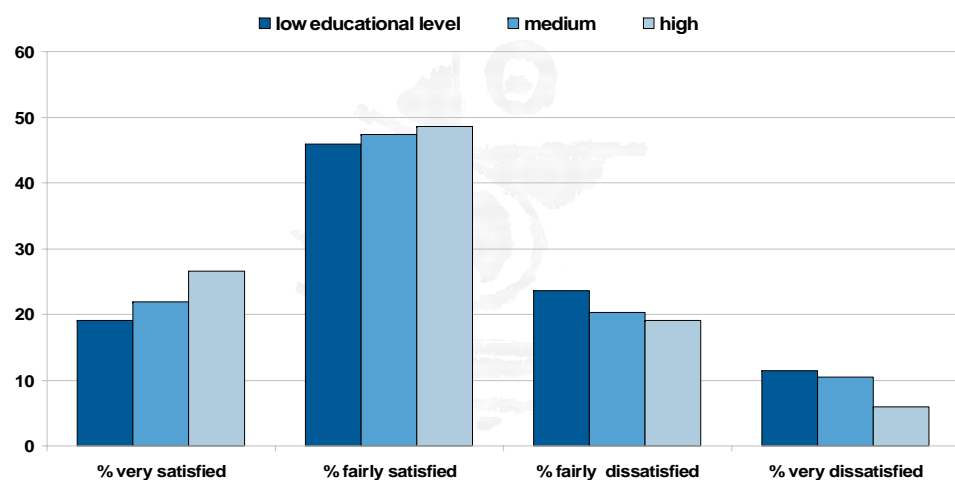
## 6.3. SATISFACTION WITH TRAINING OPPORTUNITIES BY AGE, GENDER AND EDUCATIONAL LEVEL

...BETTER EDUCATED AT AN ADVANTAGE

Figure 6



Satisfaction with training opportunities by education  
(2005, EU25)



Source: Eurobarometer 64.1 (2005d), EU25 weighted

The message of the Figure 6 is unmistakable, with the more educated (aged 15+) being more satisfied and less dissatisfied with their training opportunities. However, in the case of the fairly satisfied, there is very little difference. This does not necessarily mean that there are no differences in opportunities between the groups. Rather these differences can be attributed to a response bias, since people would rarely report that they were dissatisfied in the absence of a sufficient discrepancy between the desired and the achieved levels. In this context, the figures on the dissatisfaction scores can be taken as more telling, and in both of them the highly skilled enjoy a definite advantage. Most notably at the extremes (very satisfied or dissatisfied), the highly skilled are significantly more satisfied. The selectivity in relation to training is clearly still present on the European level, and could be mirrored in the satisfaction scores. However, even among the highly skilled, some 23% remain dissatisfied overall on the European level.

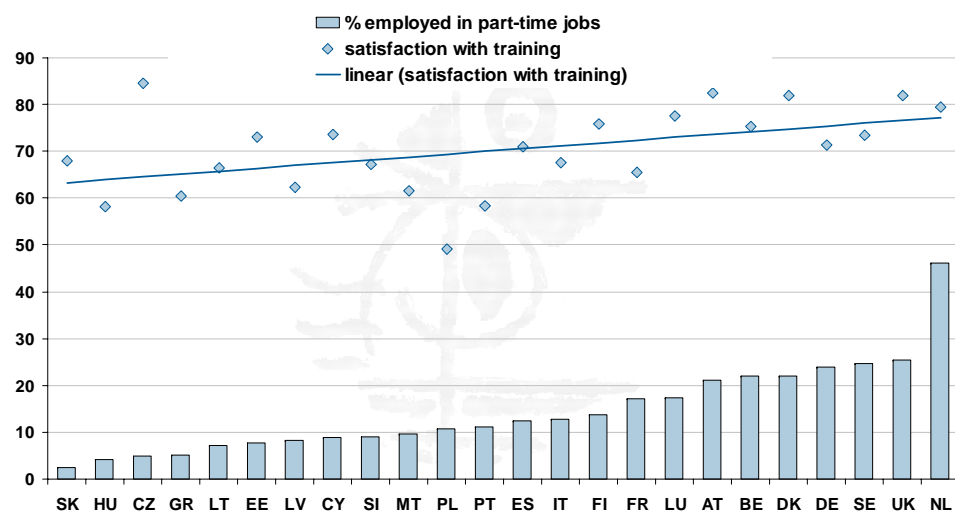
## 6.4. SATISFACTION WITH TRAINING OPPORTUNITIES AND WORK CHARACTERISTICS

### TRANSITIONAL ARRANGEMENTS MAY HELP

Figure 7



**Satisfaction\* with training opportunities by incidence of part-time employment (2005, %)**



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted; Eurostat LFS 2005

Targeted programmes for the solution of specific systemic problems have been proposed as a means to match workers' needs with the supply of training. A problem commonly cited by employees with respect to training participation is lack of sufficient time to engage in training. The above graph plots satisfaction with training opportunities against the incidence of part-time employment (defined as less than 35 hours per week) in the economy. The trend is highly consistent and, except for two outliers (Czech Republic and Poland), very stable: the two are positively and strongly associated. Therefore, the availability of part-time employment is a means to effectively combine the spheres of working and learning throughout the life course and significantly contributes to the capacity of the training system to meet employee needs. Such institutionalised bridges facilitating the smooth transition between education and work constitute a positive way of improving training participation.

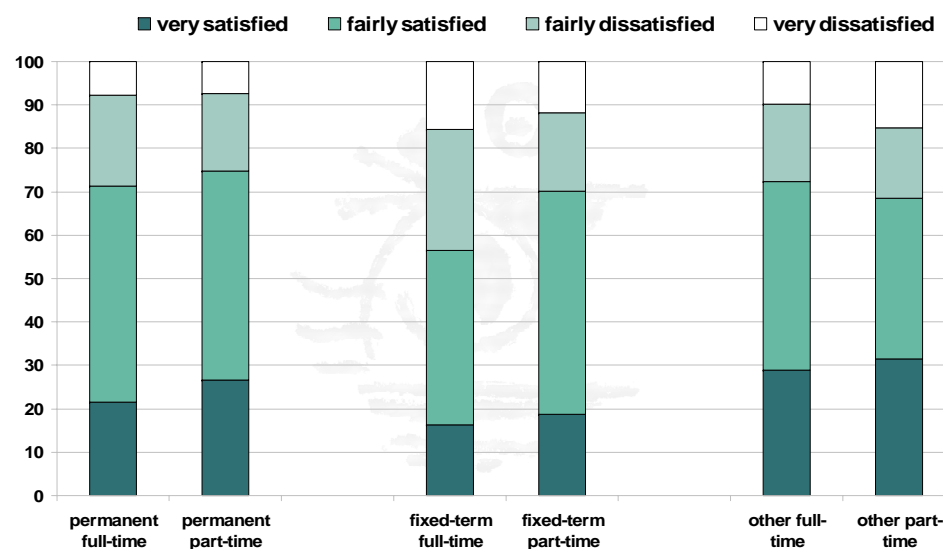
## 6.4. SATISFACTION WITH TRAINING OPPORTUNITIES AND WORK CHARACTERISTICS

### NOT ALL NON-STANDARD EMPLOYMENT RELATIONSHIPS ARE DETRIMENTAL TO TRAINING

Figure 8



**Satisfaction with training opportunities by contract type and working hours (2005, EU25)**



Source: Eurobarometer 64.1 (2005d), EU25 weighted

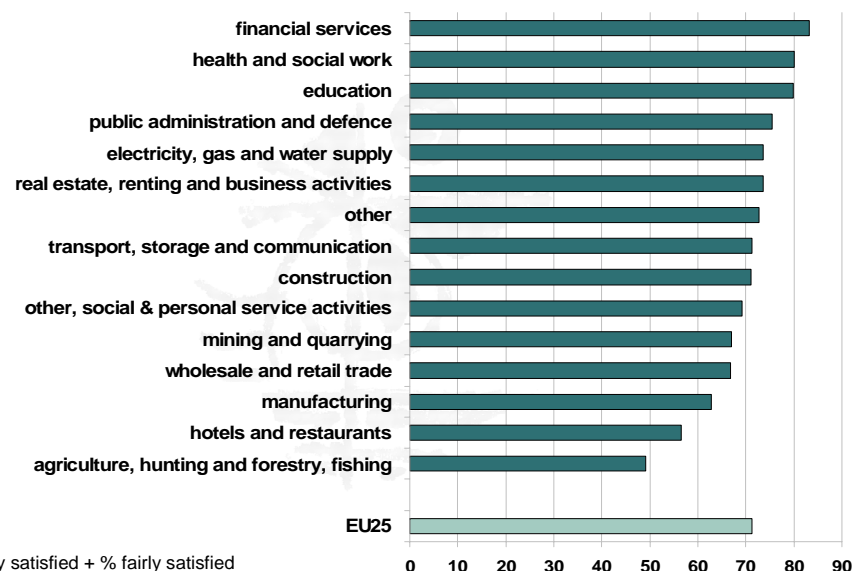
On a micro level, it seems that part-time work is indeed associated with higher satisfaction with training opportunities, at least for employees on permanent or fixed-term contracts. The benefits of being employed part-time in comparison to full-time employment are especially evident in the case of fixed-term contracts. This is possibly due to the ability of fixed-term part-time jobs to serve as stepping stones for educational advancement, either in the workplace, or beyond it (e.g. student jobs, etc.). It should be noted that apprenticeships and other explicitly educational contracts have been excluded from Figure 8 to avoid skewing the results, with satisfaction in these contracts surpassing the 80% mark in both full-time and part-time jobs. Regarding the type of contract, permanent contracts seem to be at an advantage, reflecting better training prospects for employees engaged in the so-called 'standard' employment relationship. Fixed-term full-time jobs perform worst in terms of satisfaction with training opportunities, with the limited duration of the employment relationship and the lack of time for training (i.e. any training should take place during working hours) diminishing the incentives for firms to commit to the development of the human capital of the employee. On the other hand, it seems that there are types of contract (represented in the 'other contract' section) that offer as many satisfactory training opportunities as a standard working contract. As such, not all non-standard employment relationships are detrimental to training opportunities. While part-time employees on 'other' contracts display lower satisfaction with training opportunities, the level is still on a par with that shown by employees on permanent contract.

## 6.4. SATISFACTION WITH TRAINING OPPORTUNITIES AND WORK CHARACTERISTICS

### SECTORS MAKE A DIFFERENCE



**Satisfaction\* with training opportunities by sector of employment (2005, %, aged 25-64)**



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted

Figure 9 shows the percentage of persons who are very and fairly satisfied with their training opportunities by sector of their current employment on the EU25 level. We exclude young workers (aged 15-24) so as to discount apprentices. Persons employed in the financial service sector are most satisfied with their training opportunities whilst the least satisfied are employees in ‘agriculture, hunting, forestry and fishing’. The financial services are known for their skill intensity and skilled workforce – 49% of employees in financial services have higher education. It seems that employees in sectors with a high average skill level are especially satisfied with their training opportunities. Thus high skill level and employment in a certain sector have a cumulative effect. As figure 6 also confirms the positive relation between a low skill level and low satisfaction with training opportunities, selectivity in terms of access to training according to education is additionally confirmed. The ‘agriculture, hunting, forestry and fishing’ and ‘hotels and restaurants’ sectors have the highest percentage of persons with low educational level (30% and 27%) and the employees who are least satisfied with their training opportunities (49% and 57%). However the variability of satisfaction with training opportunities across European countries is still very large. Moreover, the number of Europe-wide employees in ‘agriculture, hunting, forestry and fishing’ and ‘financial services’ is rather small (4-5%). The sectors with most employees are ‘wholesale and retail trade’ (13%), manufacturing (12%) and health and social work (10%, EB 64.1 data not shown here).

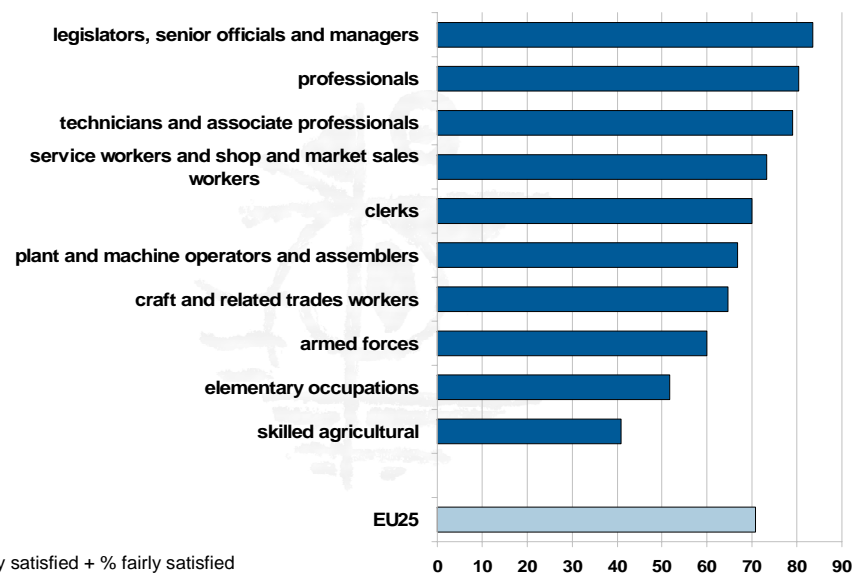
## 6.4. SATISFACTION WITH TRAINING OPPORTUNITIES AND WORK CHARACTERISTICS

### MAINLY BLUE-COLLAR WORKERS DISSATISFIED

Figure 10



**Satisfaction\* with training opportunities by title of job / ISCO (2005, %, aged 25-64)**



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted

When looking at employees who are very and fairly satisfied with their training opportunities and breaking them down by occupation, a positive relationship is revealed between a worker's skill level and satisfaction. Persons employed as 'legislators, senior officials and managers', 'professionals' and 'technicians and associate professionals' show the highest average skill level on EU25 level and the highest levels of satisfaction with their training opportunities (EB 64.1 data not shown here). As the more highly educated are generally better able to find their bearings within the labour market and achieve employment that accords with their expectations and skills (better job match) (Borjas 1979), they are perhaps also better able to identify and take advance of appropriate training measure and are thus more satisfied.

Persons in agriculture and elementary occupations are the least satisfied with their training opportunities, which would seem to be a realistic reflection of their real opportunities for access.

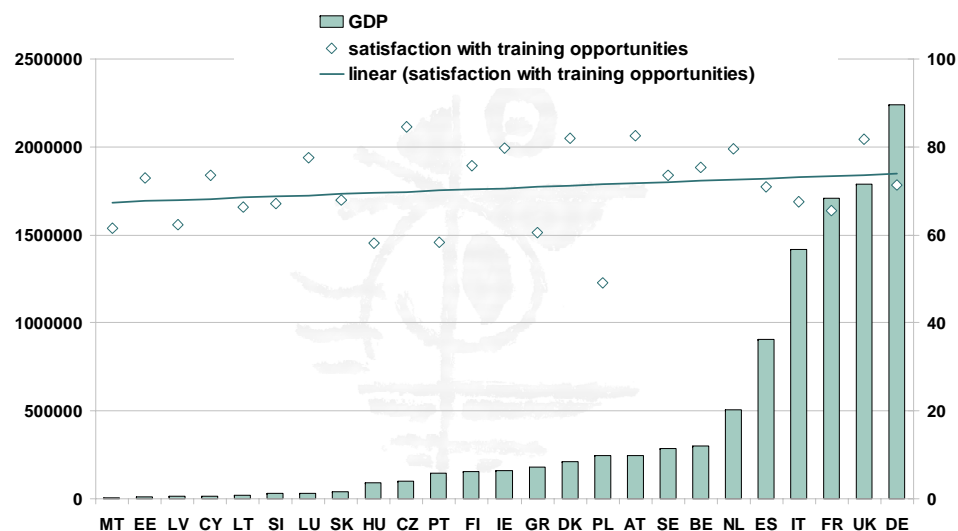
## 6.5. MACROECONOMIC INDICATORS INFLUENCE SATISFACTION WITH TRAINING OPPORTUNITIES

### LEVEL OF GDP AND WORKFORCE UPSKILLING

Figure 11



#### GDP\* by satisfaction\*\* with training opportunities (2005)



\* in mio EUR at current prices \*\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted; Eurostat National Accounts (2005)

Economic development and workforce upskilling have long been considered as interlocking in a self-sustainability cycle. The above graph demonstrates the relationship between the mean satisfaction with training opportunities and a country's gross domestic product (GDP). There is a slight positive correlation between GDP and satisfaction with training opportunities, but the relationship is not straightforward. In Poland, in particular, satisfaction with training opportunities is low although the country's GDP is midfield in comparison to other EU members. GDP alone does not sufficiently measure a country's development stage. However, countries with higher GDP do tend to have more developed and adequate training systems.

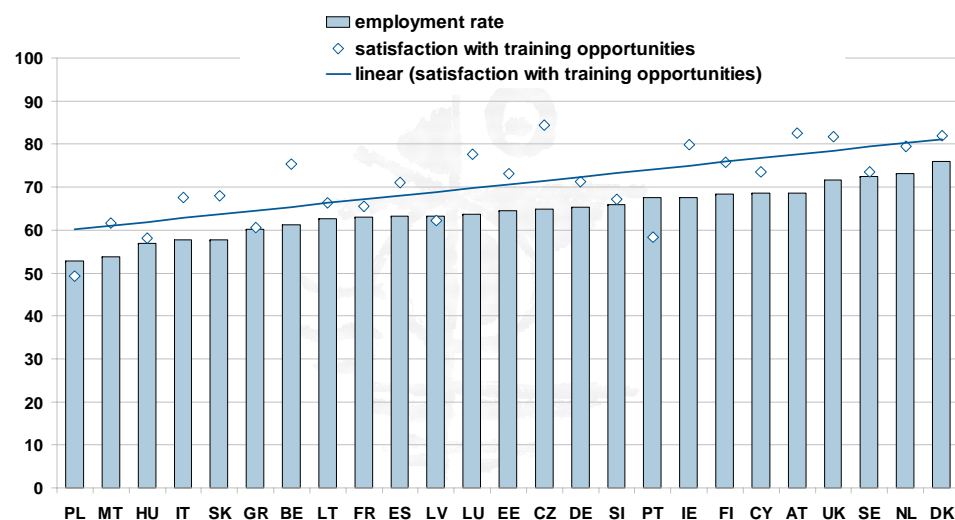
## 6.5. MACROECONOMIC INDICATORS INFLUENCE SATISFACTION WITH TRAINING OPPORTUNITIES

### EMPLOYMENT RATE DRIVES SATISFACTION

Figure 12



#### Satisfaction\* with training opportunities by employment rate (2005)



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted; Eurostat LFS (2005)

There would also appear to be a strong positive correlation between better economic development, as demonstrated also by employment rates, and satisfaction with training opportunities on the national level. On both graphs there are a number of exceptions, namely the Czech Republic, Poland and Portugal. In order to complement and elucidate the level argument, a dynamic macro-level perspective is better suited than a static picture. To this end, the next graph plots satisfaction with training opportunities by GDP growth over the past five years.

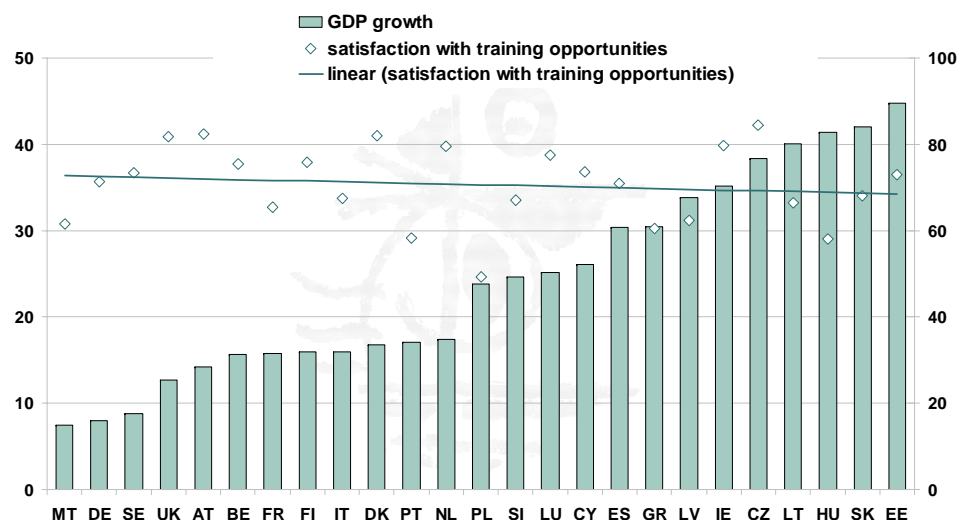
## 6.5. MACROECONOMIC INDICATORS INFLUENCE SATISFACTION WITH TRAINING OPPORTUNITIES

### GROWTH BY ITSELF IS NOT ENOUGH

Figure 13



Satisfaction\* with training opportunities by % GDP growth over 2000-2005 (2005)



\* % very satisfied + % fairly satisfied

Source: Eurobarometer 64.1 (2005d), EU25 weighted; Eurostat National Accounts (2005)

A paradox emerges in that the two parameters are negatively correlated. Thus, in the countries with largest GDP growth, satisfaction with training opportunities is lower. New European member states (EE, SK and HU) show especially high GDP growth in percentage terms over the last five years, but their overall GDP level is still comparably low. Moreover, GDP growth does not necessarily translate directly into higher public and private investment in training. For instance, although Hungary has the third highest GDP growth rate, satisfaction with training opportunities in this country is low. It is therefore evident that the path to the Lisbon goal through growth and growth alone is a particularly cumbersome route. In fact, as demonstrated by this graph, initial hopes that the accession of high-growth countries may also improve EU-wide satisfaction with training opportunities would seem to have been misplaced.

Other issues would appear to have come to the fore, notably the proactive management of the growth process as a key factor in fostering effective development. The two cases of the Czech Republic and Poland provide a good illustration, in that the fast development of industry and services in the Czech Republic seems to have been complemented by a general upskilling of the labour force, and is fed by highly qualified labour (e.g. the automotive industry). This may be an early indicator for the establishment of a high-skill high-wage equilibrium in the country (contingent on future development). Ireland is another example of this process, whereas Poland, on the other hand, seems to have proved unable to couple economics and skill growth, possibly generating a low-wage low-skill equilibrium, which is also a situation that goes well with economic development, but not with European social and economic standards. Portugal and Hungary seem to be exhibiting similar features. As such, there are significant benefits to be gained from adopting a proactive approach to the management of development to ensure socially optimal outcomes, sustainable development, and meeting European benchmarks. Supporting increased investments in training is a further crucial point insofar as European workers do appear to be demanding better training opportunities.



What emerges from the discussion so far is that, despite the high expectations and benchmarks enshrined in the Lisbon goals and reflected in the development agenda of the European Union, only three years before the conclusion of the benchmark period no more than eight states have so far managed to meet the requirements. The EU, taken as a single entity, has gone only two thirds of the way. Several explanations for this difficulty have been put forward. One of the main classifying and dividing lines between them is the difference of opinion regarding the true source of the problem. Some claim that institutional factors are to blame, while others stress individual causes and reasons. The outcome of this debate may well shape European policy in the field of promotion of lifelong learning in run-up to the Lisbon deadline.

The high share of dissatisfied blue-collar workers seems to indicate that there are some underlying difficulties in the current design of training systems in most European countries. Observation of the satisfaction of employees with training opportunities, taken as a benchmark for the responsiveness, or adequacy, of the training system in relation to the needs of the employed, has led to the conclusion that, while there are indeed employees who display little motivation for training, system-wide improvements need to be implemented in order to bring about significant positive change. Targeted programmes that improve system-wide conditions for training, such as part-time employment arrangements, seem to be associated with positive results.

Indeed, the data seem to indicate that, while a higher stage of economic development, imperfectly measured in terms of employment rate and absolute level of GDP, is positively associated with higher satisfaction with training opportunities, the relationship is not exactly straightforward. On the contrary, distinct development patterns and strategies yield significantly different results. Guiding development carefully and with a clear strategy in mind seems to be the best way to achieve sustainable skill development on the national level. In this context, benchmarking takes on vital importance for the continuous adjustment and updating of existing strategies to identify and overcome developing problems. The role of the social partners in guiding growth becomes ever more pronounced, through their capacity to facilitate reform, accomplish win-win outcomes inaccessible to unilateral action by either the state or firms, or at the very least, condition employment relationships in a way conducive to training (indirectly, even in the absence of direct bargaining over the issue). While a concern for cooperation with the social partners has already been incorporated into various policy documents on the European level, change is only now beginning to take hold against traditional unilateral decision-making structures in European economies. Though outcomes to date may be still indirect and mostly intangible in nature, there is thus some scope and possibility for the kind of improvement needed to bring about truly positive change.

## 7. INFORMATION, CONSULTATION AND WORKER PARTICIPATION

Europe can be understood as a space for workers' participation, in the interest of both democracy and the economy. Social dialogue, conducted by the exercise of rights to information, consultation and participation, is a central element of the European social model (ESM), and European provisions on information, consultation and participation are increasingly being implemented to complete the system of European industrial relations that draws its current roots from the national legislative provisions found in almost all EU member states. Nonetheless, across the EU member states, workplace representation differs in its attributes, types of action, composition and resources. A particularly salient distinction is whether trade unions are the only bodies recognised to represent workers' interests in a company (as, for example, in Sweden or Poland) or whether this responsibility lies with works councils constituted by law (as in Austria or Germany). Some countries actually have mixed systems (as in the Czech Republic, Slovak Republic or Hungary) or, in a few cases, no provisions on this subject at all (the UK or Ireland). However, even in such cases where legislation is weak or absent there exist functional equivalents dependent on the autonomous power of trade unions to conclude the relevant agreements.

Not surprisingly, the European provisions on information and consultation tend to mirror standards already in existence at national level. This is certainly the case of the EWC directive which represents a major achievement for cross-border workers' involvement. Additionally, the European Company (SE) legislation accepts the adoption of already existing rights for workers to participate in boardrooms of companies even at European level. So far, these directives represent an approach that consists of placing a cross-border dimension of worker involvement on top of existing national legislation. It might thus be described as a "vice effect" from the national to the European level.

Meanwhile, however, this has also started to work the other way round, as "a versa effect", insofar as European legislation has now begun to influence national legislation and practices. There is no doubt that Directive 2002/14/EC on standards of information and consultation at national level will become the cornerstone of the edifice of worker participation in company management in the European Community. It provides for the right of the individual, regardless of where s/he is working in the EU, to be informed and consulted at the appropriate time and place. This entails enormous changes, particularly in those EU member states, where no national provisions along these lines were previously in force. The example of Poland provides another illustration of how provisions will change. In this country there traditionally exists only a single-channel system of trade union representation in companies and this representation is, in principle, safeguarded by the Polish transposition of the directive.

The representation of workers' interests in European Companies (SE) might represent yet another turning point in developments. These firms will operate with a European management for which a European approach to interest representation is the only appropriate approach. Consequently, the SE works council will gain a highly prominent role and this may have the effect of eroding the importance of lower levels. Moreover, it will be a fact that – as is already the case, for instance, at Allianz SE which has operations in all EU member states – all employees, even in those member states where no relevant national provision exists, will have a direct channel to the boardroom via their representation on the management or supervisory board of an SE.

Against this background, it is not over-ambitious to imagine that there will in future be greater convergence of workers' involvement in Europe, rather than ongoing strong divergence and fragmentation. These developments should be supported by further European legislation, including in the field of EU company law, maintaining the general objective of harmonisation in this field. Workers want to be involved before a decision has been taken by the management and do not wish to be in a position where all that is left for them to do is pick up, on the sole basis of their national-level rights, the broken pieces of the social consequences caused by such decisions.

### Themes

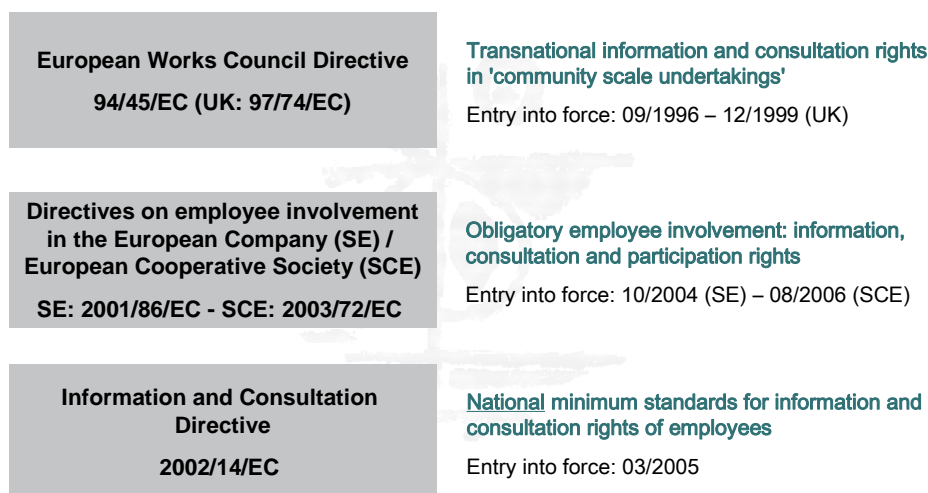
- 7.1. EU directives on information, consultation and participation
- 7.2. European works councils
- 7.3. Workers' participation in the European company (SE)
- 7.4. Trade union representation in Europe
- 7.5. Conclusions

## 7.1. EU DIRECTIVES ON INFORMATION, CONSULTATION AND PARTICIPATION

### MAKING EMPLOYEES TO CITIZENS AT THEIR WORKPLACE



#### Employee involvement at European level: overview



Source: ETUI-REHS

Figure 1

The existing Community rights of employees to be informed and consulted and to be represented on company bodies (supervisory or administrative board) are still fragmented. Currently three major European directives form the main social *acquis* in this regard: (i) the directive on European works councils (EWC); (ii) the directive on employee involvement in the European Company (SE), together with its 'sister directive' on the European Cooperative Society (SCE) and (iii) the European Framework directive on information and consultation.

The EWC and the SE/SCE directives are aimed at improving employee involvement rights in Community-scale companies. Whereas the EU directive on European works councils has played a pioneering role in the field of European legislation on information and consultation, the SE/SCE directive introduced, for the first time, obligatory participation rights at board level. Neither of these directives is intended to replace national rights but to supplement them by adding an additional transnational dimension to worker interest representation, thereby reflecting the internationalisation of business.

Contrary to this, the Framework directive lays down a European standard of information and consultation rights in national companies. This is particularly relevant for countries (such as the UK and Ireland) where no such rules existed before. This minimum standard is complemented by specific rights in 'exceptional circumstances affecting the workers to a considerable extent': for example, collective redundancies (directive 98/59/EC) and transfers of undertakings (directive 2001/23/EC).

The existing directives are a clear expression of the willingness at European level to make employees citizens at their workplace. This is also mirrored in the EU Charter of fundamental rights (incorporated into the draft EU constitution) which gives information and consultation rights the status of a basic right of European citizens, like suggested in the draft EU Constitution, Article II-87.

## 7.1. EU DIRECTIVES ON INFORMATION, CONSULTATION AND PARTICIPATION

### A HARD CLIMB TOWARDS DEMOCRACY IN THE WORKPLACE IN EUROPE

Directive 2002/14/EC is intended to enable employees to defend their jobs through an effective, standing and regular procedure for information and consultation on recent and probable developments in the activities of an undertaking. The procedure must cover the company's financial and economic situation, employment developments and, in particular, decisions likely to lead to major changes in the organisation of labour.

As a crucial complement to the existing fragmented Community right of employees to be informed and consulted in special situations in the life of their undertaking, in particular in the event of collective redundancy (Directive 98/59/EC of 20 July 1998) or the transfer of that undertaking (Directive 2001/23/EC of 12 March 2001) and the establishment of a European works council (Directive 94/45/EC of 22 September 1994), in many member states directive 2002/14/EC represents the essential and in some cases the sole foundation for the employee's right to information and consultation, filling a gap in the law and paving the way for a higher degree of harmonisation of labour and industrial relations legislation in Europe. Insofar as the directive establishes a permanent structure for worker representation throughout Europe, it constitutes a step in the definition of a 'continental' model of labour relations for Europe, thereby entailing a major impact in countries with a voluntarist tradition such as the United Kingdom, Ireland and Malta.

Moreover, the directive changes the landscape of labour law and collective bargaining in those member states in which workplace representation takes place exclusively through either the trade unions (as in the case of many new member states, with the exceptions of Hungary and Slovenia) or elected representatives. It also paves the way for the setting up of employee representation in undertakings that hitherto had no access to this because, for example, they had no trade union representation. It does not, however, enable all small and medium-sized enterprises to be covered, mainly because the thresholds proposed are too high.. The objective will be only halfway achieved, however, for as long as many member states adopt a minimal interpretation in their transposition measures. Austria, Germany and France have not transposed the directive, claiming that the existing domestic measures offer adequate protection. However, the domestic laws in question should have been amended to comply with certain provisions of the directive. In 2006, additional domestic acts have been adopted in order to implement – already much too late – Directive 2002/14/EC.

In Finland, in June 2006, a revision of the Act on Cooperation within Undertakings was adopted on the basis of a proposal from a tripartite working group. Amendments extend the scope of the act to include all workplaces with at least 20 employees, which would bring a further 2,600 enterprises and approximately 70,000 employees within its scope. Amendments also place a greater emphasis on the importance of seeking full consensus in cooperation negotiations. Furthermore, the revised act should improve the availability of information on the use of labour; for example, the principles governing the use of subcontractors would have to be reviewed annually, specifying the type of work and the time when subcontractors are to be used.

In Bulgaria, the Labour Code was amended in the area of information and consultation of employees, with the new provisions coming into effect on 1 July 2006. This was the occasion for the establishment of an overall system for information and consultation in relation to the establishment of a European works council, but also to the transposition of the European company and the European cooperative society directives with regard to the involvement of employees.

## 7.1. EU DIRECTIVES ON INFORMATION, CONSULTATION AND PARTICIPATION

### A HARD CLIMB TOWARDS DEMOCRACY IN THE WORKPLACE IN EUROPE

In April 2006, the Polish parliament finally adopted new legislation on information and consultation procedures in the workplace, the main objective being to establish works councils – as a collective representation of employees in enterprises with at least 50 employees – with a right to information and consultation. In enterprises where representative trade union organisations exist, works councils are appointed by the trade union board. In enterprises with no trade union, council members are elected by a general ballot among the workforce. According to the data presented by the Polish ministry of labour and social policy 1019 works councils were already set up in Poland between the transposition of the EU directive into Polish law on 7 April 2006 and October 2006. However, major controversy continues to centre upon the position of works councils and the rules on the appointment of council members.

In Ireland, the Employees (Provision of Information and Consultation) Act 2006 was adopted with significant implications for both employees and employers (as reported in *Benchmarking Working Europe* 2006). The fact that trade unions will no longer necessarily be the sole channel for employee representation can be expected to represent a significant problem in non-unionised or partially unionised sites (e.g. where there are union members, but recognition has not been granted or in unionised sites where management wants to bypass unions). Indeed, non-union consultation forums could lead to competition with trade union structures, particularly on sites where unions are hoping to organise.

Finally the UK's Employment Appeal Tribunal issued its first judgement in a case arising under the Information and Consultation of Employees Regulations 2004. Interpreting Regulation 8 of the ICE on 'pre-existing agreements', the Employment Appeal Tribunal emphasises that agreements related to negotiation and consultation for council employees without differentiating between union members and non-members in fact cover all employees and that agreements' approval by trade union representatives, in a context where a majority of the workforce belonged to the unions recognised by the council, constituted approval by the employees under the ICE Regulation. However, where trade union members are in a minority, it would be necessary for the employer to be able to establish the relevant approval in some other way, prior to receiving an employee request for negotiations under the ICE Regulations.

In its February 2005 social agenda, the European Commission included the 'consolidation' of the various existing information and consultation provisions in EU legislation. In the pipeline once again in 2006 and 2007, this initiative is expected to address the relationship between the national and transnational aspects of the legislation and between its general and specific provisions. Significant differences oppose the European social partners over the aims and objectives of this exercise. While UNICE (Business Europe since January 2007) opposes any moves going beyond a 'genuine codification' of existing legislation, the ETUC promotes 'harmonisation' of the rules on information and consultation signalling that the EWCs Directive's definition of information and consultation should be brought into line with the stronger provisions in the more recent information and consultation Directive and the employee participation Directives linked to the European Company Statute and the European Cooperative Society Statute. The Commission is left in a politically sensitive position and few observers expect it to come forward with extensive amendments to the EWCs Directive. However, it is likely that the Commission will favour a non-legislative approach.

## 7.1. EU DIRECTIVES ON INFORMATION, CONSULTATION AND PARTICIPATION

### A HARD CLIMB TOWARDS DEMOCRACY IN THE WORKPLACE IN EUROPE

Figure 2



#### State of play of national transposition

TRANSPOSITIONS (IN 2006: IN BLUE)	
AT Transposition not considered necessary	IS Current negotiations on transposition by negotiated agreement. If this fails, a Bill was planned for early 2006.
<b>BE Attempted transposition by contractual means; failure of negotiations; Dec 2006: European Court of Justice urged Belgian Government to propose implementation legislation</b>	IT No transposition initiative
<b>BG Bill amending and supplementing the Labour Code on the regulation of employment relations with respect to information and consultation came into effect on 1 July 2006. Measure 378 – Ministry of Labour's 2005 Plan of action</b>	LV Law on works councils
CY Law 78(I) 2005 establishing a general framework for employee information and consultation, 2005	LT Recent law on works councils
CZ No transposition initiative	LU No transposition initiative
DK Law 303 of 2 May 2005 on information and consultation	MT Bill in preparation
EE Amendments of the laws on the unions and on representation of employees	NL Amendment of the law on works councils of December 2004, came into force on 1 January 2006.
<b>FI Revision of Act on Cooperation within Undertakings Law 139/2005 by a tripartite working group extending the scope of the act to all workplaces with at least 20 employees</b>	<b>PL In April 2006, adoption of new legislation on information and consultation procedures in the workplace leading to the establishment of works councils in enterprises with at least 50 employees. In enterprises where representative trade union organisations exist, works councils will be controlled by the unions.</b>
FR Transposition not considered necessary	PT Amendments to Labour Code 2003 by Law 35/2004 of 28 August 2004
DE Transposition not considered necessary	<b>RO Draft law issued by Government in Nov. 2006 and scheduled to enter into force on 1 January 2007</b>
GR No transposition initiative	SI No transposition initiative
HU Amendments to the Labour Code of 17/03/2005 by law VIII 2005/32 01532-01533	SK Amendments to the Labour Code by Law 210/2003, in force since 1 July 2003
<b>IE Employees (Provisions of information and consultation) Act 2006 passed in July 2006</b>	SE Amendment to the law on works councils on cooperation, based on an official experts' report commissioned by the government
	ES Tripartite Agreement of 8 July 2004
	UK Information and Consultation Act, no 3426 of 21 December 2004, came into force on 6 April 2005.

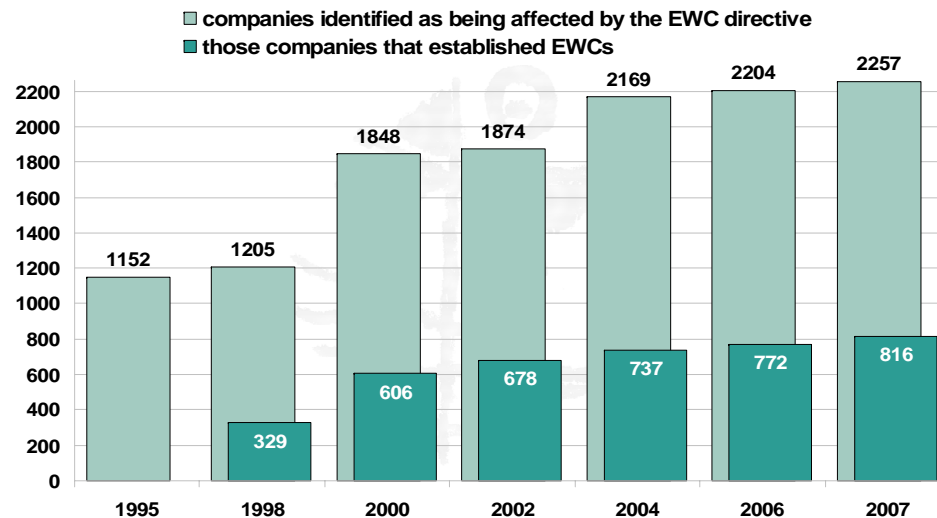
Source: ETUI-REHS



Figure 3



### EWC Database identifies companies affected by the EWC Directive and their compliance with it



Source: ETUI-REHS, European works councils database, (2002, 2004, 2006 and 2007)

In 2006 the period of binding application of Directive 94/45/EC on European Works Councils (EWCs) entered double figures. A decade represents a sufficient period of time for a thorough analysis of the operation of these bodies, as well as offering a good opportunity to summarise quantitative developments in the field.

Directive 94/45/EC, governing the establishment of EWC in multinational companies (MNCs), has become, ten years after its entry into force, much more than just another piece of EU legislation. By applying its requirements to the most powerful and influential enterprises active in Europe and worldwide an indicator is obtained of how many of these companies inform and consult their employees. The EWC Directive, which is applicable to transnational undertakings and groups of undertakings employing in total more than 1000 employees in the EEA, and at least 150 of them in two member states, has evolved to become an important gauge of compliance with the European standards and practices shaping the European Social Model. Regarded from this standpoint, the figure of 813 multinational companies in which 822 EWCs have been established to date – out of the total of 2255 covered transnational enterprises (i.e. a compliance rate of 36%) – looks rather meagre.

In the EWC database in the course of 2006 some 50 new multinational companies falling within the scope of the Directive 94/45/EC were identified, even though only 13 additional companies set up an EWC in the same period. The large number of new enterprises undertaking business activities on an international scale and meeting the criteria set in the EWC directive, as compared with the above-indicated proportion of newly established EWCs, shows that it will hardly be possible to close the existing gap of roughly 1440 companies which have not yet complied with the regulation in question. What is more alarming, the gradually decreasing pace of creation of new EWC might evolve into a permanent, negative trend, which once set will be difficult to reverse in the absence of a legislative impetus from the European Commission.

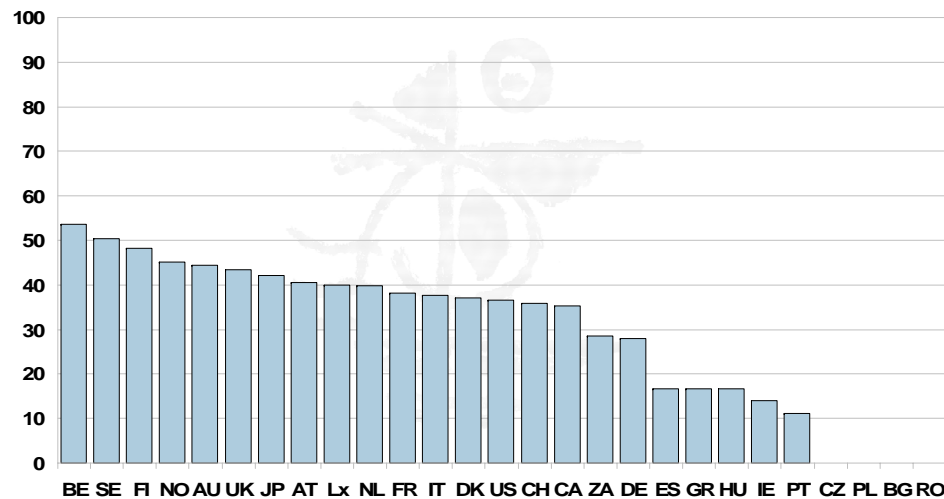
## 7.2. EUROPEAN WORKS COUNCILS

### THE INFLUENCE OF THE COUNTRY OF OWNERSHIP OF COMPANIES

Figure 4



#### Compliance rates by country of ownership



Source: ETUI-REHS, European works councils database, (2007)

Currently, the average compliance rate for all companies, irrespective of country of ownership or sector of activity, is 36%. Depending on the country of ownership of enterprises in question this rate may differ quite significantly (Figure 4). The ranking of compliance with the directive is very much in line with national traditions concerning employee participation and reflects established national industrial relations models. Nonetheless, these models can evolve under the impact of EU legislation. A token of this gradual development may be the fact that, following a precedent in 2004, when an EWC was established in the Hungarian energy enterprise MOL, another MNC based in Hungary (SABMiller) established an EWC. Disappointingly, almost two years after the EU enlargement of 2004, with the above two exceptions, companies headquartered in other NMS restrict themselves to sending representatives to the existing EWC, and no further EWC establishments have been recorded.

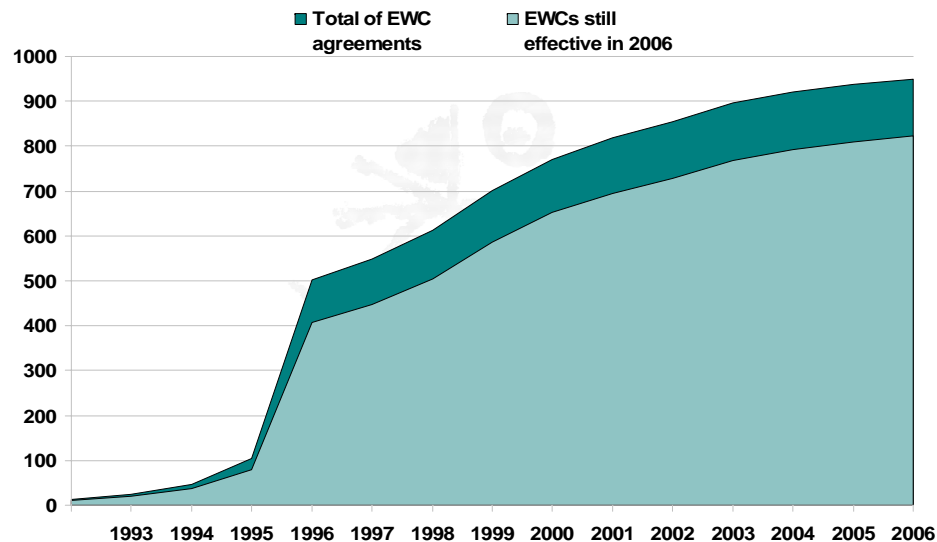
At the time of publishing, no information was available on any EWCs based in the two new countries that joined the EU on 1 January, i.e. Bulgaria and Romania. On the other hand, only eight representatives from Bulgaria were full members of an EWC, while one Bulgarian participated in an EWC as an observer. Romanian employee delegates also participated in eight EWCs (in one case they had a joint representation with Bulgaria) and, in addition, three Romanians had the status of observers. From Croatia there were two full members and two observers in EWCs, and from Turkey another eight full EWC members and one observer were recorded in the EWC database. In regard to Bulgaria and Romania, which joined the EU in January 2007, the scope of participation in EWCs is significantly lower than in the case of other countries that joined the EU in 2004. One likely reason for this would be a proportionately lesser presence of multinational companies in the Bulgarian and Romanian economy than was the case among the member states that acceded in 2004.



Figure 5



## A growing number of existing EWCs



Source: ETUI-REHS, European works councils database, (2007)

Likewise in the case of ‘nationality’ of companies, the extent to which transnational enterprises comply with Directive 94/45 is shaped by the degree of their internationalisation, i.e. the number of countries in which they operate. The correlation here is simple: companies with a higher number of countries of operation comply with the directive to a greater extent than those operating in only a few countries. Additionally, the impact of sector of activity remains one of the most significant factors influencing the rate of compliance, with undertakings in metal and chemical sectors taking up leading positions (both approximately 41% of compliance).

In 2006 in the EWC database a total of 19 new agreements were registered, among which 13 were installation agreements establishing a new EWC, and the other six were re-negotiated agreements for an existing EWC. Compared to 36 agreements (17 installation and 19 re-negotiated/amendments/post-merger agreements) signed in 2005, and 44 agreements (in total) signed in 2004, there was no particular improvement, indeed rather a decrease in the pace of creation of new bodies of this type (see Figure 5 – newly created bodies each year are in sea-blue colour).

However, if the number of employees represented in EWC is taken into account, the picture immediately becomes more positive, reflecting a slight relative improvement of one percentage point from 61% of employees represented in EWC in 2005 to 62% in 2006.

The above is due to the higher compliance rate among the middle-sized (5000 – 10000 employees in EEA) and large companies (above 10000 employees in EEA), amounting respectively to 54.7% and 69.8% in comparison to only 28.4% in smaller companies (workforce in EEA below 5000 employees).

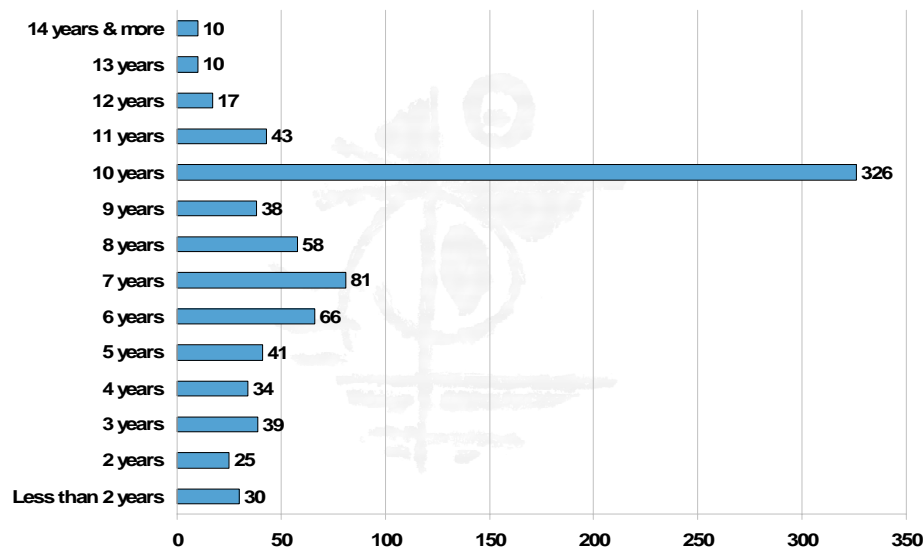
Even though the pace of creation of new EWCs is slow, the quality of these employee information and consultation bodies is constantly on the rise. It lies in the expertise gathered by the registered 822 EWCs, and more precisely, the experience of EWC members and coordinators.

Out of the currently active EWCs 406, i.e. 49%, have existed for 10 or more years. If one takes into consideration, that an EWC is more than anything a process of constant learning and confidence building between the employee representatives and management, it becomes evident that more than a half of these bodies has managed to collect a great deal of expertise and experience. This is reflected in the high quality of their work and well established, effective contacts with company management. The result of this long-term trust and competence building is embodied in enhancing the scope of activities beyond the legal frames set in directive 94/45/EC. A growing number of the most effective and experienced EWCs are increasingly becoming involved in transnational negotiations on issues hitherto restricted to national collective agreements.

Figure 6



### Years of experience accumulated by EWCs



Source: ETUI-REHS, European works councils database, (2007)

The above-mentioned transnational agreements, co-signed by EWCs, are sometimes referred to as 'substantive agreements' and represent yet another form of agreement, different from the currently proliferating International Framework Agreements (IFAs, which in some cases were also co-signed by EWCs), both of which are products of the developing Europeanisation of industrial relations. According to the study presented by the European Commission (European Commission 2006l), currently some 100 such texts have been recorded, out of which, in some two thirds of cases, EWCs acted as signatory parties. Some two thirds of the IFAs were also signed by trade unions. The vast majority of these agreements has been signed within the last five years, and, again, a similar proportion of them has a pan-European scope. The content of these accords is, to a significant degree, equivalent in scope to that of the national collective agreements and covers, among others: trade union rights, fundamental rights, social dialogue, health & safety, equal opportunities, working time, restructuring, subcontracting, employment, training skills, in some cases even touching upon questions of remuneration. Even though the listed subjects regulated by substantive agreements clearly invade the traditional domains of trade unions, the latter have been involved in negotiating and signing less than 20% of these texts. The resolution of this emerging conflict of competences between the EWCs and trade unions already now poses and will continue to represent a major challenge not only for the EWCs but also for trade unions and their organisations on the European level.

Ten years after the entry into force of the EWC Directive, it is interesting to learn what is the perception of this institution among the parties concerned, i.e. employers and EWC councillors. At the turn of 2005 and 2006 Jeremy Waddington (ETUI-REHS) presented results of a survey among EWC members, which delivered more insight into the self-assessment of these bodies. In the course of 2006, Sigurt Vitols (Science Center Berlin) completed a similar survey among the members of management of multinational companies. A comparison of the results of these two research projects gives an interesting, yet sometimes puzzling, picture of the situation.

As regards the content and quality of information, the surveyed managers claim to have delivered information on the economic and financial situation of the company in 99% of cases, whereas the EWC councillors reported that in 14% of EWC sessions the issue was not raised or the information delivered was useless. Concerning plant closures and cutbacks, which for EWC members represents beyond doubt the most important issue (survey by J. Waddington), the managers reported that this question had been raised in 66% of EWC sessions; EWC members meanwhile claim to have been informed and consulted in only 28.1% of cases, whereas in 44.5% of cases information was conveyed, yet no consultation took place, and in a further 27.3%, according to EWC delegates, the issue was not raised at all or the information delivered was useless. Statements concerning transfer and relocation of production, as well as reorganisation of production lines, according to EWC members, were not raised in respectively 31% and 42% of cases and in another 5-8% of cases the information delivered was useless. Information on mergers and acquisitions appeared, according to managers, in 68% of EWC sessions; however, at the same time EWC members felt that in 30% of cases the subject was not raised at all or information conveyed by management was inadequate. This is a significant discrepancy in perception, especially insofar as restructuring issues are deemed by employee reps to constitute the absolute core of an EWC's work. Despite all the differences, roughly the same proportion of EWC members and managers (ca. 70%) find the EWC to be an effective tool of communication within a company.

The information presented above is just a small sample of differing impressions of the quality of EWCs' work, between the employer and employee sides, revealed by both surveys. Nonetheless, the divergence in the assessment of the absolute core of the EWC agenda, i.e. information on restructuring at large, proves again that the need for a more precise regulation of information and consultation prerogatives is becoming increasingly indispensable.

Article 15 of the EWC Directive is entitled 'Review by the Commission'. According to this provision the Commission bound itself to conduct the review 'not later than 22 September 1999 (...) in consultation with the member states and European social partners' in order to 'review [the Directive's] operation and, in particular, examine whether the workforce size thresholds are appropriate'. To date no such procedure by the Commission has taken place and so the review of the Directive is seven years overdue. The inertia of the European legislator in this regard has dragged on, despite numerous positions and communications from the European social partners, among which the ETUC adopted a stance, to mention just a few examples, in 1998, in 2001, in 2003 in a strategy in view of the revision of the EWC directive and recently in 2005 calling for a relaunch of the EWC Directive revision. The other main European social partner, Business Europe (UNICE), representing private employers, has been continuously opposing the revision, regarding it as excessive interference by the law that would lead to further overburdening of the employers. This stance has not been supported by other EU institutions, i.e. neither by the European Parliament which, in its Resolution of 15.02.2001, urged the Commission to go ahead with the revision of the EWC Directive, nor by the European Economic and Social Committee (EESC). The latter advocated the revision firstly in its Opinion of 24.09.2003 and, most recently, in its own-initiative Opinion "EWC: a new role in promoting European Integration" of 13.09.2006. This opinion was preceded by an extremely vehement discussion between the representatives of employers (Group 1) and employees (Group 2), which was decided by representatives of 'other stakeholders' (Group 3) in favour of revision of the EWC Directive. Summing up all the signals that were broadcast in regard to the EWC Directive it is clear that all parties, with the exception of UNICE, support the formal process of revision.

In the meantime the Commission limited itself to launching the procedure of public consultation on 19.04.2004, which, with the issue of a Communication 'Restructuring and Employment' on 31.03.2005, formally entered its second phase. Despite formal questions regarding the introduction of the second phase of public consultation raised by the ETUC (claimed breach of art. 138 EC Treaty), as well as regarding the outcome (review without any legal action or revision, meaning review of functioning and amendments to the EWC directive), it is not fully clear where the Commission is heading. Obviously, like any legislator the Commission is autonomous and independent in its decisions. Nonetheless, it is clear that, given a quickly rising pace of restructuring in Europe, an intensified international competition situation, and with respect to goals set in the Lisbon agenda, the Commission should undertake the necessary actions to re-equip the EWC with means enabling them to effectively obtain information, participate in consultation and so represent the interests of employees.

## 7.3. WORKERS' PARTICIPATION IN THE EUROPEAN COMPANY (SE)

### A PRELIMINARY ANALYSIS OF THE FIRST SEs REGISTERED

Figure 7



#### Registered European Companies (SE)\*

Company	Branch	Date of registration	Country of seat	CG structure	Number of employees	Agreement on employee involvement
Allianz SE	Insurance	12-10-2006	Germany	Two-tier	162,000	Information Consultation Participation
Strabag Bauholding SE	Construction	12-10-2004	Austria	Two-tier	31 000	Information Consultation Participation
Elcoteq SE	Electronics	01-10-2005	Finland	Single-tier	19 600	Information Consultation Participation
MAN Diesel SE	Metal Industry	31-08-2006	Germany	Two-tier	6,700	Information Consultation Participation
Plansee SE	Metal Industry	11-02-2006	Austria	Single-tier	1 341	Information Consultation Participation
Alfred Berg SE	Banking	30-09-2005	Sweden	Single-tier	322	Information Consultation
Graphisoft SE	IT	27-07-2005	Hungary	Single-tier	253	■
Galleria di Brennero Brennerbasistunnel BBT SE	Construction	17-12-2004	Austria	Two-tier	33	Information Consultation
Lyreco CE, SE	Trade	08-10-2005	Slovakia	Single-tier	30	Information Consultation
Carthago Value Invest SE	Financial Services	15-02-2006	Germany	Two-tier	5	■
Convergence CT SE	Medical Engineering	31-01-2006	Germany	Single-tier	3	■
SE TradeCom Finanzinvest	Financial Services	31-12-2005	Austria	Single-tier	3	Negotiations terminated

#### Abbreviations and symbols:

CG = corporate governance

single-tier (monistic) = board of directors

two-tier (dualistic) = management board and supervisory board

■ ... information not available

Source: Schwimbersky (2006)

\* The list includes only SEs having operations and employees.



When the SE statute came into force on 8 October 2004 scepticism prevailed: it was too late and too complicated, there was too much uncertainty and too much worker participation – to mention only some points of criticism. More than two years later it is obvious that the SE is no failure: even though there is still no run on the SE, more and more companies are considering the 'SE option' for (re-) organising their European business activities.

Altogether around 50 SEs had been registered by the end of 2006, employing more than 200,000 employees (for up-to-date information see the SE Fact Sheets available at [www.seeurope-network.org](http://www.seeurope-network.org)). SEs have been founded in 15 member states but more than three quarters are concentrated in Germany, Belgium, the Netherlands, Austria and Sweden. It is too early to draw conclusions from this geographical distribution, not least because the number of 'normal SEs' (see below) is limited to around a dozen (see Figure 7). However, new potentially important SEs are in the pipeline, such as Fresenius AG (30,000 employees), Nordea Bank AB (29,000), SCOR SA (994) and Surteco AG (2,100). SEs have been founded in a variety of sectors, such as the metal industry, electronics and construction. Apparently the SE seems to offer specific advantages for financial and real estate services, as indicated by the founding of at least 16 SEs in these branches. For the rest, no clear picture has so far arisen with regard to the branches particularly interested in the SE.

## 7.3. WORKERS' PARTICIPATION IN THE EUROPEAN COMPANY (SE)

### A PRELIMINARY ANALYSIS OF THE FIRST SEs REGISTERED

Remarkably, a large number of the SEs do not have any – or only very few – employees ('empty SEs'). This is the situation, for instance, of virtually all financial and real estate SEs. In some cases SEs do not even have operations. These so-called 'shelf companies' are not established for a specific business purpose. The owners (some specialist companies) sell the SE shelf later to interested companies so that the latter can set up in business very quickly. There are serious doubts as to whether the founding of this kind of SE is in line with EU legislation. Some lawyers argue that the registration needs to be refused because such SE shelves were plainly not the intention of the European legislator and contradict the wording of the SE legislation (Blanke 2005). From a worker perspective these 'virtual SEs' are problematic because obviously no negotiations on worker involvement have taken place. Therefore it needs to be ensured that a special negotiating body is set up if, at a later stage, employees are transferred into the SE. For this reason, the European Commission should encourage a clarification of the SE legislation in this regard. Moreover, it is necessary to have appropriate SE registers which include information on whether an agreement on worker involvement has been concluded and on what contents.

Companies have indicated a variety of reasons for their choice to set up an SE, e.g. to simplify their legal and organisational structure, to adjust the legal form to the economic reality of the company, to achieve more corporate flexibility (transfer of seat, cross-border mergers) or to express a strong European corporate identity to the outside world. Most obvious, the question of board-level representation did not prevent them from founding an SE. Moreover, none of the first company cases suggest any evidence that the abolition, reduction or circumvention of existing worker participation rights was the hidden agenda. In none of the companies where participation rights existed before has the percentage of employee delegates among the board members been reduced. Employees are represented on the supervisory boards of Allianz SE (50% of the seats), MAN Diesel SE (50%) and Strabag SE (1/3). In the case of Plansee SE the change in its corporate governance towards a monistic board structure even led to an increase of the employee board seats (2/5 instead of 1/3).

A first preliminary analysis of the agreements on worker involvement therefore shows that, from a European perspective, the worker side can be rather satisfied with the results. As expected, no SE looks like another (see *Benchmarking Working Europe* 2005) and a wide variation can be identified also with regard to the solutions on worker involvement, depending particularly on the country of origin and the specific context and culture of the companies involved in the establishment of the SE.

By and large, the legal minimum as provided by the standard rules of the directive seem to have served as a reference point for the negotiations. However, some agreements go beyond what is 'legally necessary'. In this regard, the ETUC expressly welcomed the agreement signed in the Allianz SE – with more than 160,000 employees by far the biggest SE so far: "for the first time ever, a large company [...] expressly subscribed to a system of European management comprising significant, mandatory worker participation." The ETUC saw this as an important step to provide more workers than before with worker participation rights. However the litmus test of the value of this promising agreement will be the way in which the employee representatives and the trade unions succeed in securing social adjustments in the context of the extensive restructuring process currently taking place in the company.

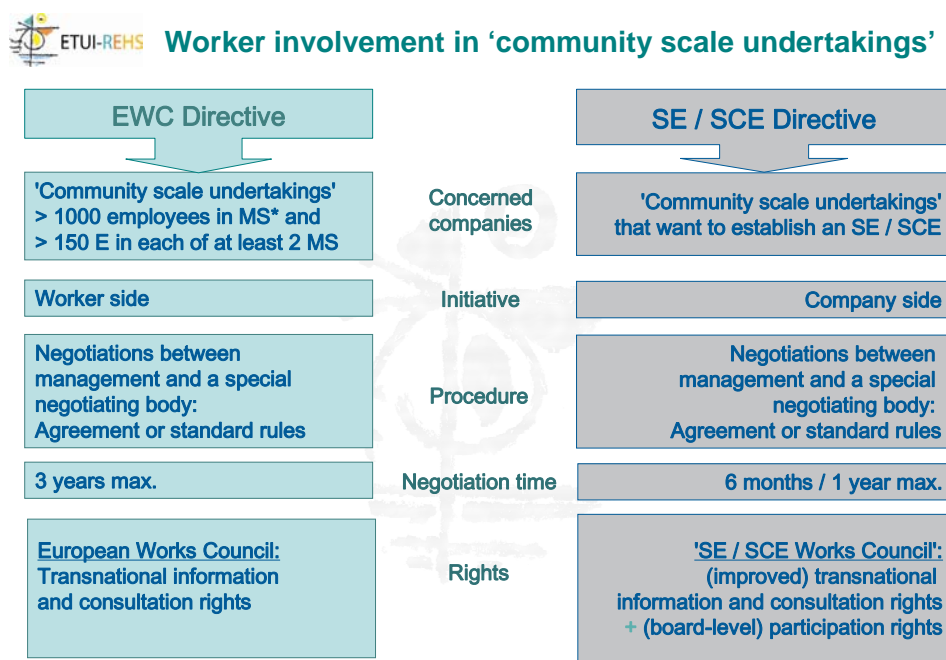
For the first time worker representatives from several countries will share the employee seats on the company's board on the basis of a European directive. This also means that the representatives come from differing cultural, linguistic and industrial relations background, with some coming from countries with no tradition of board-level representation at all (such as the UK). This represents an enormous challenge, and an important benchmark for the future will be whether the board representatives act with one voice and exercise a European mandate – rather than national ones – as requested by the 2003 ETUC action programme (ETUC 2003).



## 7.3. WORKERS' PARTICIPATION IN THE EUROPEAN COMPANY (SE)

### NEW STANDARDS AT EUROPEAN LEVEL THROUGH THE SE AND THE SCE

Figure 8



Source: ETUI-REHS and HBS: SEEurope

\* MS = member state

The European Company (SE) and the European Cooperative Society (SCE) have added additional facets on obligatory worker involvement at European level particularly by including – for the first time – participation rights at company board level. As of 8 October 2004 it became possible to establish a European Company (SE). The main purpose of the SE statute (EC 2157/2001) is to enable companies to operate their businesses on a cross-border basis in Europe under the same corporate regime. An SE can voluntarily be created by a merger, by setting up a holding or a joint subsidiary, or by converting an existing joint stock company into an SE. An important feature of this new company form is that – by means of the associated SE Directive (2001/86/EC) – obligatory negotiations on worker involvement in SEs were introduced which include the question of representation of the workforce at board level. Indeed, in many EU member states statutory workers' representation on the companies' supervisory or administrative board is already a standard right rather than the exception.

In 2006, the transposition process of the SE legislation came to an end. However, the situation looks much worse with regard to the European Cooperative Society (SCE). Less than half of the member states had incorporated the SCE directive on worker involvement (2003/72/EC) in time, i.e. by 18 August 2006 (EU Commission website).

As such – and as had earlier been the case for the SE – an unnecessary situation of legal uncertainty was created, which might also threaten existing national worker rights. Both the SE and the SCE directive on worker involvement reflect the broad variety of existing national participation systems and provide the necessary flexibility by prioritising agreements ('negotiated worker involvement') or, should negotiations fail, by applying standard rules to safeguard workers' involvement rights in the SE/SCE. This approach not only ensures respect for existing workers' rights on information, consultation and participation but also opens the window to expand participation rights to countries not yet covered by such a regime.

## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### DIVERSITY OF ORGANISATIONAL STRUCTURES IN THE EUROPEAN TRADE UNION MOVEMENT

The strength and composition of national trade union movements are important factors influencing the development of effective worker representation. This section presents an overview of trends in the organisational structure of national trade union movements, membership density rates, the composition of memberships, and the percentage of employees covered by some form of workplace representation.

Figure 9



#### Trade union organisations in member states, EU25

	No	CONFEDERATIONS	MAIN DIVISIONS BETWEEN CONFEDERATIONS	REMARKS
BE	3	ACV-CSC; ABVV-FGTB; ACLVB-CGSLB	Political	Christian trade union the largest
CZ	1+3	CMKOS; ASO; KUK; CMS; KOK	Political; religious; regional ; occupational	One dominant confederation, CMKOS
DK	4	LO; FTF; LH; AC	Occupation	
DE	1+2	DGB; CGB; DBB	Macro-sector; religious	CGB and DBB are only small; Verdi and IG Metall important
EE	3	EAKL; TALO; ETMAKL	Macro-sector; status; profession	Rural workers in a separate small federation
EL	2	GSEE; ADEDY	Public/private	Public and private union, planning merger in 2007
ES	2	CC.OO; UGT	Political	Equal strength
FR	5+2	CGT; CFDT; FO; CFTC; CFE-CGC;+ UNSA & G10 – SUD	Political; religious & occupational (status)	5 'representative' confederations and 2 new ones pushing for national recognition
IE	1	ICTU		
IT	3+8	CGIL; CISL; UIL and other smaller confeds	Political; religious	Autonomous and regional unions active
CY	4	PEO; SEK; DEOK; POAS	Political	
LV	1	LBAS		
LT	3	LPSK ; Soldarumas ; LDF	Political; religious	Independent trade unions active
LU	3	OGB-L ; LCBG ; CGFP	Political; religious; status; macro-sector	Strong autonomous unions in the service sector; CGFP important in the public sector
HU	6	MSZOSZ ; SZEF/ESZT unió ; LIGA ; MOSZ ; ASZSZ	Macro-sector; political	The union of SZEF-ESZT unió, (started in 2002) is only a cooperation framework, but not a formal merger
MT	2	GWU ; CMTU	To some extent private-public	Weak confederation
NL	3	FNV ; CNV ; MHP	Political ; religious ; occupational status	FNV-Bondgenoten as 'super-union' in the private sector
AT	1	ÖGB		Political factions as other organisational pillar
PL	3	OPZZ; NSZZ Solidarnosc; FZZ	Political	New third federation which wants to be politically neutral
PT	2	CGTP; UGT	Political	
SI	4	ZSSS; KNSS; Pergam; Konfederacija '90	Macro-sector (mainly private/public and industry/services)	Two new peaks established recently (Alternativa and Solidarity) in the railway sector, but not represented in national tripartite social dialogue
SK	1	KOZ		Also very small Christian trade union federation
FI	3	SAK; STTK; AKAVA	Occupation	
SE	3	LO; TCO; SACO	Occupation (status)	Several mergers announced for 2006
UK	1	TUC		General unions as TUC affiliates; small independent union sector

Source: European Commission (2006i)

In general, a more unified trade union structure is claimed to facilitate efforts to represent the economic and political interests of workers (Ebbinghaus 2003). Figure 9 shows that there is continuing diversity of trade union organisational structures in EU member states. The table presents the main structural characteristics of trade union movements in each of the EU25 countries, showing the number of peak union organisations and the reasons for the divisions between them. In Austria, Ireland, Latvia, Slovakia and the UK there is only one confederation uniting all, or almost all, unions in the country and in Germany and the Czech Republic there is one confederation dominating the others in terms of membership and power (European Commission 2006i).



## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### DIVERSITY OF ORGANISATIONAL STRUCTURES IN THE EUROPEAN TRADE UNION MOVEMENT

For the remaining countries there are multiple union centres, divided by category of worker, for example blue-collar/white-collar or public/private or divided on political or religious grounds. However, in some cases the divisions between the unions are blurred. In the Nordic countries of Denmark, Finland and Sweden the peak union confederations are divided on occupational status, with separate centres for blue-collar, white-collar and professional/academic workers. In Greece, Malta and Slovenia the confederations tend to be divided between public and private employees. In Estonia the main division between EAKL and TALO is blue-collar and white-collar (EIRO 2004) although the divide between public and private is also argued to be important (European Commission 2006i).

Many countries have competitive union movements, divided, at least originally, on political and/or religious grounds. This is the case of Belgium, Cyprus, France, Italy, Luxembourg, the Netherlands, Poland, Portugal, and Spain (EIRO 2004). In Italy, Spain, Portugal, and to a lesser extent France confederations of communist origin are still important. In the remaining countries the socialist or social democratic confederations are dominant, except for Belgium, where the Christian trade union is strong (European Commission 2006i). However, there is a trend towards the distancing of left-wing political parties and allied union confederations (Ebbinghaus 2003). In new member states from Central and Eastern Europe (CEE) the divisions in unions arise, in varying ways, from the distinctions between the new unions created after the fall of the old political system in the late 1980s and early 1990s and the former state-dominated unions which have reformed in the new political context (Carley 2002).

There is a category of 'other' unions, which exist outside the main union centres in most countries. The significance of this category is often difficult to measure and there are often no figures or estimates of membership or numbers of independent movements available. In Germany, Belgium and Austria the size of this category is considered to be small, whereas in Spain, Italy and France the size of the 'autonomous' unions outside the main union centres is significant. One way of measuring their importance is to look at the workplace representative election results for these independent unions, which in Spain and France for example, have been estimated at 18 and 24% respectively (Visser 2006). Independent unions are estimated to represent less than 1% of all union members in Finland (also for Bulgaria and Romania); 1-5% in Sweden, Hungary and Slovakia; 5-10% in Denmark and the Netherlands; 10-20% in Estonia and the UK; and over 20% in Cyprus, Slovenia and Malta (EIRO 2004).

A noted trend in many countries over the last 20 years has been for an increasing concentration of unions within national movements through union mergers. This has mainly occurred in Denmark, Finland, Germany, the Netherlands, Sweden and the UK. However, there has been a counter-tendency in the emergence of new (or breakaway) sectional unions of public employees or white-collar groups (Ebbinghaus and Visser 2000). These unions have sought to represent their interest groups detached from the larger, heterogeneous and distant union structure (European Commission 2006i). However, in some countries these 'special interest' unions have also been motivated by political and organisational considerations. These unions have an aim to press for national recognition, in order to obtain collective bargaining rights.

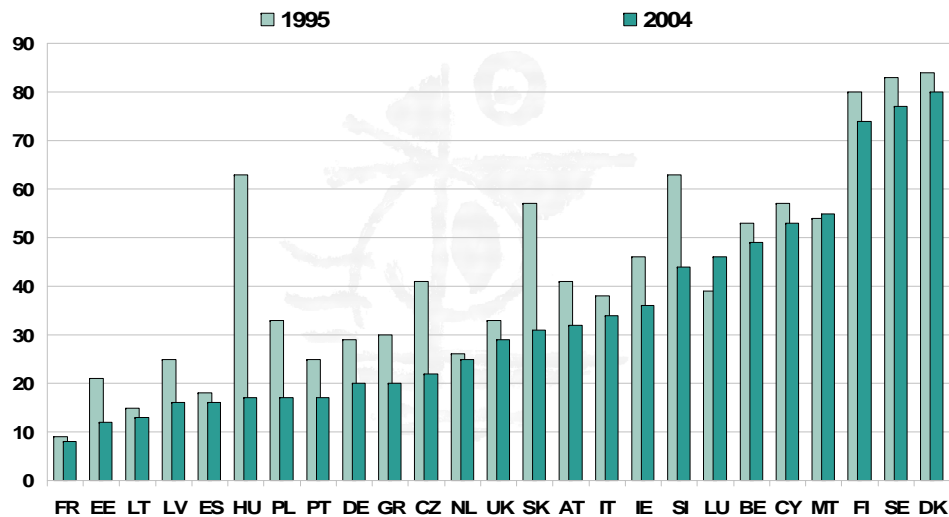
At an international level there have been moves to overcome divisions within the trade union movement with the recent creation of the ITUC. This new organisation comprises the affiliated organisations of the former ICFTU and WCL together with eight other national trade union organisations which have for the first time become affiliated to a global body.

## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### TRENDS IN TRADE UNION MEMBERSHIP DENSITY AND COMPOSITION



Trade union membership density, 1995-2004



Source: European Commission (2006i)

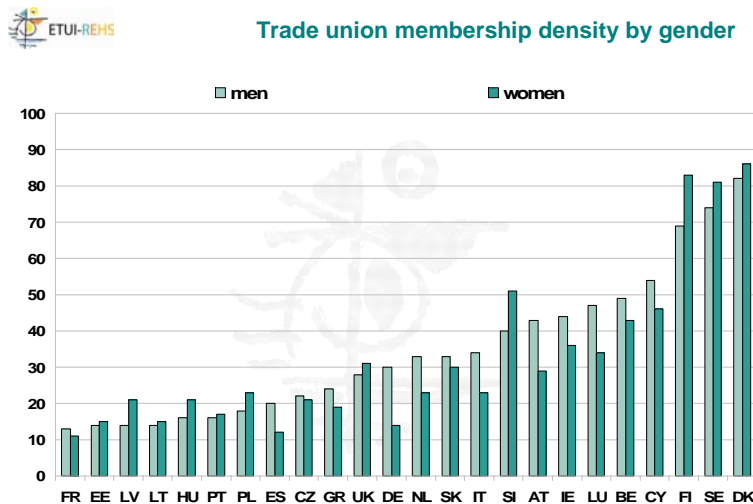
There are a number of difficulties in using union membership density figures for assessing the strength of national trade union movements and for making international comparisons. The problems include the lack of completeness and accuracy of membership numbers, and the different categories of members (for example retired/student members) and workers that can be used in the calculations. However, density figures are useful for providing a simplistic overview of the evolution and composition of national memberships as long as they are considered alongside other contextual factors, such as the percentage of employees covered by workplace representation.

Figure 10 presents the 'net membership density' rates, which is the total figure of gainfully employed members (excluding unemployed, students and retired) divided by the total wage-earner population of the country. The figures used have been taken mainly from survey data (European Commission 2006i). In all countries except Malta and Luxembourg, the survey data shows a decline in membership density between 1995 and 2004. The largest falls in density have been in the new CEE member states, notably Hungary, Poland and the Baltic states. In Slovenia and Slovakia membership rates have also fallen but remain higher than the European average. The most noticeable declines outside CEE countries have been in Austria, Ireland, Portugal, Germany and Greece. However, in some countries, for example Ireland, absolute membership has indeed risen, but density has declined because the absolute number of employees has risen even more. The overall weighted average density rate in the EU is between 25 and 30%, which reflects a downward trend in membership. Ten years ago one in three workers was a member of a trade union, whereas recent figures suggest it is now one in four (European Commission 2006i). The continuing decline of membership density, even where membership numbers are increasing, makes the recruitment and retention of members a key concern for trade unions across Europe.

## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### TRENDS IN TRADE UNION MEMBERSHIP DENSITY AND COMPOSITION

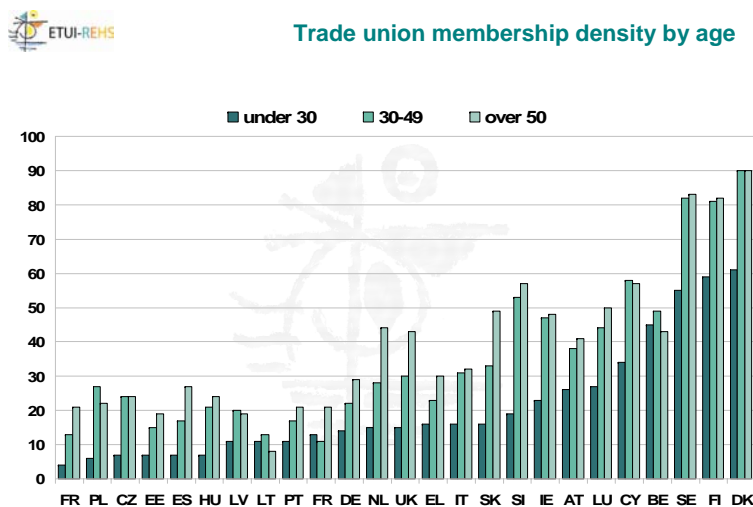
Figure 11



Source: European Commission (2006)

An important variable feature with regard to union membership is the proportion of female union members in many EU member states. In the majority of countries the proportion of male members continues to outweigh that of female members. Yet, the trend in most countries is for women to make up an increasing proportion of union members. As seen in Figure 11, in Estonia, Latvia, Lithuania, Hungary, Portugal, Poland, the UK, Slovenia and the Nordic countries of Finland, Sweden and Denmark the percentage of female members is to varying degrees greater than that of male members. The largest gap between male and female members exists in Germany, Austria, Spain, Italy and the Netherlands. There are implications for trade unions in light of the increasing proportions of female membership. This trend raises the importance for trade union structures to reflect the changing composition of their memberships, for example, to include more female members in official positions.

Figure 12



Source: European Commission (2006)

Figure 12 details membership density by age. There is a similar pattern in most countries, where the probability of membership tends to increase with age. Five countries do not fit into this pattern, with Belgium and Lithuania having more members under 30 than members over 50; and Cyprus, Latvia and Poland having a slightly greater proportion of members in the 30-49 age range. Overall, national trade union membership compositions tend to be weighted towards older workers. Thus, if trade unions are not able to increase their younger membership numbers, there is the potential for density to continue to decrease as older members exit the labour market.

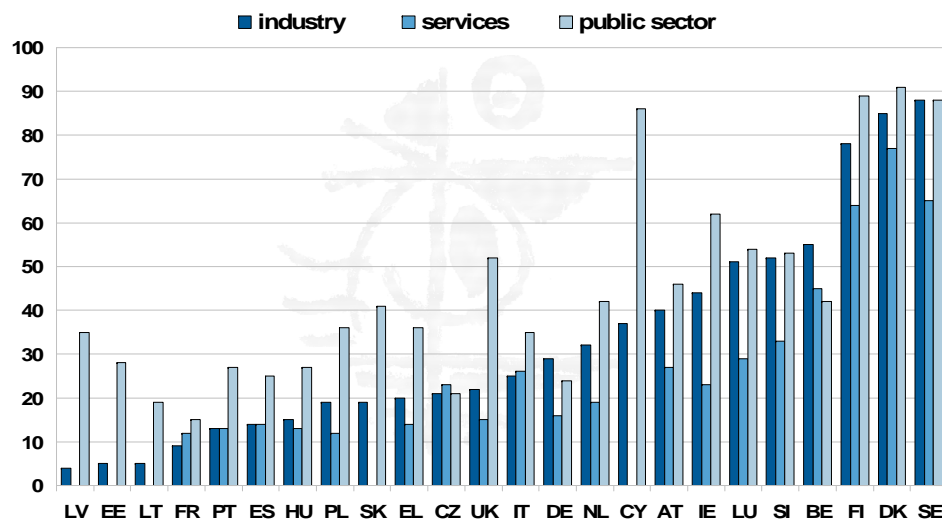
## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### WORKER REPRESENTATION BY SECTOR

Figure 13



Trade union membership density by macro-sector and country



Source: European Commission (2006i)

Trade union membership density and workplace representation coverage vary in the different macro-sectors across countries. The main observation is that trade union membership density and workplace representation coverage tends to be lower in the private services sector. In seven countries – Denmark, Finland, France, Greece, Netherlands, Poland and the UK – membership density is high in the public sector, medium in industry and low in services. In Hungary, Portugal, Spain and Italy the pattern is for a relatively high membership density in the public sector with lower rates in industry and services. Belgium and Germany show the highest rates of membership density in industry, while Belgium is the only country where public sector membership density is lower than both the industry and services rates. The Czech Republic is the only country where the services sector has the highest membership density, but the difference between sectors is marginal.

The private services sector is a key concern for trade unions, as this represents the fastest growing sector in terms of employment. Private services sector employment tends to be concentrated at small sites; to exhibit high rates of labour turnover in many segments; and to involve large numbers of workers on some form of ‘non-standard contract’. These features of employment alongside the high levels of women, ethnic minorities and young workers – groups that trade unions have traditionally struggled to represent – make union organisation in the private services sector a key challenge for the European trade union movement. However, with low membership in the private services sector, resources are weak, and this lack of resources makes trade union reform and a focus of recruitment and retention of members more difficult.

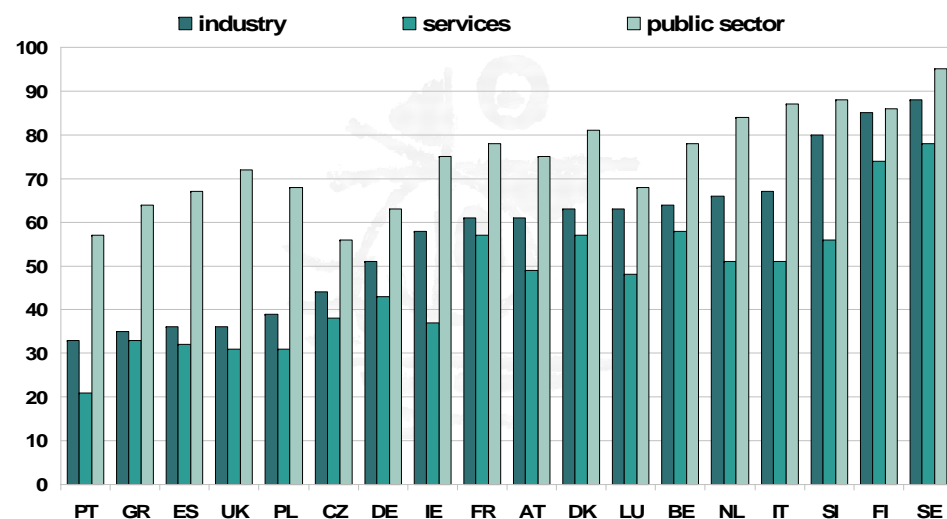
## 7.4. TRADE UNION REPRESENTATION IN EUROPE

### WORKER REPRESENTATION BY SECTOR

Figure 14



Workplace representation by macro-sector and country, % of employees covered



Source: European Commission (2006i)

It is interesting to compare membership density rates with the percentage of employees covered by some form of workplace representation. In most countries, and in all sectors, the percentages of employees covered by workplace representation are higher than the membership density figures in the respective sectors. Figure 14 shows that in all countries the percentage of public sector employees covered is higher than that of industry and services. From Figures 13 and 14, it is possible to identify countries with low membership density rates but higher rates of employees covered by workplace representation. In Spain and France, trade union support tends to be measured more on the basis of workplace representative election results than from membership density rates. France, for example, with some of the lowest density rates in Europe, fares better in terms of representation with percentages of employees covered at over 50% in all sectors. Of the CEE countries, Slovenia has the highest percentage of workplace representation and membership density rates. However, in most CEE countries workplace representation is low, especially in the private sector.

Quite apart from the still pending revision of the European works council directive, thanks to which European policy could finally prove that it takes workers' participation seriously, the question of how to achieve a European standard governing the role of workers' representation in the direct control of enterprises and financial markets, beyond the SE, is on the agenda. The decisive factor here is how the substructure of company and trade union interest representation could be improved in order to influence the general direction of company decision-making 'from the bottom up' and, on the other hand, how corporate decisions can be made more beneficial to employees in their workplaces. The trade unions of Europe have a vital role to play in the realisation of Europe as a space for workers' participation in terms of both democratic and economic aims and in accordance with the underlying conviction that European freedom of movement for employers and capital should not be unhitched from its social dimension.

European directives on social dialogue, such as the European works council directive, as well as on European company law, such as the SE legislation or the directive on cross-border company mergers, regulate industrial relations in Europe on an everyday basis. There is an undoubted European consensus concerning the need for these instruments, beyond all national and political differences. Directive 2002/14/EC represents the essential – and in some cases the sole – foundation for the right of employees to information and consultation, filling a legal gap and paving the way for a higher degree of harmonisation of labour and industrial relations law in Europe. The provisions of additional domestic acts adopted in 2006 to implement – already much too late – Directive 2002/14/EC testify in many cases to a minimalist interpretation of transposition. Others have not transposed the directive at all, claiming that the existing domestic measures offer adequate protection. Meanwhile, the first court case on the interpretation of the British implementation measures regarding the coverage of pre-existing agreements has been dealt with by the Employment Appeal Tribunal. In 2007 the European Commission envisages 'consolidation' of the various existing information and consultation provisions in EU legislation and seems most likely to favour the unsatisfactory solution of a non-legislative approach.

Cross-border operations of companies, and the ensuing restructuring processes, are steadily increasing with the result that EWCs, together with national and local levels of interest representation, are faced with the social consequences of such processes of change. If they are to be enabled to play a more pro-active role for the positive shaping of restructuring processes, they need to be placed in a stronger legal position, particularly at EU level.

This is the reason why all political actors should perceive that they have a vital interest in promoting the revision of the EWC directive now overdue now since 1999. It is unacceptable that the opposition of the European employers' federations should be allowed to dominate the whole procedure. To judge from the whole spectrum of signals in response to the EWC Directive, it is clear that all parties, with the exception of Business Europe (former UNICE), support the formal process of revision.

The European company (SE) may provide a good opportunity to implement an appropriate regime for governing a cross-border company, balancing the requirement for good economic performance with the cohesion of European societies. This conclusion may be temporarily gleaned from the first experiences with workers' interest representation in the boardrooms of the SEs so far set up. Of potentially greater importance – for both companies and their employees – may be the directive on cross-border mergers (the so-called 10th directive) which will come into force in December 2007 and, further down the line, the scheduled directive on the cross-border transfer of the registered seat (the so-called 14th directive). But the outcome of the initiative report from the European Parliament (adopted in February 2007) calling for a draft for a European Private Company Statute (EPCS), gives a bitter foretaste of how difficult it will be to maintain substantial statutory workers' interest representation at board level as an obligatory feature of European company law – rather than the mere safeguard of pre-existing national-level rights – in cases where companies choose to adopt a European legal structure.

In accordance with the Lisbon strategy, once again, it has to be stressed that the benchmark for the future must be to enhance, and not to marginalise, the position of employees in cross-border undertakings. What is more, their involvement cannot be separated from trade union interest representation. We know from all experiences with EWCs that their efficiency, for both sides of industry, depends on their link with the trade unions, including the fact that European Industry Federations are partners to the signature of agreements between an EWC and a particular company.

All political actors in Europe should bear in mind that it is the legally guaranteed space for workers' participation that contributes to strengthening the European democracy and economy. The citizens of Europe must be convinced of the seriousness of political intentions to enable them to influence their working life in the course of social transformation. It is against the common understanding of freedom and democracy to simply deliver them up to market forces.

## 8. CORPORATE GOVERNANCE

Although corporate governance may, at first glance, appear to be a matter of relevance to business actors only, workers also have a legitimate claim to consideration. Not only are they party to an employment contract, but they are also investors in their pension funds and, as employee shareholders and citizens, have an interest in the provision and supply of proper goods and services. Consequently, they are affected by corporate decisions in a number of different ways. As stressed in the ETUC resolution on corporate governance adopted in March 2006, not only shareholders, but also workers, other citizens and the community at large, have an interest in good corporate governance.

Against this background, all efforts to develop a sound European corporate governance framework should be geared to providing the proper institutional conditions for companies to foster long-term profitability and employment prospects, introduce mechanisms to prevent mismanagement, as well as guarantee transparency and accountability with regard to investments and their returns. What is required today is the establishment of a framework in which other stakeholders, in addition to shareholders, are able to organise and determine their interests in the company. Workers and their trade unions have a central role to play in this process.

- Worker participation on managerial and supervisory boards of companies is well established in a number of EU member states. The European Company (SE) may provide a good opportunity to implement in practice an appropriate regime for governing a cross-border company, balancing the requirement of good economic performance with social cohesion in the countries of Europe.
- The supposed requirements of investors for the proper functioning of global financial markets – mainly rooted in the system of conducting businesses that has prevailed hitherto in the English-speaking world – suggest no good reason for adopting this regulatory system of corporate governance and financial markets also in Europe. The ownership structure in Europe exhibits typical differences in comparison with the USA, while the expectations of European citizens in relation to what constitutes the well-being of their societies are higher than in other parts of the world.
- Corporate Social Responsibility has increasingly become the subject of agreements in multinational companies, not only at European level but also at global level, indicating the high acceptance of negotiations on these issues. The European Union missed the opportunity to make a significant and fundamental contribution to CSR by establishing and maintaining a well-balanced legislative framework, instead of which it chose to support unilateral industry-level initiatives only.

- The reality of agreements between social partners in multinational companies is such as to indicate a need to improve their quality by devising a legal framework for trans-national collective bargaining at EU level. It has to be made clear that such agreements would not compete with those at national level.

Taken together, these various concerns represent good starting points for supporting the development of a home-grown European model of corporate governance which pursues a healthy balance of economic and social goals. Board-level representation has proven successful in many different national contexts. Consequently, it should be extended throughout Europe. The time seems ripe for a new model for the era that will succeed shareholder capitalism, based on highly developed industrial relations with mandatory workers' participation at all levels, and with the inclusion of the trade unions.

### Themes

- 8.1. Statutory board-level representation in Europe
- 8.2. Corporate governance reform in Europe
- 8.3. From CSR to transnational collective bargaining in Europe
- 8.4. State of play of the CSR debate in the EU
- 8.5. Participative corporate culture
- 8.6. Conclusions



## 8.1. STATUTORY BOARD-LEVEL REPRESENTATION IN EUROPE

### DEVELOPMENTS IN THE EU MEMBER STATES

Figure 1



#### Employee board-level participation in the 30 countries applying the European Company (SE) legislation

	COMPANIES CONCERNED		PROPORTION OF BOARD-LEVEL EMPLOYEE REPRESENT.	SELECTION OF BOARD-LEVEL EMPLOYEE REPRESENTATIVES BY			ELIGIBILITY CRITERIA: ONLY EMPLOYEES?	COMPANY BOARD STRUCTURE
	STATE OWNED *	PRIVATE SECTOR		TU	WC	VOTE		
AT	●	●	1/3		●		●	D
BE								M
BG								M or D
CY								M
CZ	●	●	1/3			●	● in state-owned C	D
DE	●	●	1/3 – 1/2	● TU seats		● other seats	● except for TU seats	D
DK	●	●	1/3			●	●	D
EE								D
ES	●		2 members	●				M
FI	●	●	Agreement, max. 4 members		● Personnel groups		●	M or D
FR	●	(●)	1/3 resp. 2-3 members			●	●	M or D
GR	●		2-3 members			●	●	M
HU	●	●	D: 1/3 M: Agreement (mostly) 1/3	● must be consulted	●		●	M or D
IE	●					●	●	M
IS								M
IT								M or D
LI								M
LT								M or D
LU	●	●	1/3	● TU seats in iron/steel C	●		● except for iron/steel C	M
LV								D
MT	●		1 member			●		M
NL	●	●	max. 1/3		●		no E !	D
NO	●	●	up to 1/3			●	●	M
PL	●		(mainly) 2/5			●		D
PT	●		1 member			●	●	M
RO	(●)	(●)	Min. 1 member (only advisory say)	●				M
SE	●	●	2-3 members	●			●	M
SI	●	●	D: 1/3 - 1/2 M: 1/5 - 1/3		●			M or D
SK	●	●	private C: 1/3 state-owned C: 1/2	● 1 seat in state-owned C		●	●	D
UK								M

Abbreviations: TU = trade union / WC = works council or elected workplace representatives

M= monistic structure (board of directors) / D= dualistic model (management board and supervisory board)

\* including privatised companies

Source: N. Kluge and M. Stollt (2005): [www.seeurope-network.org](http://www.seeurope-network.org)



In January 2007, Romania and Bulgaria joined the European Union. Romania belongs to the group of countries in which legislation on board-level representation exists for both the state-owned and the private sector. The law stipulates that where a trade union representation exists it is entitled to send at least one of its members to board meetings. However, these representatives have no voting rights but only an advisory say. In Bulgaria, by contrast, no such rule exists. As a result of this most recent enlargement, a total of 20 of the 30 countries now applying the European Company (SE) legislation have some regulation on board-level representation (Kluge and Stollt 2006). Croatia also, an EU candidate country, has provided its workers with the right to be represented on supervisory boards (Hojnik 2006a).

In 2006, national standards of board-level representation remained by and large intact in the European Union. However, in Hungary and Slovenia new laws were passed that represent a potential future threat to their representation regimes. The new possibilities offered by the SE Statute, among other things, have prompted reforms of company law aimed at giving national companies more flexibility. From now on, public limited companies are free to choose between a single-tier and a two-tier system and the question has naturally arisen of how workers would be represented in the new single-tier board system. In Slovenia, the maximum number of worker representatives on a board of directors will be one third of its total members but, depending on the size of the board, the percentage can fall to 20% (Hojnik 2006b). Hungary opted for a system of free negotiations between management and works council, but without providing the precondition for negotiations at eye-to-eye level: a legal fallback provision (Neumann 2006). These solutions are significantly weaker than the existing regulation on supervisory board representation and harbour the danger of a downward spiral in the coming years. The examples of Sweden and Norway, among others, clearly demonstrate that the involvement of worker representatives in a single-tier board system can function well. Moreover, Plansee SE showed that there is no need automatically to reduce the current representation level when introducing a single-tier system.



## 8.2. CORPORATE GOVERNANCE REFORM IN EUROPE

### NEGOTIATED SHAREHOLDER VALUE AS A THIRD WAY?

Corporate governance reform has become one of the most important policy issues in Europe. This debate is crucial for workers because one of the key aspects of corporate governance is the question of who has the right to be involved in decision-making in the company (Gospel and Pendleton 2004). Up to now, corporate governance has mainly been discussed in terms of a choice between two different models: the Anglo-Saxon ‘shareholder’ model, in which the stock market is the key instrument for controlling and monitoring top management, and the Continental European ‘stakeholder’ model, in which different interest groups close to the firm (e.g. employees and large long-term shareholders) deal directly with management (Aguilera and Jackson 2003).

Due to the globalisation of capital and the increasing importance of institutional investors, some experts have suggested that the stakeholder model is out of date and that Europe must adopt the shareholder model to be competitive. The new debate on ‘one share one vote’, the reluctance of the European Commission to create a European legal standard on worker participation, and the employers’ attacks on board-level representation in a number of countries, are examples of this view. But are these really the only two alternatives for Europe? Recent developments in Germany and the Scandinavian countries and also The Netherlands, where elements of the shareholder model are being successfully integrated into existing stakeholder systems, suggest otherwise. This new system of ‘negotiated shareholder value’ appears to fulfil the key demand of institutional investors for greater transparency, while at the same time avoiding excessive short-termism and financial scandals that characterise the US in particular (Vitols 2004).

Figure 2



#### Codetermination rights and the comparative performance of countries

	GROUP 1: COUNTRIES WITH STRONG CODETERMINATION RIGHTS	GROUP 2: COUNTRIES WITH WEAK OR NO CODETERMINATION RIGHTS
<b>AVERAGE ROE</b> Return on Equity (for companies in the FTSE All-World Index)	18.4 %	17.9 %
<b>EMPLOYEE SATISFACTION</b> (percentage of workers who are satisfied or very satisfied with working conditions)	87.7 %	82.1 %

Figure 2 shows some evidence for the view that negotiated shareholder value, which involves strong board-level representation rights in a number of European countries in a world of global financial markets, is beneficial for both shareholders and workers. Large stock-market listed companies in countries with strong board-level representation rights have a higher average profit rate (ROE) than companies in countries with weak or no board-level representation rights (18.4% versus 17.9%). At the same time, a significantly greater proportion of workers are satisfied or very satisfied with their working conditions in the first group of countries than in the second group (87.7% versus 82.1%).

Note: Group 1: Austria, Czech Republic, Denmark, Finland, Germany, Hungary, Netherlands, Norway and Sweden. Group 2: Belgium, France, Greece, Ireland, Italy, Poland, Portugal, Spain and the UK. Employee satisfaction is weighted by total country employment in 2005, according to OECD online statistics ([www.oecd.org](http://www.oecd.org)).

Source: Own calculations from FTSE All-World Review (November 2006) and the European Foundation's Fourth European Working Conditions Surveys (2005)

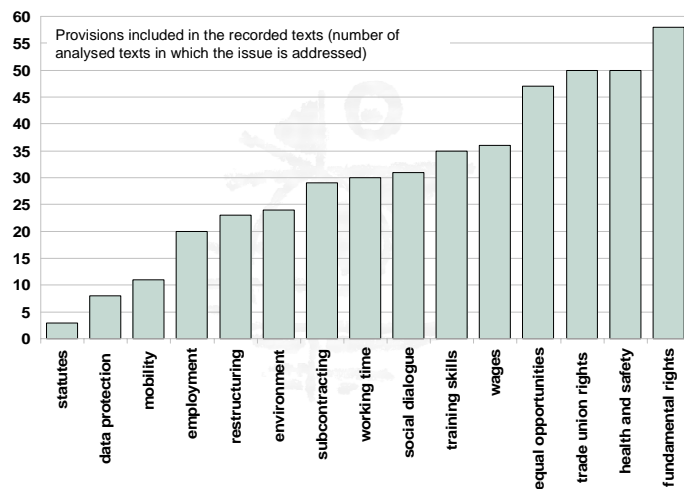
## 8.3. FROM CSR TO TRANSNATIONAL COLLECTIVE BARGAINING IN EUROPE

### INTERNATIONAL FRAMEWORK AGREEMENTS UNDER EUROPEAN SCRUTINY

Figure 3



#### Fundamental rights, procedures and substantive provisions addressed

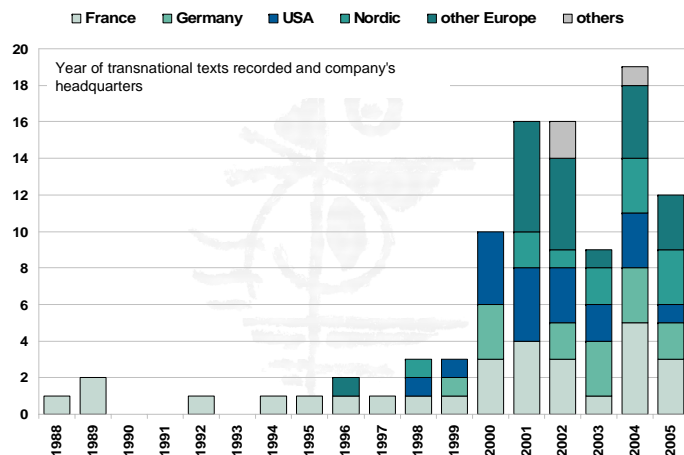


Source: European Commission (2006)

Figure 4



#### Most transnational texts were concluded recently



Source: European Commission (2006)

At international level, there is a major initiative across all sectors to sign global agreements to urge major multinationals (MNs) to observe labour rights wherever they operate in the world. Most of those global agreements are quite similar to other instruments such as corporate social responsibility (CSR) codes of conduct (actors involved, negotiation process, content and language – most CSR initiatives as well as global agreements address fundamental social rights in relation to international and European labour standards, see Figure 3) and in some cases codes of conduct precede global agreements. Although both phenomena are quite recent features, at least in the European sphere (Figure 4), transnational social dialogue seems to be partly linked to the development of corporate social responsibility (Bourque 2005). A current research project supported by the Dublin Foundation questions the link between the instruments initiated by MNs and those initiated by trade unions and/or workers representatives.

Without any doubt, global agreements acknowledge MNs' commitment to have a constructive dialogue with the relevant international and European trade union organisations to discuss issues of fundamental concern to both parties. Whereas most CSR exercises are unilateral management pledges, international framework agreements (IFAs) testify to the common interest of management and trade unions in fostering the agreements, revealing a will on both sides to give a formal and more binding character to the outcome of their negotiation. How far global agreements can be seen as start signals for transnational collective bargaining and be regarded as constituting transnational industrial relations remains a difficult question requiring further research.

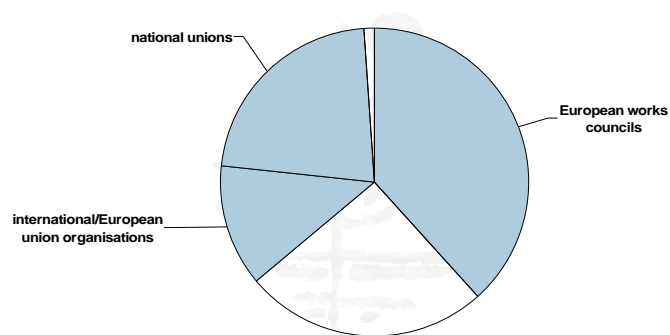
## 8.3. FROM CSR TO TRANSNATIONAL COLLECTIVE BARGAINING IN EUROPE

### INTERNATIONAL FRAMEWORK AGREEMENTS UNDER EUROPEAN SCRUTINY

Figure 5



EWCs and international union organisations deeply involved

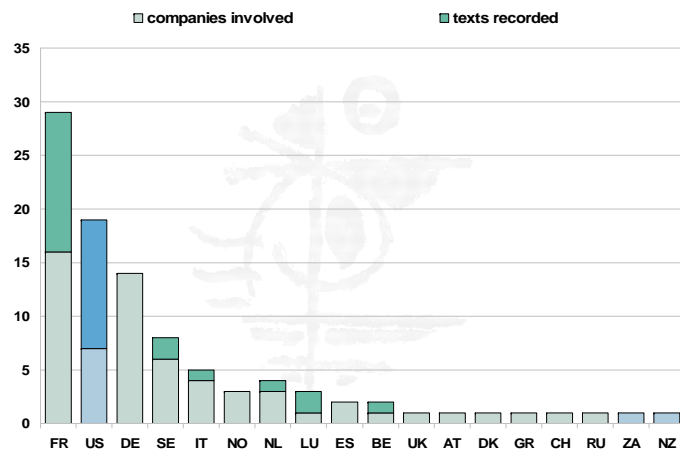


Source: European Commission (2006)

Figure 6



Mostly European companies are involved in this transnational process



Source: European Commission (2006)

International trade unions have already appropriated the idea of IFAs: in its 2005–2009 action programme, the International Metalworkers' Federation calls on all its member unions to conclude such global agreements and for this purpose it has developed a model agreement. In August 2005 UNI launched a programme along the same lines. Global agreements create a dynamic of social dialogue and represent an impetus for negotiation at international level. Furthermore, in its work programme of November 2006 (point 20), the ITUC stressed the importance of global social dialogue, expressing support for the conclusion of global framework agreements between multinational enterprises and Global Union Federations.

Interestingly, most relevant initiatives started with European MNs on the initiative of national and/or European trade union representatives and with the support of global union federations (GUF), as can be seen from Figure 5. Therefore, and in most cases, existing social dialogue structures set up at domestic and European level are used during negotiation and for the implementation and monitoring of such IFAs. Discussions have arisen, accordingly, on the lack of competence of EWCs to be involved as signatory parties in IFA processes. According to Directive 94/95/EC, European works councils' competences are strictly limited to information and consultation, but this does not prevent them to sign.

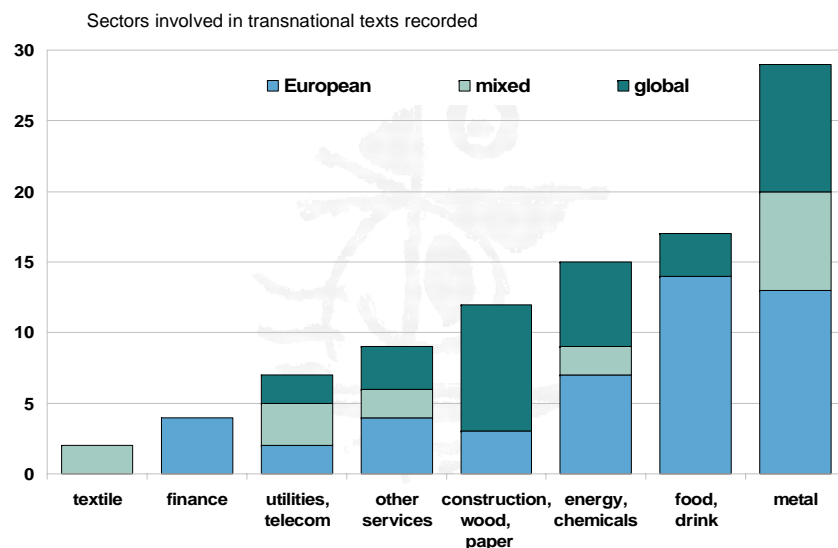
### 8.3. FROM CSR TO TRANSNATIONAL COLLECTIVE BARGAINING IN EUROPE

#### INTERNATIONAL FRAMEWORK AGREEMENTS UNDER EUROPEAN SCRUTINY

Figure 7



#### Metal and food & drink sectors particularly involved in the process



Source: European Commission (2006l)

Furthermore, IFAs are most frequently concluded in sectors such as metal, food and drink and energy and chemicals (Figure 7). Analysis of the context and the processes of negotiation of global agreements reveals the particular nature of these instruments as *sui generis* agreements, in comparison to the traditional type of agreement resulting from a collective bargaining process. No legal or contractual frame is provided. Both the competence of the signatory parties and the impact of the negotiation have been subjected to criticism by scholars (Sobczak 2006).

In this context, the European Commission (COM(2005)33 final) launched, early in 2006, a debate on the need at European level for an optional framework for transnational agreements. An academic study of the issue was published in March (Ales *et al.* 2006), and Commission officials analysed a set of case studies to complement this study (European Commission 2006l as presented at the ETUC summer school 2006). Formal consultation of the social partners is thought likely to follow in 2007.

## 8.3. FROM CSR TO TRANSNATIONAL COLLECTIVE BARGAINING IN EUROPE

### FINDINGS EXPLANATION



#### Transnational Agreements: Some findings

Figure 8

	RESULTS
MOTIVATIONS TO SIGN	<ul style="list-style-type: none"> <li>• Change of structure in the company (extension, merger)</li> <li>• Communication process/marketing exercise</li> <li>• Promote social dialogue</li> <li>• Inspired by German model of industrial relations system</li> <li>• Diminish and control social risk</li> <li>• To face restructuring and key employment issues</li> <li>• To deal with specific issues (health and safety financial participation, data protection, information and consultation process)</li> <li>• Participation in the whole process (also as signatory parties)</li> <li>• Legitimate EIF and organise cross-border coordination and solidarity</li> <li>• Means of implementation of EU framework agreements/ instruments</li> </ul>
LEVEL OF REPRESENTATION IN MANAGEMENT AND TRADE UNION INVOLVED	<ul style="list-style-type: none"> <li>• Centralised process or local involvement on the management side</li> <li>• EWC plays a crucial role as initiator and negotiating body. Enable link with national/local trade unions and EIF.</li> <li>• EWC involvement especially as signatory party contested</li> </ul>
PERCEIVED NATURE OF THE TEXT	<ul style="list-style-type: none"> <li>• Generally confusion: joint statement with commitment / guidelines</li> <li>• (company collective) agreement creating rights</li> </ul>
AGREED COMMITMENT AND IMPLEMENTATION	<ul style="list-style-type: none"> <li>• Commitments (but not in a logic of rights) with the intention to produce (legal) effects</li> <li>• Legally binding agreements under national law</li> </ul>
EVALUATION OF THE AGREEMENT	<ul style="list-style-type: none"> <li>• Unilateral commitment on the side of management for some issues</li> <li>• Shared responsibilities</li> <li>• Mutual commitment</li> </ul>
IMPACT OF THE AGREEMENT	<ul style="list-style-type: none"> <li>• Concrete actions/positive impact on social dialogue, appropriation of European dimension</li> <li>• Need for dissemination and follow up procedures</li> </ul>
DIFFICULTIES	<ul style="list-style-type: none"> <li>• Collective ownership of the agreement</li> <li>• Implementation</li> <li>• Risks linked to the absence of legal status</li> <li>• Interpretation of the agreement</li> </ul>

Sources: adapted from European Commission 2006l

Transnational collective bargaining has proved to be a sensitive issue for both European employers and trade unions. On one side, UNICE does not favour centralising collective bargaining at EU level and sees an optional framework for transnational bargaining as neither necessary nor desirable (European Works Councils Bulletin 61, January/February 2006, p.7). It stresses that European negotiations and the resulting framework agreements which establish broad principles are fundamentally different from collective agreements resulting from bargaining on wages and working conditions in the member states. On the other side, the ETUC supports the Commission's initiative. However, in its resolution of 5-6 December 2005 on the coordination of collective bargaining in 2006, the ETUC recalls the main conditions under which such a framework may be of added value:

1. Coordination of transnational agreements and existing collective bargaining at national and European level should be organised in a complementary way.
2. Such agreements must respect the principle of non-regression, as regards other agreements at national and European level.
3. Collective bargaining remains a prerogative of trade unions, including at transnational level. However, the major coordination role of EWC in the development of IFAs should be taken into consideration and integrated into a form of transnational bargaining.

Lastly, two additional pieces of a jigsaw of a European industrial relations systems should also be closely examined: on the one hand, the recognition of the right of collective action at European level and, on the other, an appropriate system of alternative dispute resolution mechanisms (Valdés Dal-Ré 2002).

Further institutional steps in relation to these matters are foreseen in 2007. The Commission is to issue a communication (as foreseen in its work programme 2007) based on the discussions that took place during the two meetings organised in May and November 2006. However, the Commission will not present a proposal for legislation, as the social partners have been unable to reach a compromise on the issue. Creating a European institutional framework for transnational collective agreements to provide sectoral and company-level European social partners with a tool to formalise the aims and results of their bargaining may be of major importance to facilitate adaptation to globalisation, the recognition of new rights, and acknowledgement of the binding force of agreements. What is more, it would enable reaffirmation of the legitimacy of the authors, specific reference to European or international standards, and promote a system of dispute settlement. Finally, such an instrument would enable coverage of aspects such as restructuring, health and safety and those in the field of corporate social responsibility, thus offering a framework geared to supply transparent tools, the credibility of which would thereby be strengthened. However, the impact of such international negotiated instruments as regulatory means for the social partners at European, national and branch level should be carefully scrutinised and coordinated, in order to maintain the specificity of the each level of social dialogue structures.

## 8.4. STATE OF PLAY OF THE CSR DEBATE IN THE EU

### ONLY A BUSINESS CASE?

Figure 9



#### Timeline of CSR developments at EU level

Year	CSR development	Main contents/ activities
1995	Manifesto of Enterprises against Social Exclusion	Launched by former European Commission President Jacques Delors and a group of European companies
1998	Gyllenhammar report	Businesses (>1000 employees) should publish a change management annually
2000	Lisbon Strategy and EU Social Policy Agenda	Special appeal to CSR (best practices on lifelong learning, work organisation, equal opportunities, social inclusion and sustainable development)
2001	Green Paper CSR	To stimulate the debate, covers e.g. responsible actions during corporate restructuring, promotion of work/life balance and corporate codes of conduct on social rights; favours an holistic approach on CSR
2002	CSR Communication Council Resolution	European strategy to promote CSR, definition of CSR as voluntary concept, launch of the EU CSR Multistakeholder Forum, proposals of actions To take into account World Summit resolutions of Johannesburg, awareness for involvement of all stakeholders, fostering national CSR activities
2003	European Parliament report on CSR	Suggestions for improving the process (women's business development, workforce diversity and work-life balance, companies' access to the information and training, proposal on 'social labelling', improve CSR in candidate countries)
2004	End of the EU CSR Multistakeholder Forum	No common understanding of CSR reached, disagreement of stakeholders on several points (e.g. voluntariness, EU framework for action in CSR), final report (nine recommendations),
2006	Commission Communication Review Meeting of the Multistakeholder Forum	Launch of CSR Alliance, concentrating on participation of the EU Commission and businesses, No participation of NGOs, Compendium of best practices by businesses, no solution for the left-overs from the Multistakeholders' Forum

Source: ETUI-REHS

After a promising and participative beginning at the start of the millennium, the Corporate Social Responsibility (CSR) debate in Europe seems to have completely changed course and become a solely business case.

As a topic of debate CSR rapidly gained importance in Europe. Since 2000 it had been an EU priority, regarded as one of the contributions to the strategic goal set by the Lisbon Summit of March 2000 and to the European Strategy for Sustainable Development, as well as to promoting core labour standards and improving social and environmental governance in the context of globalisation. Furthermore, the CSR debate is part of the developments on European governance which contribute to 'opening up the policy-making process to get more people and organisations involved in shaping and delivering EU policy to promote greater openness, accountability and responsibility for all those involved' (2001 Green Paper: 428, 3 and 8)

However, analysis of both Commission communications (COM(2002) 347 final (European Commission 2002) and COM(2006)136 final (European Commission 2006a)) has shown that the ambition to draw up a European framework for CSR along the lines described in the 2001 Green Paper has now been reduced to the much more limited project of ensuring a business contribution to sustainable development. Moreover, the explicit exclusion of the stakeholders (social partners and NGOs) clearly acknowledges the post-Lisbon trend in the European Union to retreat from securing employees' rights in order to promote growth and competitiveness. Since the mid-1990s, CSR has developed hand-in-hand with the weakening of social dialogue despite the emergence of legal tools aimed at increasing information for salaried employees, as well as involving them in restructuring. This fact has largely contributed to the mistrust of social players vis-à-vis the CSR concept.



## 8.4. STATE OF PLAY OF THE CSR DEBATE IN THE EU

### ONLY A BUSINESS CASE?



**Selected stakeholder's responses to 2006 EU communication**

	Communication COM 2006/136	BUSINESSEUROPE (former UNICE)	ETUC	Social Platform
<b>CSR Approach and understanding</b>	Business driven, participation of stakeholders if possible, but not mandatory Unilateral or multilateral	Business driven Unilateral or multilateral	Participation of all relevant stakeholders Multilateral	Participation of all relevant stakeholders Multilateral
<b>Differences in the position of the aim and the regulation of CSR</b>	Voluntary Delivering the Lisbon strategy	Voluntary European and International focus of competitiveness	Voluntary CSR activities beyond the law, must not substitute Social Dialogue	Regulation on CSR at the European level
<b>Monitoring and assessment of CSR activities</b>	The responsibility of stakeholders	The responsibility of the company	With the relevant stakeholders	By independent agencies
<b>Proposed activities</b>	Launch of the European CSR Alliance, Collecting examples/ best practices	Business specific solutions	Joint projects on: A European reporting framework Frequent political groups meetings A centre of competence	Establishment of instruments (e.g. Joint codes/labels) and/or certification agencies

Source: ETUI-REHS

In order to prevent the erosion effect of CSR on workers' rights and social dialogue, legal and/or negotiated guarantees, as well as the participation of stakeholders, are also required. Already the Gyllenhammar report in 1998 suggested obliging companies with more than 1000 employees to publish a management report providing information on corporate social responsibilities, among other things, unfortunately with little success. In its resolution of 9-10 June 2004, the ETUC, rejecting a philanthropic or 'public relations' approach to CSR, stressed that one of the key components of CSR is the quality of industrial relations within a company and identified the following forms of action as prerequisites for socially responsible companies:

- to promote collective bargaining where it is insufficient or even non-existent;
- to enhance the involvement of trade unions, workers and their representatives as well as the respect for and defence of their rights.
- to show respect for industrial relations;
- to promote solid participation structures using ongoing consultation and information processes, particularly within European Works Councils;
- to develop vocational skills and lifelong training for workers;
- to respect health and safety standards and adopt preventive policies;
- to promote gender equality;
- to enable social partners to participate in change and manage restructuring;
- to promote workers' social and fundamental rights;
- to enhance the quality of work;
- to defend and integrate the most vulnerable groups, such as youngsters, disabled people or immigrants.

## 8.4. STATE OF PLAY OF THE CSR DEBATE IN THE EU

### ONLY A BUSINESS CASE?

Furthermore, CSR is not an alternative to legislation on social rights, to environmental standards and to new legislation; it should be developed in the framework of the European social model. The specific status of trade unions, compared with other stakeholders, should be respected, as well as the structure and content of social dialogue systems in the European member states. Finally CSR should be developed within a legal or contractual framework, with codes of conducts, charters and labels being used in the transition process and for evaluation procedures by legitimate and representative bodies or actors.

However, recent developments show how little businesses care about stakeholders. The creation of the so-called CSR Alliance of European companies (recently 130) and European as well as national business associations and organizations (33) by the European Commission (COM(2006)136 (European Commission 2006a) dispenses with the participation of stakeholders such as trade unions or NGOs. In December 2006, the review of a Multistakeholder Forum was re-launched (which does not even deserve the name Multistakeholder, insofar as a large portion of stakeholders did not attend the Forums, as sign of protest), reflecting the still existing different positions and leaving untouched most of the left-overs from the last Forum. The ETUC clearly stated that the Forum review was seen as the last chance to create a balanced approach to CSR in Europe and the final opportunity to secure a participative framework for CSR in Europe that would gain the support of trade unions and NGOs. In this respect, the ETUC proposed concrete actions such as a European CSR reporting framework, a common centre of CSR competence and regular political groups' meetings. However, the European Commission continues to push forward a more unilateral form of activity by businesses, leaving no doubt as to their business-oriented approach.

Meanwhile, the "CSR Alliance" collected best practices, with two third of the cases based on forms of practical involvement by stakeholders. This shows the gap between actual practices in a large section of the companies and the political sphere at the European level.

The ETUC, as well as most European Non-Governmental Organisations, while recognising the voluntary nature of CSR, see the urgent need to give a legal and / or negotiated framework to CSR initiatives at a European level. Furthermore, the Social platform, together with the European trade unions and Amnesty International, underline the need for involvement of all relevant stakeholders in the process and a multilateral approach in all CSR activities.



## 8.5. PARTICIPATIVE CORPORATE CULTURE

### METHOD FOR FOSTERING SOCIAL INNOVATION

Debates on how to foster innovation in Europe are usually quite narrowly oriented, with a tendency to focus predominantly on the technical dimension of change. There is considerable evidence, however, that an exclusive focus on the technical aspects of the innovation process, without consideration of its social dimension, will yield distinctly unpromising results. This becomes evident from an examination of numerous company cases studies dealing with different forms of change, such as restructuring, sourcing and performance improvement programmes, or the effects of mergers and acquisitions.

The European Social Model requires management styles and corporate cultures which foster strategies for long-term value creation in sustainable companies that provide attractive workplaces for a highly qualified workforce. Participative corporate cultures are based on strong workers' involvement provisions and such arrangements can be considered, in turn, to foster the European Social Model (Kluge and Wilke 2007). Formally and institutionally, workers' involvement differs from one country to another within the European Union. The rapidly increasing trans-national activities of companies require the development of corporate cultures along these lines in a cross-border dimension, and this is a situation that represents a challenge for managers as well as works council members, shop stewards and trade union representatives.

Common features of participation-oriented corporate culture in Europe, as Figure 11 shows, are based on the commitment of workers who are empowered to act in a representative capacity by the existence of formal information and consultation rights. It may be expected that provisions on workers' involvement by European legislation (mainly deriving from Council Directive on Information and Consultation 2002/14/EC) will serve and support the creation of cooperative processes that will facilitate ways of coping with structural change.

Figure 11



Participation orientated corporate culture in Europe

	Great Britain	France	The Netherlands	Germany
Traditional orientation of national industrial relations' system	Confrontational orientation of labour relations, weak labour law basis	Confrontational orientation, strong labour law basis	Consensus-orientated, but with options of "Boxing and Dancing", strong labour law basis	Social partnership of employer and workers' representatives, strong labour law basis
Tendency of direct/representational participation	Direct participation	Direct participation	Both	Indirect and representative
Most important elements and instruments used for participation orientated corporate culture by management	Workshops for information purposes	Workshops for information purposes, suggestion schemes Empowerment Enabling framework	Frequent information exchange Cooperation, involvement in negotiation and evaluation practices Common agreements	Workshops Suggestion schemes Frequent information and consultation Decision impact at the workplace and teams, Common agreements
Pattern of the role of workers representation during change processes (tendency)	Passive (e.g. information-gathering)	Passive (e.g. information gathering and observing)	Active and passive (e.g. information & consultation, negotiation of special agreements, involvement in evaluation of change process)	Active and passive (e.g.: information beforehand and during the process, conciliation, negotiation of special agreements, involved in evaluation)

Source: ETUI-REHS: TiM project (2007)

A requirement for higher standards of representational provisions for workers in companies is that such provisions should not be undermined by the simultaneous existence of forms of complementary direct involvement at the workplaces. The specific mixture of representative and direct forms of participation will determine the particular character of each corporate culture. Workers' representatives are involved in the highly complex processes of conciliation, exchange of information on details of the change process and evaluation of the different steps of the programme. The most far-reaching role of the workers' representatives turns out to be the conclusion of special agreements that serve to balance safeguards concerning the pre-existing status of workers with the opening of new job opportunities resulting from a process of change. As such, participative orientation is increasingly becoming the main feature of a particular corporate culture that combines the social dimension, new provisions for individual careers with permanent improvement of company structures for better economic performance and sustainability. A focus on the social dimension of innovation and not on its technical dimension alone is likely to prove the most successful way of managing corporate change.

An assessment by the ETUC and its affiliates of the measures currently favoured in the context of EU policies to enhance the competitiveness of firms and improve the functioning of the EU internal market, including the financial market, gives rise to increasing doubt about the seriousness with which the Lisbon strategy is being pursued. It is the clear position of the ETUC that a highly productive European economy with full employment can be achieved only by further developing a sophisticated European social model and simultaneously respecting ecological objectives.

Granting the highest priority to promoting the proper functioning of a European financial market, including by means of European legislation, is evidence of a political philosophy according to which private investors and big funds are the only appropriate resource for financing companies. This culminates in the idea underlying the 'one share-one vote' principle currently held in such high regard by the European Commission which has suggested organising society as a whole as a 'shareholder democracy', accepting the naïve fancy that this will be a society among equals.

The negative impacts of such a liberal notion are already to be seen. Nowhere, not even in the USA, have enterprises benefited from aiming solely at short-term profits. High executive salaries and control of enterprises by their owners alone have resulted in neither better economic performance nor higher enterprise value in terms of higher share prices over the long term. Often enough, leverage buy-outs of enterprises by hedge funds or private equity leaves them squeezed out and without any further prospects. Concerned workers have so far no means to counterbalance such negative consequences. Appropriate European legislation might serve to point this segment of the financial market in the direction of longer-term perspectives for targeted companies and their employees.

It should be noted that unhealthy developments are not without consequences. The approach that companies exist solely for the benefit of their shareholders and investors is increasingly losing political and economic legitimacy. This is increasingly placing the business world in a position in which it has to justify itself to the general public. Vogue words and unilateral actions related to corporate social responsibility show that the doubts concerning the benefits of the liberal system have not passed unnoticed.

A debate has been started on how to combine the demands of globally operating investors with social requirements, as well as to consider which type of procedure is most realistic under the circumstances. In general, all efforts to develop a sound European corporate governance framework should provide the proper institutional conditions for companies to foster long-term profitability and employment prospects, introduce mechanisms to prevent mismanagement, and guarantee transparency and accountability with regard to investments and their returns. Moreover, companies in Europe must accept a broader notion of social responsibility, rather than just the narrow serving of shareholders' interests. This is the yardstick against which recent policies on improving corporate governance and corporate social responsibility at European level must be measured. Supported by EU policies and based on already existing practices of international framework agreements between the social partners of a company or with trade unions, EU-based multinational companies might well serve as a platform from which to spread appropriate social and labour standards at global level beyond the European borders. These agreements could evolve to cover a broader range of issues, including workers' rights within the decision-making processes of multinational companies. In this way they are becoming part of the core of the corporate culture of globally operating companies.

This is the desirable way forward for Europe in economic terms also. In the long run, Europe can survive with its economy only by further improving its high-performance approach and not by decreasing costs by winding down social standards only. The ability at implementing social innovation committed by the work force will be one the key factors for success of companies in Europe competing globally. Europe has to find its own way to govern companies and investors in a balanced way. Negotiated shareholder capitalism and legally based corporate governance, including obligatory worker participation rights, undoubtedly represent an important path for fruitful debates.

## 9. EUROPEAN SOCIAL DIALOGUE AND EUROPEAN LABOUR LAW

In 2006, not only was the European social dialogue marked by the adoption of the second autonomous work programme of the interprofessional social dialogue for 2006-2008. It also achieved some crucial results including, amongst others, the successful finalisation of the negotiations on a third autonomous framework agreement on violence and harassment at work (which still needs to be formally adopted by the EU social partners' decision-making bodies) and the first ever multi-sectoral agreement on the health protection of workers handling and using crystalline silica. The interprofessional social dialogue also saw the adoption of the final implementation report on the telework agreement, as well as the first implementation reports on the framework agreement on stress at work and the framework of actions on gender equality. Here, both the experiences gained in the reporting procedures and the actual results achieved will influence the debate on the future of the European social dialogue. From a 'procedural' point of view also, new breakthroughs have been achieved or, at least, foundations were laid in 2006. There is, firstly, the creation of three new European sectoral social dialogue committees for the steel, hospital and gas sectors, bringing the total number of committees up to 34. Secondly, the interprofessional autonomous work programme provides for (the continuation of) several important capacity-building actions geared, in particular, towards social partners in the new member states and candidate countries. It also lays the foundations, in its so-called 'action point 8', for the elaboration of a common [and better] understanding of the different instruments of the social dialogue and the impact entailed at the various levels of social dialogue. This should provide for a framework of discussions clarifying the rights and obligations linked to each instrument, how to increase the quality and impact of the social dialogue, while also filling in some missing links, such as putting in place appropriate mediation and conciliation systems designed to ensure that the EU social dialogue grows into its consolidated status as an inherent component of the much needed system of EU industrial relations. Of course the recently (re-)started debate on an overall framework for transnational collective bargaining – dealt with in other chapters of this report – should not be overlooked in this debate.

But also from a content point of view, the EU social dialogue, in particular on the interprofessional level, intends or at least hopes to make a further crucial contribution through the 'joint analysis of the key challenges of Europe's labour markets' foreseen in the work programme. This is a difficult and far-reaching discussion that is cut across by other pivotal debates on flexicurity such as the Green paper on Labour Law. Therefore this chapter will not only take stock of recent developments in the EU social dialogue, but will also highlight (some of) these debates and their (logical but necessary) interlink with the EU social dialogue. Because the results achieved so far, and their implementation, as well as the debates foreseen, highlight very clearly that the EU social dialogue has been the forum that already made a substantial contribution to the flexicurity debate and should certainly now continue to do so.

### Themes

- 9.1. Consultation of the social partners under Article 138(2) EC Treaty
- 9.2. Results of the autonomous interprofessional European social dialogue
- 9.3. European sectoral social dialogue (ESDD)
- 9.4. Better regulation
- 9.5. Conclusions

## 9.1. CONSULTATION OF THE SOCIAL PARTNERS UNDER ARTICLE 138 (2) EC TREATY

### NEW DEVELOPMENTS IN EUROPEAN LABOUR LAW?



**Consultation process under Art. 138 (2) EC Treaty in 2006/2007**

*Figure 1*

ISSUES	REACTIONS: SOCIAL PARTNERS / COMMISSION
<b>GREEN PAPER: MODERNISING LABOUR LAW TO MEET THE CHALLENGES OF THE 21<sup>ST</sup> CENTURY</b>	1 <sup>st</sup> consultation 06/07 – to be concluded in March 07, separate opinions
<b>RECONCILIATION OF PROFESSIONAL, PRIVATE AND FAMILY LIFE</b>	1 <sup>st</sup> consultation 06, separate opinions
<b>PROMOTE THE ACTIVE INCLUSION OF THE PEOPLE FURTHEST FROM THE LABOUR MARKET</b>	1 <sup>st</sup> consultation 06, separate opinions
<b>VIOLENCE AT THE WORKPLACE</b>	Joint seminar of European Social Partners 05, negotiations ongoing in 06
<b>TRANSNATIONAL COLLECTIVE BARGAINING</b>	2 study seminars of the COM for the social partners in 06 1 <sup>st</sup> consultation upcoming in 07
<b>FLEXICURITY</b>	Upcoming June 2007

Source: ETUI-REHS

Under the Title XI of the EC Treaty on social policy, education, vocational training and youth, the European social dialogue procedure of Article 138 enables management and labour to respond to the European commission initiatives, either by delivering opinions or recommendations or by informing the European Commission of their wish to initiate negotiations, that may lead to contractual relations including agreements (Article 139). As Figure 1 shows negotiations between the European Social Partners have been ongoing in 2006 on one topic “Violence at the workplace” (see 9.2).

Figure 1 also shows the list of issues under consultation under Art. 138 (2) EC Treaty gets shorter from year to year and no more consultations on concrete legislative proposals are to be found in the year 2006. Nevertheless the green paper on labour law was a long awaited communication, which become already under fire by the employers side even before its publication. It was finally published with delay of more than one month end of November 2006. This paper very much puts the focus on the segmentation of the labour market in “insiders” and “outsiders”, while the latter are those workers employed on precarious contracts and the unemployed. The paper is suggesting that in order to close the gap standard employment should become more flexible. The link to the topic of flexicurity, on which consultation is going to take place in June 2007, is obvious. The central question is, if labour law in the EU needs modernisation. It seems clear that it is not the right way forward to downgrade the working conditions of standard employment, but that minimum rules for all workers in the EU are necessary.

In the Social Agenda 2006-2010 the Commission launched the project of an optional European legal framework on transnational collective bargaining for the enterprise or sectoral sector. Therefore an expert group of academics was asked to write a report on this topic (source: Transnational collective bargaining, past, present and future). This report was presented to the European Social Partners in a study seminar in May 2006. The second seminar took place in November presenting an outcome of a study on transnational framework agreements conducted by the Commission itself. Those seminars made it very clear that the European employers are strongly against any kind of legal frame on transnational collective bargaining, while ETUCs reactions was positive but cautious. UNICE considers this of being of no use by just adding another level of democracy. For ETUC many questions at the heart of the European trade union movement still need to be answered, such as that the negotiation mandate and the right to sign transnational agreements must remain solely and strictly a trade union right, the new level must fit in the existing structure of collective agreements negotiated at various levels, the legal status of such agreements and cross-border bargaining might not be used to weaken already acquired rights. The European Commission will integrate those discussions in its communication on the topic to come out next spring, being the point of departure for the consultation procedure of the social partners.

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE 2ND WORK PROGRAMME OF THE EUROPEAN SOCIAL PARTNERS 2006-2008 - STATUS DECEMBER 2006

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As mentioned in the previous Benchmarking report for 2006, the European cross-sectoral social partners opted for a “limited but more qualitative” approach as the guiding principle underlying their second autonomous social dialogue work programme 2006-2008, submitted to the Tripartite Social Summit of 23 March 2006 (see: <http://www.etuc.org/r/656>). The accompanying figure shows that, by December 2006 only nine months after adoption of the new programme, the EU social partners had made considerable headway with its implementation. The most concrete result is the successful finalisation, in mid-December 2006, of the negotiations on an autonomous agreement on violence and harassment at work. The jointly agreed text has now been circulated to the ETUC, UNICE, UEAPME and CEEP affiliates for internal consultation with a view to its adoption by the respective decision-making bodies. Furthermore, some clear and important joint steps have been taken and agreed upon – with the support of the European Commission – to enhance the capacity-building of the social partners in the new member states and candidate countries. This endeavour will undoubtedly represent a further positive contribution to their integration in the European social dialogue in general and, in particular, to their role in effectively implementing the results deriving there from.

However, two other major actions have not yet – or have only recently – been embarked upon. Firstly, there is the joint analysis of the key challenges facing Europe’s labour markets, the results of which will guide and influence future initiatives in three other ‘action fields’ defined under the Work Programme, including the choice of issue for the next negotiation of an autonomous agreement. This exercise has already started, but is proving extremely difficult, not only because it seeks to cover a huge area by looking at highly diversified but interlinked issues and tools – such as macro-economic policies, demographic change, lifelong learning, undeclared work, etc. – but also because it will intersect with a number of crucial but also sensitive debates on the phenomenon of “flexicurity”. Not only is this issue an inherent component of the challenges identified in the work programme itself, but it is also central to the Green Paper on modernising Labour law, the Communication on flexicurity announced for 2007 (building, amongst other things, on the outcome of the results of the consultation of the Green Paper), etc. There will thus be a need, in particular on the trade union side, to ensure a coordinated approach to these numerous “flexicurity agendas” in order to safeguard the existing acquis and complement it where necessary, rather than seeing the acquis sacrificed by calls for modernisation of labour law and social protection on the grounds that they represent “obstacles to the internal market, productivity and employment growth”. Vigilance will also be required to ensure that stands taken within “one agenda” will not hijack and thus limit discussions within the other agendas.

Secondly, a debate is scheduled to take place on developing a common understanding of the instruments of the social dialogue and the positive potential of their impact. This will consist not only of better understanding “the rights and obligations” deriving from each instrument but also of seeking ways to increase the quality and impact of the European social dialogue and establishing new structures and procedures – such as mediation and conciliation mechanisms – to enhance the EU social dialogue and enable a genuine system of EU industrial relations to be achieved.

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE 2ND WORK PROGRAMME OF THE EUROPEAN SOCIAL PARTNERS 2006-2008 - STATUS DECEMBER 2006

Figure 2



#### Implementation of the second Work Programme of the European social partners 2006-2008

FORESEEN ACTIONS	ACTIONS UNDERTAKEN
<p>EU Social partners will undertake joint analysis of the key challenges facing Europe's labour markets (...)</p> <p>On that basis: they will decide 1) appropriate joint recommendations to be made to EU and national institutions, and 2) define priorities to be included in a framework of actions on employment by the social partners, and 3) negotiate an autonomous framework agreement on either the integration of disadvantaged groups on the labour market or lifelong learning. In order to define their respective mandates, they will explore different possibilities.</p>	<ul style="list-style-type: none"> <li>At the Social Dialogue Committee (SDC) meeting of 28 June 2006, it was decided to set up an Ad hoc Working Group on "Labour Market Challenges".</li> <li>This group held initial exchanges of views at the following meetings: 19/09/2006, 03/10/2006 and 31/10/2006.</li> <li>At the meeting of 31/10/2006, it was decided to set up a joint Drafting Group.</li> <li>Drafting group meetings scheduled for: 13/12/2006, 10/01/2007, 07/02/2007 and 22/03/2007</li> <li>Information exchange on the state of play at the SDC of 7/11/2006</li> </ul> <p>No action so far, as dependent on the outcome of the abovementioned "joint analysis"</p>
Negotiation of a voluntary framework agreement on harassment and violence in 2006.	<ul style="list-style-type: none"> <li>Negotiations started on 7 February 2006</li> <li>At 9th round of 14-15 December 2006, a joint text was agreed which will now be sent to the affiliates of the signatory parties (ETUC, UNICE, UEAPME and CEEP) for consultation and possible adoption</li> </ul>
Completion of the national studies on economic and social change in the EU10, enlarge them to cover the EU15 and on that basis promote and assess the orientations for reference on managing change and its social consequences and the joint lessons learned on EWCs.	<ul style="list-style-type: none"> <li>Synthesis Seminar of the "Integrated Programme of the European Social Partners' Organisations – Study on Restructuring in the new Member States" – Brussels – 26-27/06/2006</li> <li>Presentation of synthesis report at SDC of 07/11/2006</li> <li>Application for new joint project "Integrated Programme of the EU Social Dialogue 2006-2008" accepted by DG EMPL SD Unit for funding and presented at SDC of 07/11/2006 – of particular relevance is "Subproject II Joint Study on restructuring in EU 15 MS – Phase 1 (10 countries) 3 regional meetings scheduled for 11-12/12/2006, 15-16/02/2007 and 05-06/03/2007</li> </ul>
Continue their work of capacity building for the social dialogue in the new member states, extend it to candidate countries, and examine how the employers and trade union resource centres providing technical assistance to the 10 new member states could provide help to social partners of all EU countries.	<ul style="list-style-type: none"> <li>Application for new joint project "Integrated Programme of the EU Social Dialogue 2006-2008" accepted by DG EMPL SD Unit for funding and presented at SDC of 07/11/2006: <ul style="list-style-type: none"> <li>Subproject I: Joint project on "Social partners' participation in the European social dialogue: What are Social Partners' needs?" in Romania, Bulgaria, Croatia and Turkey – phase 1</li> <li>Subproject III: Resource Centres (including specific websites, translation fund, mentoring programmes and other seminars and activities)</li> </ul> </li> </ul>
Reporting on the implementation of the telework as well as the work-related stress agreements and on the follow up to the framework of actions on gender equality.	<p><u>Telework</u>: (see this subchapter – part on implementation of EU Telework agreement)</p> <p><u>Stress at work</u>: (see this subchapter – part on implementation of EU Work-related stress agreement)</p> <p><u>Gender equality</u>: presentation and adoption of "1st joint follow up report 2006" (<a href="http://www.etuc.org/r/704">www.etuc.org/r/704</a>) at SDC of 07/11/2006; further specific and general dissemination actions are foreseen.</p>
* based on the implementation of the telework and stress agreements and the frameworks of actions on the lifelong development of competences and qualifications and on gender equality, further develop their common understanding of these instruments and consider how they can have a positive impact at the various levels of social dialogue.	<ul style="list-style-type: none"> <li>Confirmation of the importance of this action in the conclusion of the joint implementation report on Telework following the lessons learned in the implementation process</li> <li>No further concrete joint action started yet.</li> </ul>

Source: ETUC and ETUI-REHS



## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE EUROPEAN FRAMEWORK AGREEMENT ON TELEWORK

Information on intermediate states of play of implementation regarding this framework agreement has been supplied in previous *Benchmarking Working Europe* reports (2004/2005/2006). Under Chapter 12 of the agreement, a formal final joint implementation report was due by June 2006. At the Social Dialogue Committee (SDC) meeting of 7 March 2006, the European Social Partners decided to set up a joint drafting group, under the responsibility of the SDC, which would prepare this joint European report on the basis of joint national reports. These latter were required to cover the following aspects: the process followed when implementing; the content of the initiatives taken; the effects of the EU agreement in the country, including at sectoral and company level; the choice of instrument used and why; the role of the social partners in the process of implementation; the difficulties encountered, as well as explanations of solutions found or reasons why problems persisted. These reports were integrated into the European report adopted at the SDC meeting of 28 June 2006 and officially presented at a press conference attended by Commissioner Spidla on 11 October 2006 (see: <http://www.etuc.org/a/2914>).

It is apparent from the report that numerous and wide-ranging dissemination actions and implementation actions/results have been conducted throughout Europe by the affiliated organisations of the signatory parties. Dissemination activities at the national level ranged from publishing the agreement in newsletters, brochures and on social partner websites to joint or separate information seminars. But on the transnational level also, the EU signatory parties and European sectoral social partners organised several joint and/or separate information campaigns and meetings (for a complete overview, see the final implementation report on pages 5-6). As to the actual implementation results, it is worthwhile to note, for instance, that in no less than nine countries an interprofessional collective agreement has been concluded. A further noteworthy aspect is that in eight countries the government, while not the primary addressee for implementation of this agreement, became, in its capacity as legislator, involved in one way or another (see Figure 3). It will now be a question of monitoring how these initial results will trigger and provide a basis for initiatives and results at other bargaining levels, thereby creating a further implementation spillover effect.

However, the true added value of the report undoubtedly lies not only in its 'wealth' of information, but surely also in the reference in the conclusions to 'action point 8' of the Work Programme 2006-2008. Indeed, the reporting on implementation revealed several aspects which should be reviewed in this forthcoming discussion on how to further strengthen the impact of the European social dialogue and its results. It concerns amongst others:

- The various national implementation processes, as well as the joint national reports on this process, were highly diverse. This is probably due to the fact that it was the first time that the member organisations had to implement such an agreement and report on it and it is possible that this took place without sufficiently clear guidance from the European signatory parties. The European social partners recognise this and should ensure that it does not happen again in the future.
- The lack of translations of the European agreement into different languages should be reviewed as it cannot be the objective that the national colleagues should have to start 're-negotiating' the European agreement. In any case, the translation exercise should not be used to downgrade the EU text! The EU text is the minimum!
- The 'nature/status' of the EU agreement given that in several countries the term 'voluntary' framework agreement created not only confusion, but also problems in the implementation process.
- The route and instruments chosen by social partners given that in some countries the 'practices and procedures specific to management and labour and member states' to implement the European framework agreement were not always fully followed, in some cases because such practices did not yet exist.
- Problems related to social dialogue structures and partners: such as national/sectoral negotiation calendars not coinciding with implementation process for EU agreement, weaknesses in social dialogue (structures) in new member states – but not to be solved from the European level.
- The role of public authorities
- The need for social partners to reflect further on delivery mechanisms. The European social partners should further enhance joint and separate dissemination and awareness-raising of the European agreements as this will certainly facilitate the national implementation.

Accordingly, no real evaluation of the impact of the European agreement on telework is yet possible and another assessment of the degree of protection enjoyed by teleworkers throughout Europe should be considered in a few years time. As for the impact of this agreement in relation to the future of the European social dialogue, no time should be lost and exchanges of views between the European social partners should start as soon as possible!

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE EUROPEAN FRAMEWORK AGREEMENT ON TELEWORK

Figure 3



### Implementation of the European Framework agreement on Telework

IMPLEMENTATION RESULTS	
<b>SOCIAL PARTNERS AGREEMENTS</b>	<p>National interprofessional collective agreements: IT, FR, BE, LU, GR, IS, PL, DK (public sector)</p> <p>Other interprofessional agreements/recommendations:</p> <ul style="list-style-type: none"> <li>• Germany (Joint declaration)</li> <li>• Sweden (Guidelines)</li> <li>• Spain (EU Agreement annexed to interprofessional collective agreement of 2003)</li> <li>• Netherlands (Recommendations + Annexes)</li> <li>• Finland (Agreement with guidelines)</li> <li>• Latvia (Tripartite agreement on guidelines)</li> </ul> <p>European Sectoral social dialogue:</p> <ul style="list-style-type: none"> <li>• Electricity: Joint Declaration Eurelectric/EPSU/EMCEF (22/11/2002)</li> <li>• Local/Regional Public Authorities: Joint Declaration CEMR-EP/EPUSU (January 2004)</li> <li>• Cleaning: annual report in their Social Dialogue Committee</li> </ul>
<b>NATIONAL, REGIONAL, SECTORAL AND COMPANY LEVEL AGREEMENTS</b>	<p>Denmark: Public sector (central, regional and local); some private sectors</p> <p>Sweden: Public sector (central); some private sectors</p> <p>Italy: textiles, services, etc.</p> <p>Germany: chemical, Coca Cola Berlin</p> <p>Finland: local level</p> <p>Spain: chemical industry, daily press sector, Valencia and Catalonia regions, Telefónica de España, Ibermática</p>
<b>LEGISLATION</b>	<p>Czech Republic: New labour code – Art. 317- (01/01/07)</p> <p>Hungary: Revision labour code (2004)</p> <p>Portugal: Changes to labour code (2003)</p> <p>Belgium/Luxembourg: demand for legislative changes</p> <p>Poland: integration of agreement as reached by social partners in the labour code</p> <p>France: procedure “erga omnes” (Decree published JO 09/06/2006)</p> <p>Malta: amendment labour code – in process</p>
<b>GUIDELINES/CODES OF GOOD PRACTICE</b>	<p>UK: Guide – August 2003</p> <p>Ireland: New code of practice –12/2004</p>
<b>STANDARD COMPANY AND SECTOR AGREEMENT MODELS</b>	<p>Germany</p>
<b>OTHER ACTIVITIES</b>	<p>UK: financing of guide by government</p> <p>Spain: Action guide for labour inspectors + Guide by National Institute for Health &amp; Safety at Work</p> <p>Spain: judgement of the social chamber of Supreme Court (11.04.05)</p> <p>Hungary: establishment of telework council by government</p>
<b>WORK IN PROGRESS</b>	<p>Austria – negotiations on interprofessional recommendations</p> <p>Denmark – negotiations on interprofessional agreement private sector</p> <p>Finland – implementation via sectoral negotiations in 2007</p> <p>Bulgaria, Romania, Slovenia – reflection started on how to best implement</p>

Source: ETUC *et al.* (2006c)



## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE ETUC-UNICE/UEAPME-CEEP AGREEMENT ON WORK-RELATED STRESS (8 OCTOBER 2004): STATE OF PLAY: JANUARY 2007

On 8 October 2004, ETUC, UNICE/UEAPME and CEEP signed an autonomous cross-industry framework social dialogue agreement on work-related stress. The agreement commits the member organisations of ETUC, UNICE/UEAPME and CEEP to implement it, in accordance with the procedures and practices of management and labour, in the member states, as stipulated in Article 139 of the Treaty.

Member organisations are bound to comply with such agreements and to ensure their effective implementation by 8 October 2007 at the latest. In order to support implementation and building on its experience related to the implementation of the telework agreement, ETUC together with its Institute (ETUI-REHS), embarked on an information and dissemination campaign targeted at its affiliates and provided effective assistance, whenever needed, in order to trigger the commencement of numerous concrete implementation actions. Three decentralised meetings were held (Riga – 11-12/10/2005; Budapest – 21-22/11/2005 and Brussels – 19-20/01/2006), as well as a final conference (Prague, 21-22/09/06), aimed at informing affiliates about the agreement and its interpretation and at devising concrete implementation action plans for evaluation.

Based on the ETUC implementation and follow-up project, and with the support of the European Commission, a first monitoring of domestic actions for implementation has been devised. The various steps, carried out in different forms and intensity, are as follows: 1. Translation of the agreement (possibly jointly with the employers, with most translations being carried out on the initiative of local trade unions), 2. Dissemination (trade union and public campaign), 3. Knowledge and implementation (training scheme); 4. Negotiation (schedule); 5. Problems of interpretation (ETUC guide). Furthermore, the project has enabled the ETUC to devise a number of action-oriented tools, including a comprehensive website (<http://www.etuc.org/a/2377>) and training scheme. As a means of fostering qualitative implementation, requests have been made to translate the ETUC interpretation guide. Monitoring and impact assessment are further tasks of the ETUC and ETUI-REHS towards a qualitative analysis during, as well as at the end of, the process, on which regular reports are given in the European social dialogue committee.

Two years after its signature, the implementation scoreboard looks quite dynamic. In most EU members states implementation started with the (joint) translation of the agreement, followed by dissemination actions such as awareness-raising campaigns involving, in most member states, websites, brochures, guides and training schemes. Many countries already have a regulatory and/or contractual framework in place, either as part of an overall health and safety protection policy or as a policy specifically targeted on the issue, upon which they build domestic measures to implement the European framework agreement. In most EU members states, joint actions in the form of declarations, projects and discussions in bipartite and tripartite bodies seem to be an additional step in the launching of negotiations. In at least 10 member states negotiations have started at interprofessional and/or sectoral level. Furthermore, (sectoral) collective agreements have already been signed or updates of existing collective agreements on the basis of the EU framework agreement have been prepared ([http://www.etuc.org/IMG/pdf/Joint\\_Table\\_Implementation\\_Stress\\_final3.pdf](http://www.etuc.org/IMG/pdf/Joint_Table_Implementation_Stress_final3.pdf)).

There is still one year to go before completing the deadline for implementation. Although tackling work-related stress seems not to be a priority at national level, it is much related to issues like high unemployment, increased flexibility and restructuring, and these are top priorities as well as main stress factors and, as such, must be used to help resolve health and safety issues in negotiating rounds. Since the ETUC implementation and follow-up project has been launched, concrete improvements have been witnessed as trade unions appropriate the agreement and actions are being taken to foster social dialogue on this issue.

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### IMPLEMENTATION OF THE ETUC-UNICE/UEAPME-CEEP AGREEMENT ON WORK-RELATED STRESS (8 OCTOBER 2004): STATE OF PLAY: JANUARY 2007

Figure 4



#### Implementation of the ETUC-UNICE/UEAPME-CEEP Agreement on Work-related stress (8 October 2004): State of Play: January 2007

	INITIATIVES				RESULTS
	TRANSLATION	DISSEMINATION	JOINT ACTIONS	NEGOTIATIONS	AGREEMENTS
<b>CROSS INDUSTRY SOCIAL DIALOGUE</b>	All ETUC affiliates in member states except in English-speaking countries (UK, IE, Malta)	Awareness-raising campaigns, websites, brochure, training schemes in most member states	Declaration of commitment (MT), Agenda point in Economic and social committee (LU), Working group (NO), Project (PL), International Congress for Occupational Safety and Health	FI, CZ, IE, IT, IS, LU, PL (2007),	Joint guidelines (AT) OSH policy (BG) Joint implementation strategy (LT) Update of national joint declaration on work pressure (NL).
<b>SECTORAL SOCIAL DIALOGUE</b>		Public sectors: education, health, public administration (BG)	Project in Railways sector and with a bank (PT) Agenda point of the Intersectoral Agreement for the Collective Bargaining 2005 (SP), guide on "Work-related stress" (UK private sector), Joint programmes of agencies social insurance for occupational accidents in GE.	DK (private sector; regions and municipalities) FI, IE, IT, municipalities (SE), (UK private sector)	Collective agreement in public sector, and public local and regional sector workplaces (DK-2005)
<b>EU SECTORAL SOCIAL DIALOGUE</b>		Joint seminars and training sessions	Joint Declaration Electricity sector (EPSU & EMCEF – 15/12/2004) Joint Recommendation Construction sector (EFBWW and FIEC – 10/01/2006)		

Source: ETUI-REHS

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### ETUC-UNICE/UEAPME-CEEP AGREEMENT ON VIOLENCE AT WORK

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As announced in the European social partners' work programme 2003-2005, the social partners organised a seminar on the issue of harassment at work on 12 May 2005 to explore the possibility of opening up negotiations on this issue in the framework of Article 139 (2) of the Treaty. Parallel to this initiative the European Commission launched at the same time a consultation on the issue of violence at work. Following both initiatives, the EU social partners indicated to the EU Commission their intention to negotiate with a view to reaching a cross-sectoral framework agreement on the issue of harassment and violence and started negotiation on 7 February 2006 for a period of nine months.

The ETUC mandate adopted by the ETUC Executive committee of October 2005, after consultation with national confederations and European industry federations, focused on the following points: 1. The recognition of three different forms of violence – physical violence, moral harassment / psychological violence (also referred to as mobbing or bullying) and sexual harassment; 2. The agreement will cover all workers having a contract or employment relation, whether in the private or public sector. However, the fact that certain target groups and sectors are more prone to violence will be recognised; 3. The agreement will seek to establish a number of general principles; objectives and concrete measures to prevent, combat and eliminate violence at work and it will contain provisions for implementation, monitoring, and evaluation. Finally the mandate mentioned that a distinction has to be made between violence committed by a third party (visitors to or clients of a company, public service, school, hospital, etc.) and violence actually stemming from within the workplace in question.

This latter point has been, together with the description of harassment and violence, a source of difficulties throughout the negotiations, as the UNICE/UAPME had no intention of discussing the issue of third-party violence, wishing to restrict the negotiation to the sole issue of harassment. A compromise was found between the EU social partners on both issues: first of all the social partners recognised that different forms of harassment and violence can affect workplaces, including third-party violence, as a result of which certain groups and sectors can be more at risk than others. Furthermore, and where appropriate, the agreement's provisions on the prevention, identification and management of harassment and violence can be applied to deal with cases of external violence. Secondly, the social partners agreed on a twofold description of the issue at stake, specifying harassment and violence separately.

The negotiations ended on 15 December 2006 with a finalised document that has still to be adopted by the respective decision-making bodies of the signatory parties; the next ETUC Executive committee is scheduled to be held in March 2007.

## 9.2. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### ETUC-UNICE/UEAPME-CEEP AGREEMENT ON VIOLENCE AT WORK

Figure 5



#### Content of the ETUC-UNICE/UEAPME-CEEP Agreement on Violence at work

CONTENT	
<b>1. INTRODUCTION</b>	Building on EU and national law, European social partners condemn all forms of harassment and violence at the work place, whether they be physical, psychological and/or sexual; one-off incidents or more systematic patterns of behaviour; amongst colleagues, between superiors and subordinates or perpetrated by third parties; ranking from minor cases of disrespect to more serious acts.
<b>2. AIM</b>	To increase the awareness and understanding of employers, workers and their representatives To provide an action-oriented framework to identify, prevent and manage problems of harassment and violence at work.
<b>3. DESCRIPTION</b>	Unacceptable behaviour by one or more individuals at work. It may be carried out by one or more managers or workers, with the purpose or effect of violating a worker's dignity, affecting his/her health and /or creating a hostile work environment
<b>4. PREVENTION, IDENTIFICATION MANAGEMENT</b>	<ul style="list-style-type: none"> <li>- Raising awareness and appropriate training</li> <li>- Enterprises need to have a clear statement and specify procedures</li> <li>- Divided, reviewed and monitored in consultation with workers and/or their representatives; where appropriate applied to cases of external violence.</li> </ul>
<b>5. IMPLEMENTATION</b>	<ul style="list-style-type: none"> <li>- Implementation in accordance with the procedures and practices specific to management and labour in the Member States and candidate countries within 3 years after the date of signature</li> <li>- Yearly Report to the Social Dialogue Committee for adoption</li> <li>- Review possible after 5 years, at request of one of the parties</li> <li>- Joint or separate referral for interpretation by the signatory parties</li> <li>- Avoid unnecessary burdens on SMEs</li> <li>- Non regression clause; More favourable clause</li> </ul>

Source: Joint text of the framework agreement agreed upon at 15/12/2006

### 9.3. EUROPEAN SECTORAL SOCIAL DIALOGUE (ESSD)

#### UPDATE OF EUROPEAN SECTORAL SOCIAL DIALOGUE ACTIVITIES IN 2006

In 2006, as shown in Figure 6, seven significant initiatives were taken in the ESSD, signalling the importance of the ESSD in bilateral negotiations at European level. On the one hand, the setting up of a new ESSD committee in the steel industry represents a key forum in which the social partners will attempt to address some of the difficult issues such as transnational competition in the context of market consolidation, restructuring and changes in working practices.

On the other hand the agreement on workers' health protection through the good handling and use of crystalline silica is a major step in the fight against workers' exposure to crystalline silica dust by promoting good practice measures in the workplace. It will ensure good health surveillance for the workers involved in the sectors concerned and especially will foster prevention of all possible risks involved with respiratory exposure to silica dust. For the first time an agreement covering several sectors has been negotiated by the social partners through their own procedures. One of the main characteristics of the European sectoral social dialogue is that it has the huge advantage of being a true reflection of the daily realities of employees in enterprises.

Furthermore, the necessity to reinforce social dialogue at sectoral level in the live performance sector has led social partners agreeing on a Joint Declaration aimed at 'strengthening social dialogue and reinforcing capacities of national social partner organisations in the new member states in the performing arts sector'. This declaration is a result of a protracted consultation based on a series of joint seminars aimed at fostering the social dialogue process in the new member states. The first two seminars were held in Estonia, in October 2005, and Hungary, in January 2006, and a third in Poland in March 2006.

In 2006 the European sectoral social dialogue has been once again a much discussed issue in academic and professional forums. Since the late 1990s, ESSD has gained in interest, and is at least equal in importance to the cross sectoral social dialogue for the various processes of European integration. Recent quantitative as well as qualitative research (Pochet 2005; Marginson, 2005; Pochet *et al.* 2006) evaluate the developments of the process, products and impacts of the sectoral social dialogue at European level. Some common trends and tendencies as well as challenges can be drawn from these scientific findings.

## 9.3. RESULTS OF THE AUTONOMOUS INTERPROFESSIONAL SOCIAL DIALOGUE

### UPDATE OF EUROPEAN SECTORAL SOCIAL DIALOGUE ACTIVITIES IN 2006

Figure 6



#### Update of European sectoral social dialogue activities in 2006

SECTORS	ACTIVITIES
<b>STEEL INDUSTRY</b>	A European social dialogue committee set up by European Metalworkers' Federation and Confederation of Iron and Steel Industries with the aim of promoting productive relations between both sides of industry in monitoring European and worldwide structural developments within the industry and their subsequent impact on employment; supporting measures to promote high-quality jobs; seeking to influence policy developments at both EU and national levels; monitoring the social, economic and employment impact of EU policies within the steel industry.
<b>HEALTH AND SOCIAL WORK</b>	European multi-sector Agreement on workers' health protection through the good handling and use of crystalline silica and products containing it signed by members of the multi-sectoral Negotiation Platform on Silica (NePSi) aims to reduce workers' exposure to crystalline silica dust by promoting good practice measures in the workplace.
<b>LIVE PERFORMANCE</b>	Joint Declaration 'Strengthening social dialogue and reinforcing capacities of national social partner organisations in the new Member States in the performing arts sector' based on a series of joint seminars involving the new EU member states, aiming at fostering the social dialogue process in the new member states. The first two seminars were held in Estonia, in October 2005, and Hungary, in January 2006, and a third in Poland in March 2006
<b>ELECTRICITY</b>	Joint declaration between EPSU, EMCEF and Eurelectric
<b>MOTOR</b>	Global framework agreement signed by PSA Peugeot Citroën, along with the International Metalworkers' Federation and the European Metalworkers' Federation.
<b>HOSPITAL</b>	Launch of a European Sectoral Social Dialogue committee by the European Federation of Public Service Unions (EPSU) and the European Hospital and Healthcare Employers' Association (HOSPEEM)
<b>GAS</b>	Launch of a European Sectoral Social Dialogue committee by the European Federation of Public Service Unions (EPSU) and Eurogas (employers' association). First launching meeting scheduled in March 2007

Source: ETUI-REHS

### 9.3. EUROPEAN SECTORAL SOCIAL DIALOGUE (ESSD)

#### UPDATE OF EUROPEAN SECTORAL SOCIAL DIALOGUE ACTIVITIES IN 2006

Without any doubt, the ESSD offers a forum for unions to cooperate with employers in order to develop policies to safeguard europeanised industries. Its developments have to be viewed in a process of building trust and platforms of exchanges before reaching the level of formal, binding structures and outcomes at European level. In its existing basic form, the ESSD has to be regarded as part of a genuine European collective bargaining system still under construction. Yet the ESSD remains the least developed element of this arrangement. One prerequisite for its successful further expansion is that the trade unions seize the initiative to foster the dialogue at their respective sectoral level. However, research outcomes notably show that the trade unions have made insufficient use of the opportunities offered by social dialogue, a fact that may be attributable to certain structural fault lines. The rather fragmented nature of the interest shown by the employers' organisations in sector-specific dialogue, as well as the lack of sectoral dimension at UNICE, reflect a more general reluctance to engage in ESSD. On the trade union side, the European Industry Federations, while well established, have limited resources and frequently lack a clear mandate from their affiliates to negotiate.

Furthermore, and unlike the European cross-sectoral social dialogue, the ESSD seems not to be intended, especially in the recently eastward-enlarged Europe, to deliver any high degree of precision, binding force or quasi-legislation. Soft regulation, in a multiplicity of forms, may have more impact on industrial relations as an additional tool providing a broad space for the development of innovative approaches and a means of reaching areas of consensus for a more structured and formal collective bargaining process. This is corroborated by a study from the Observatoire social européen (Pochet *et al.* 2006) on the supposed qualitative change in the documents adopted. According to this study, there is no evidence of an evolution from 'tools' to 'agreement' (fewer than 2% of the texts adopted are agreements with binding effect). Furthermore, agreements are more likely to be signed in sectors tied to European policies such as transport or agriculture; most recommendations come from sectors in which the national industries undergo deregulation (telecom, postal services). Codes of conducts tend to be found in sectors highly exposed to international competition (textiles, sugar) or in sectors keen to raise their profile (private security, cleaning industry).

One interesting outcome is that practices, as well as research, have focused strictly on the forging of 'tools' without paying much attention to their implementation, even though implementation is a prerequisite for the sustainability of results. The voluntary route favoured by the European sectoral social partners gives European peak industry federations neither legal power nor formal authority to enforce the outcome of their negotiating rounds. Monitoring and evaluating provisions are rarely part of the outcomes, even though such provisions would ensure a valid and effective implementation.

Another interesting outcome is that social dialogue, economic and /or sectoral policies and working conditions are the three most significant themes in terms of the number of texts (see Figure 7), with the least addressed themes being sustainable development, working time, enlargement, non-discrimination, and health and safety. Distribution per type of document shows that working time is the principal theme as far as agreements are concerned, for they provide for sectoral adaptation of the 1993 Working Time directive. Working conditions seem to be most frequently covered in recommendations (codes of conduct), whereas the issue dealt with most frequently in declarations is training, followed by enlargement. Common positions deal with economic and sectoral policies.



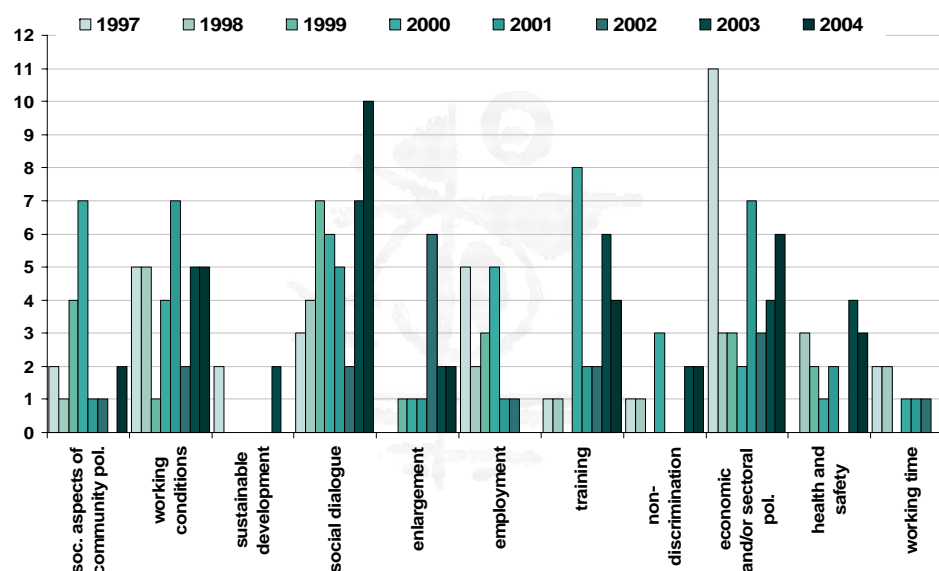
## 9.3. EUROPEAN SECTORAL SOCIAL DIALOGUE (ESSD)

### UPDATE OF EUROPEAN SECTORAL SOCIAL DIALOGUE ACTIVITIES IN 2006

Figure 7



Number of ESSD documents per theme per year  
(1997-2004)



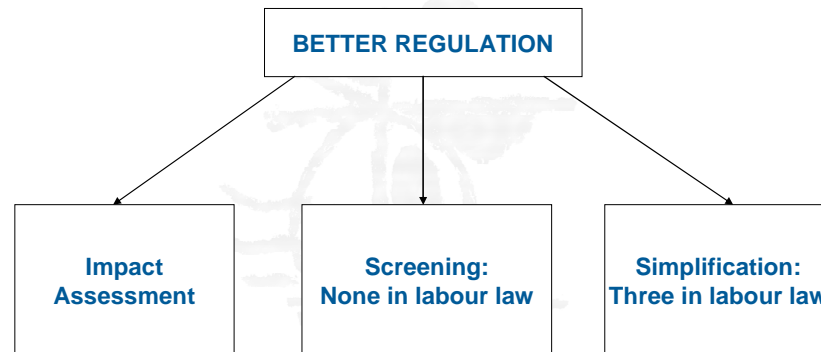
Source: Pochet (2005)

Indeed the diversity of situations, issues and dynamics characterising the ESSD explains the difficulties involved in gaining any precise idea of the development of the ESSD, in particular where the implementation and follow-up of the joint documents are concerned. On this aspect, the problematic is the same as that encountered in the European cross-industry social dialogue in respect of autonomous framework agreements. Parallel to the initiative of the European Commission (COM 2004 (557) and as mentioned in their second autonomous work programme (see this chapter), the European social partners intend to discuss and further develop their common understanding of the agreements they reach at European cross-sectoral level and to seek ways of achieving a positive impact at the various levels of social dialogue (point 8). This initiative will certainly impact the ESSD.





#### Methods of better regulation



Source: ETUI-REHS

Figure 8

When the discussions on this topic began five years ago it was called ‘Better lawmaking’ and the focus was on the quality and effectiveness of European legislation as well as on legal certainty. This focus switched in 2005 with the new Barroso Commission and the new title ‘Better regulation’ covers competitiveness, investment, economic growth, and the right incentives for business, with the subject of legal certainty coming only very far behind.

The aim is to fight red tape, the assumption being that less red tape will automatically lead to more growth in the European Union, insofar as it could save businesses billions of euro. Yet the proof of a direct link between the level of regulation and EU competitiveness still needs to be supplied and it still needs to be shown how business would use any savings thus made – for long-term investments, training, research?

What are the methods to achieve better regulation?

In order to achieve better regulation in the European Union the European Commission uses three methods: the impact assessment, withdrawal of pending legislation and simplification with regard to legislation and administrative burden.

#### Impact Assessment

The idea is to support the lawmakers’ decision-making process and to analyse all regulatory proposals and evaluate the possible economic, social and environmental impacts that may derive from those options. The economic side takes the impact on competitiveness into consideration and calculates administrative and regulatory costs. The Commission believes that the assessment of economic impacts must be strengthened (COM(2005)97final).

It must be ensured that the social side is seriously taken into consideration and that the costs of non-regulation are also evaluated.

Figure 9



## Plans and achievements

Method	Project	Achievement
Withdrawal	183 pending proposals 80 newly screened	2006: 68 withdrawn 2007: 10 to be withdrawn
Simplification	100 initiatives on 220 acts (2005-2008) 43 new initiatives (2006-2009)	2005: 12 out of 14 2006: 15 adopted 24 will be adopted
Codification	350 initiatives on 500 acts up to 2008 100 to be proposed in 2007	52 done 33 before legislative authority 8 under written procedure

Source: ETUI-REHS

## Screening and withdrawal

The idea behind this method is to screen pending legislative proposals and to withdraw the obsolete or irrelevant proposals. The outcome of the screening exercise is that 68 out of 183 pending proposals are to be withdrawn (see Figure 9).

None of the 68 are in the area of labour law (excluding health and safety and social security). The only subject in this sphere to which the Commission explicitly refers is temporary agency work on which it reserves its position to reconsider the proposal in light of future discussions on other proposals (COM(2005)462final).

The Commission does not hesitate to communicate major achievements in the sphere of better regulation. Figure 9 shows that, if the actions which are confirmed for adoption are taken into account, half of the simplification initiatives have been achieved. The picture is less positive with regard to codification: 83 initiatives out of 350 have been settled or embarked upon. 2007 will show whether the targets set can realistically be achieved.

Figure 10



## Simplification methods

<b>Repeal</b>	<b>Withdrawal of irrelevant or obsolete legal acts</b>
<b>Codification</b>	<b>Brings together in one binding legal act provisions of one act and its amendments or of several acts; this new text replaces the old provisions but without changing the substance of those provisions.</b>
<b>Recasting</b>	<b>Creates a legally binding new act, repealing the acts that it is replacing.</b>
<b>Co-regulation</b>	<b>Community legislative act entrusts the attainment of the objectives defined by the legislative authority to parties which are recognised in the field, e.g. social partners, NGOs, etc.</b>
<b>Self-regulation</b>	<b>e.g. economic actors, social partners, NGOs, etc. have possibility to adopt among themselves and for themselves common guidelines– this does not involve a legislative act.</b>

Source: ETUI-REHS

## Simplification

The tools used under the simplification procedure are repeal, codification and recasting (see Figure 10). But the Commission intends, as well, to modify the regulatory approach by enforcing co-regulation and self-regulation, by changing from Directives to Regulations, by reinforcing the use of information technology, and by reducing administrative burden.

The rolling simplification programme for 2005-2008 announced about 100 initiatives and, in the programme for 2006-2009, 43 new initiatives have been detected (see Figure 10). Three initiatives concern labour law. The Commission scheduled for 2006 codification of two Directives on employee protection in the event of the insolvency of the employer (Dir. 80/987/EEC and Dir. 2002/74/EC) and for 2007 codification of the following three Directives: Dir. 91/533/EEC on the employer's obligation to inform employees of the conditions applicable to the contract; Dir. 98/59/EC on collective redundancies and Dir. 2002/14/EC on information and consultation (COM(2005)535final). A new addition to the list is the codification of Directive 2001/23/EC on transfer of undertakings in order to clarify and simplify the application of the Directive to cross-border operations and introduce any amendments after consultation of the member states and the social partners (COM(2006)629final).

The idea of strengthening co-and self-regulation in order to move from traditional regulation to alternative forms of regulation fits very well into the flexicurity discussion advocated by the Commission. The Commission sees the role of the European social partners, especially under the self-regulation procedure (see Figure 10), as being to adopt common guidelines for themselves. But the European Treaty already goes further than this, giving the social partners a co-legislative role. Therefore it is possible for the social partners in the autonomous social dialogue to conduct negotiations on topics which they consider pertinent in the social field.

The proposal to change from Directives to Regulations will not be of major concern for the social field as Art. 137 II b TEC regulates the use of Directives for most of the topics under Art. 137 I TEC. Therefore the European Commission would need to envisage a Treaty amendment in order to be able to implement its new idea in the social field. Simplification is also the Commission's aim with regard to administrative burden. The Commission would like to have a reduction target of 25 % in the next five years.

Figure 11



#### Legislative trend in labour law

2002-2007		
SUBJECT	YEAR	METHOD
DIR 2002/14/EC – INFORMATION AND CONSULTATION	03/2002	New legislation
DIR 2002/74/EC – PROTECTION EMPLOYEES IN INSOLVENCY	09/2002	Amendment
DIR 2002/73/EC – EQUAL TREATMENT	09/2002	Amendment
DIR 2002/72/EC – EMPLOYEE INVOLVEMENT ECS	07/2003	New legislation
DIR 2003/88/EC – WORKING TIME	11/2003	Codification
DIR 2004/113/EC – EQUAL TREATMENT	12/2004	New legislation
DIR 2005/47/EC – WORKING CONDITIONS RAILWAY	07/05	New legislation – Social partners agreement
DIR - CROSS-BORDER MERGERS	10/05	New legislation
DIRECTIVE EQUAL TREATMENT	2006	Recasting of 7 equal treatment Directives
DIR 2002/23/EC – TRANSFER OF UNDERTAKING	2007	Codification
INFORMATION AND CONSULTATION DIR	2007	Codification?
	2007	Review of existing legislation

Source: ETUI-REHS

What is the trend in labour law?

Figure 11 shows very clearly that in the year 2005 the only new legislative initiative in the field of labour law was the result of a social partners' agreement in the rail sector. In 2006 no legislative initiative was taken at all. It was merely an exercise in recasting that brought seven equal treatment Directives into one new piece of legislation.

This trend of proposing only non-legislative actions will remain a long-term trend; as can be seen from the Social Agenda 2006-2010 and the work programme of the European Commission in 2006 and 2007. No new legal initiative in the field of labour law was announced apart from those selected for simplification, the current focus being on codification and review of existing legislation. But it has to be pointed out that the "Better regulation" agenda and the work programme are at odds with one another, as codification initiatives mentioned under the "Better regulation" agenda are not taken up in the work programme.

#### Enforcement

Enforcement of the *acquis* must be key in a better regulation agenda, as legislation without enforcement represents no added value for the people of Europe. But the Commission's focus does not necessarily coincide with this point.

The Commission wants to focus on key categories of cases such as non-communication of national measures transposing Directives, breaches of European law having particularly far-reaching negative impact for citizens or business as well as non-compliance with Court judgements (COM(2006) 689 final). Who is going to judge whether the breaches detected have a far-reaching impact and which elements are going to be taken into consideration?

The aim of obtaining highly qualitative, effective and clear European legislation can only be welcomed, but how this is to be achieved, by means of which methods, has to be questioned and discussed. The better regulation agenda of the Commission is much too focused on a quantitative approach rather than a qualitative one. Yet cutting red tape in order to have less regulation does not automatically mean better regulation and, most importantly, better regulation must under no circumstances be allowed to entail the deregulation of existing standards.

The European social dialogue is part of a set of common values shared by the European member states and commonly conceptualised as the European social model (COM (94) 333 final). This was first popularised, in the mid-1980s, by Jacques Delors, president of the European Commission from 1985 to 1993. The European social dialogue gained its *lettres de noblesse* in the course of the 1990s by anchoring social cohesion in a quasi-legislative way in the European *acquis communautaire*. In its twofold function associating consultation of the social partners at EU level with the right of the social partners to negotiate agreements which can either be given binding legal effect or place obligations only on the signatory parties and their member organisations, the European social dialogue built up a partnership between economic and social actors making it possible to adapt effectively to structural change. Thanks to the strength and recognition gained as a result of these achievements, the European cross industrial and sectoral social partners continue to work for greater autonomy.

Evaluation of the latest developments is, as the chapter shows, twofold: on the one hand, 2006 was a year of important achievements in a difficult economic and social context. At interprofessional as well as sectoral level, significant results account for the dynamism and the will of social partners to make use of (co-legislative) competences allocated to them by the EC Treaty to tackle workers' rights. Furthermore, social partners, in particular the ETUC, made great endeavours to disseminate exiting autonomous framework agreements as well as assist trade union affiliates in the implementation of these instruments. Additionally, the ETUC devoted very considerable efforts to monitoring the instruments of the autonomous social dialogue.

On the other hand, European social dialogue is under great pressure. Next to the challenges stemming from the uncertain nature of the instruments it produces and the resulting lack of legally enforceability in terms of implementation, as well as those encountered in the context of the eastwards enlargement, the European social dialogue seems to be the only way to get social rights recognised and the social *acquis communautaire* reinforced, insofar as the Commission's agenda on social issues remains meaningless. Interestingly, however, there was no possibility in 2006 to embark on any legally binding discussion / negotiation with the employers' association at European interprofessional level.

Following our conclusion in *Benchmarking Working Europe* 2006, the lack of initiatives from the Commission on social issues becomes even more worrying when considering the drastic change of approach in relation to the Barroso Commission's initiative on 'Better regulation for Growth and Jobs in the European Union' (COM(2005) 97 final) to boost economic growth and create more jobs in Europe. The search for a high standard of qualitative, effective and clear European legislation can, as such, only be welcomed, but the 'better regulation' agenda of the Commission is much too focused on a quantitative rather than a qualitative approach. Many examples can be given of the need to adopt a qualitative approach to better regulation. The working time Directive and its impossible revision are failing to ensure protection of the health and safety interests of all European workers. The lack of regulation on temporary agency work and the missed opportunities to revise the European works councils Directive are examples where better regulation would have required the European Commission to take the negative aspects of non-regulation into consideration and to become proactive. Furthermore, the tendency of the Commission to move to soft forms of regulation has to be taken seriously in the social field also, especially as the modernisation of labour law is mentioned as a contribution to the better regulation agenda in the Green Paper on modernising Labour Law (COM(2006)708 final).

## 10. EU TRADE AND COMPETITIVENESS

While most of the chapters of this report look at internal developments affecting working people in the EU, and in many cases with a focus on cross-country comparisons, this chapter considers the position of the EU25 as an economic and trading block in the global economy (as of 1.1.2007, with the accession of Romania and Bulgaria, the EU has 27 members. However, data are not consistently available for the EU27 as an entity. The addition of these two countries, which are still small in economic and trade terms, does not substantively alter the findings presented here.) There is a strong link between the two aspects, however. Calls for workers to moderate their wage claims, accept longer hours and, most frequently, accept a need for greater ‘flexibility’ tend to be justified by the need to compete on world markets, to be fit for globalisation. At the same time exposure to the unpredictable shifts in trading and competitive patterns, import competition and relocation is leading to demands for increased or ‘modern’ forms of security. Thus the flexicurity debate and the issue of EU25 competitiveness on world markets are closely interrelated. A good example is the European Commission Communication ‘Global Europe - competing in the world’ (adopted 4 October 2006), which outlines the trade strategy of the European Union for the years to come and highlights the links between trade and competitiveness.

The subsequent sections present a number of facts that enable us to see the position of the EU25, considered as an entity, in the world economy, in terms of both a snapshot of the present and, in some cases, recent trends. We examine the geographic and sectoral specialisation and position on world market of the EU25. Is the EU moving to become a services trader, not just a services producer? The EU export performances are compared to those of its main trading partners, with a special emphasis being placed on the so-called BRIC countries: Brazil, Russia, India and China, which are often perceived – including by the European Commission – as posing the main competitive threat to Europe. We look also at the EU performance in terms of exports of high-tech, medium, and low-tech products. Is it true that Europe has lost its competitive edge in high-tech products? In the concluding section of this chapter we address the flexicurity-trade-competitiveness link explicitly.

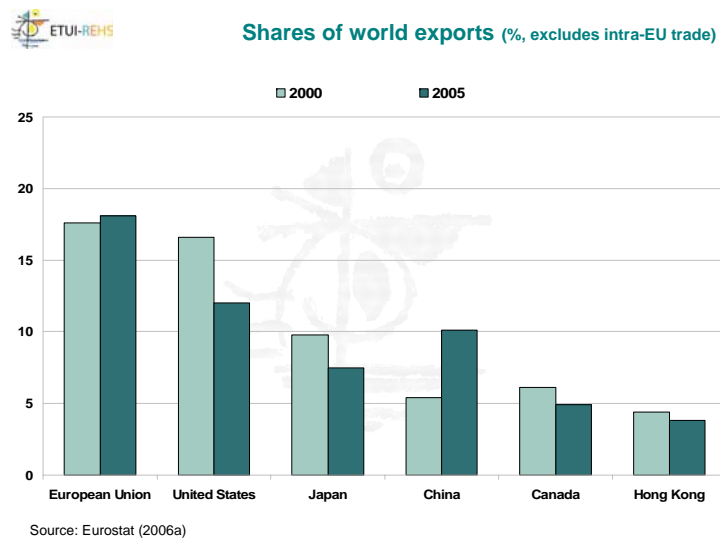
### Themes

- 10.1. The EU in world trade
- 10.2. Trade and employment in services
- 10.3. Trade by sector
- 10.4. Foreign Direct Investment trends in the European context
- 10.5. External competitiveness and flexicurity
- 10.6. Conclusions

## 10.1. THE EU IN WORLD TRADE

### THE EU: THE WORLD'S MOST IMPORTANT EXPORTER

Figure 1

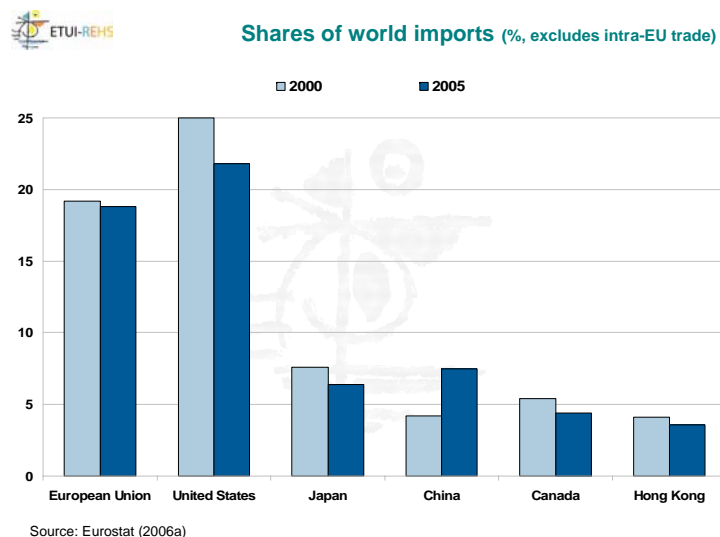


The EU, taken as a bloc, is by far the biggest exporter, and also the second biggest importer, in the world. The EU25 accounts for almost a fifth of total world exports (18.1%) and imports (18.8%), excluding intra-EU trade.

The EU share of exports in goods and services now considerably surpasses that of the USA (12%), whereas back in 2000 the gap was much smaller.

Faced with the rise of low-cost competitors, especially China, the EU held its own on the export side during the period 2000-2005, in fact achieving a 0.5 percentage point gain in export share, whereas the USA, Japan and Canada all saw a significant (in the case of the US a dramatic) erosion of their position on the world market.

Figure 2



The EU share in the world's imports remained almost the same throughout 2000-2005. For the countries in the above graph the import share decreased in the last five years (in the USA significantly so), with the single exception of China which has nearly doubled its import share since 2000.

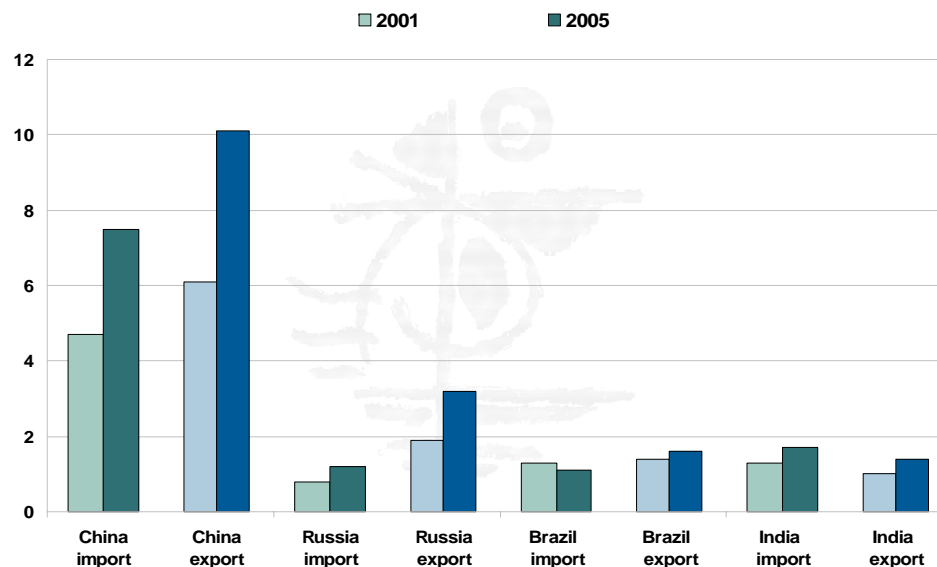
Furthermore, compared to other developed countries, the EU share of world imports and exports are roughly in balance. In the USA, by contrast, imports significantly exceed exports.



Figure 3



## BRIC countries' share in world trade (%)



Source: Eurostat (2006a)

Clearly, new actors are emerging in the global economy – with the so-called BRIC countries seen as major drivers of global economic and trade growth. Since all four are extremely large economies, their growing role in international trade has significant repercussions throughout the world.

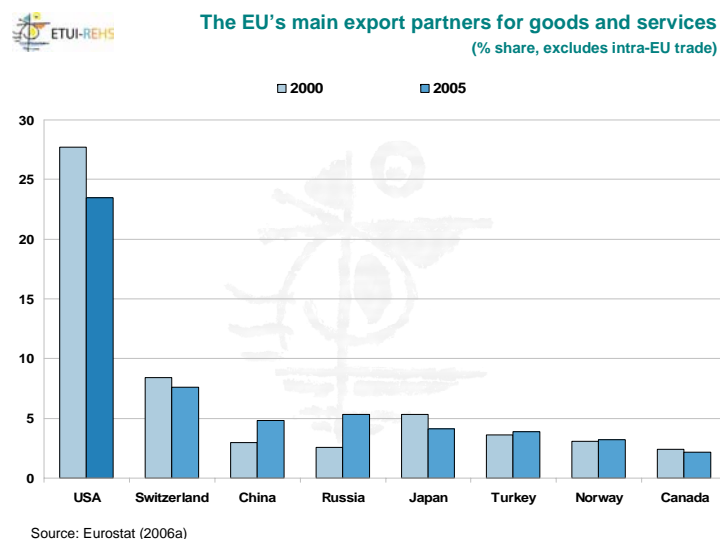
Indeed the figures reveal that BRIC countries have extended their position as global exporters. China stands out with the most remarkable performance, having almost doubled its overall market shares since 2001. Russia has also seen a substantial increase in its exports, although this has to be seen in the context of the substantial rise in the price of energy over the period concerned: it is by no means clear that Russia is successfully developing a competitive industrial base. On the other hand, although Brazil and India have substantially increased their exports in percentage terms, it is important to emphasise that these countries still account for less than 2% of world imports and exports.

The production (and export) structure of these countries varies significantly with Brazil focusing on agricultural and primary commodities, Russia on energy, India on services and China on manufactured goods. Therefore, different sectors in the EU face different degrees of competition from these countries.



## THE USA AND CHINA ACCOUNT FOR ALMOST THE SAME SHARE OF EU IMPORTS

Figure 4

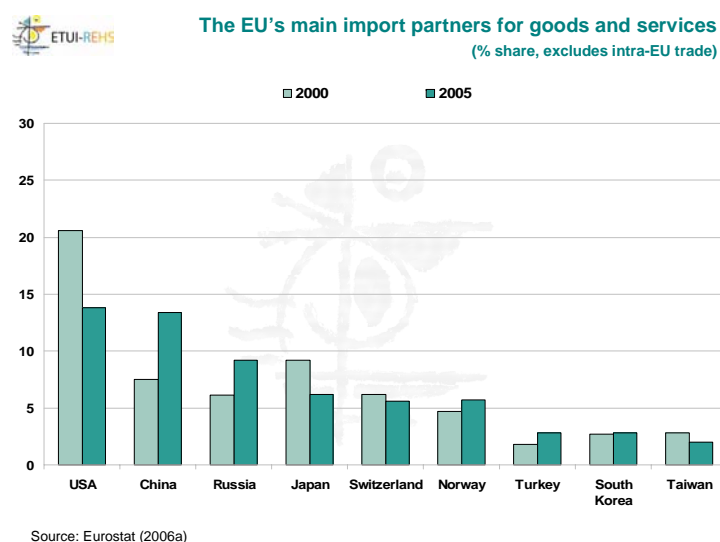


The export performance of the EU was uneven on different markets. The highest percentage of EU exports (23.5%) went to the USA (but with a 4.2 percentage point loss since 2000). The gain in the export share was most prominent in the Chinese and Russian markets, accounting for around 5% of total EU exports each (almost a doubling of the share since 2000). In terms of absolute numbers, the EU exports to China have doubled since 2000 and accounted for EUR 51 billion in 2005 (Eurostat 2006b).

It is striking that Switzerland is a more important export market for the EU25 than either China or Japan, although in the case of the former this seems likely to change on current trends.

As regards the EU's main import partners, the distribution is notably 'flatter'. Imports from China grew at a very significant rate and by 2005 reached 13.4%, which is almost equal to the share of imports from the USA. Also apparent is the increasing share taken by Russia in EU trade. The share in EU imports from Russia has risen by 3 percentage points and share of exports by 2.7 points since 2000; as already mentioned, energy prices play an important role here. Japan saw its share fall by 1.2 percentage points in exports and 3 points in imports during the same period. It seems that China is rapidly replacing Japan as the EU's number one Asian competitor and trading partner.

Figure 5



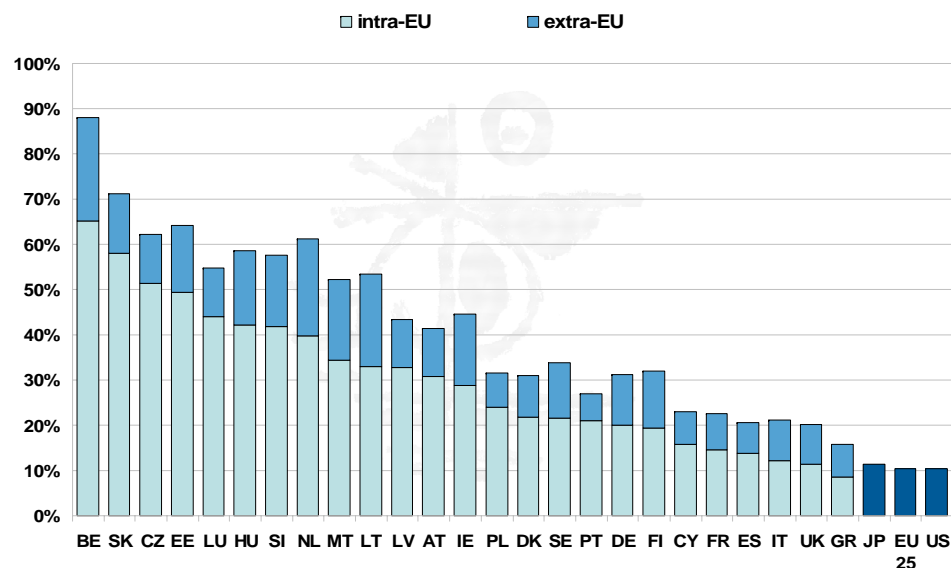
Brazil and India, the other two BRIC countries, both still account for less than 2% of EU25 imports and exports. Moreover, there has been little change in export shares in recent years. It seems, at least up to now, that it is only China that could conceivably match the dramatic picture, often painted by the media, of a major competitive threat to the European Union. At the macro level the numbers for the other countries are simply too small (which does not, of course, mean that certain sectors and regions may not be hard hit by competition from such countries). Trade with other advanced – and high-cost – capitalist economies, especially the US, remains predominant.

## 10.1. THE EU IN WORLD TRADE

### INTERNAL TRADE MUCH MORE IMPORTANT THAN EXTERNAL TRADE



**Intra- and extra-EU25 trade openness in 2005**  
(average of imports and exports)



Source: Eurostat (2006) (2006a); own calculations

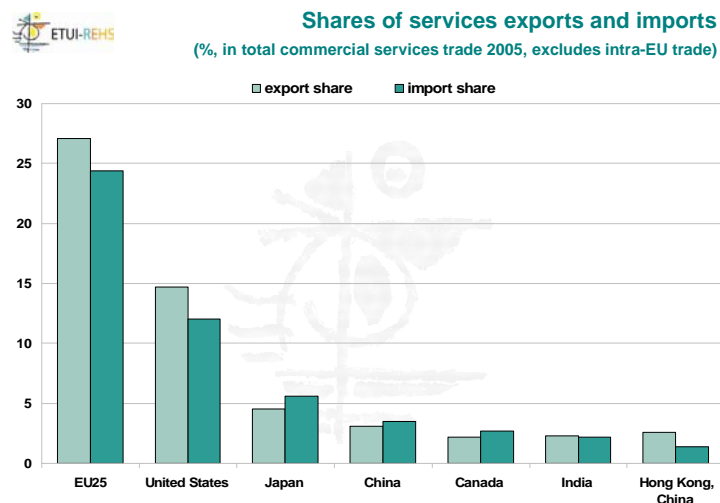
In Figure 6, the share of trade – the average of imports and exports – in GDP – is taken as an indicator of countries' trading openness. The totals are divided into extra- and intra-EU25 trade for all the EU member states. If we treat the EU as a single trading block the average of imports and exports from outside the block, expressed as a share in GDP, was 10% in 2005. This measure of openness to trade is similar to that in the USA and Japan. This shows that a great deal of international trade takes place within major trading blocks and that the EU economy as a whole is by no means a mere cork on the sea of the global economy. Put another way, countries facing external competitive pressures are more likely to find them coming from other EU countries than from outside, echoing an earlier finding.

The figure clearly shows that all EU members have much higher internal (intra-EU) trade than the external trade/GDP ratios. Having said that, the differences across the EU25, on the other hand, are huge, with Malta, Belgium and the Netherlands having the highest share of extra-EU trade in GDP (above 17%). Portugal, Spain, France and Cyprus had the lowest share of extra-EU trade in GDP (below 7%). The same indicator for intra-EU25 trade only was highest in Belgium, Slovakia and the Czech Republic, and lowest in Italy, the UK and Greece. This suggests that different EU countries will be affected differently by developments such as the rise of China or competition from eastern Europe or an improvement in the cost competitiveness of an important EU member, such as Germany.

## 10.2. TRADE AND EMPLOYMENT IN SERVICES

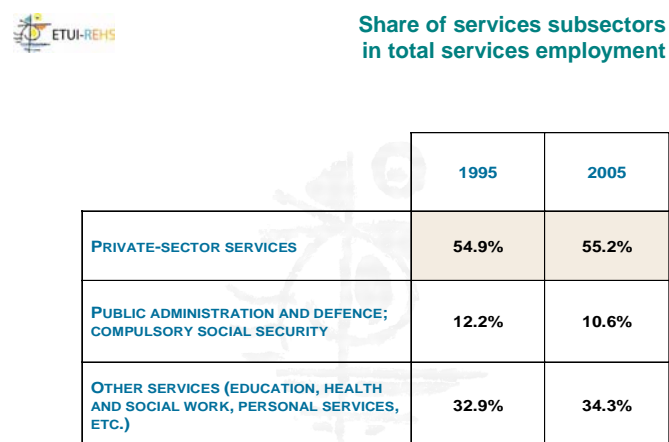
### COMPARATIVE ADVANTAGE IN SERVICES TRADE

Figure 7



Source: WTO (2006a)

Figure 8



Source: Eurostat (2006b)

The EU25 is by far the world's largest exporter and importer of services, with 27% of global exports and a 24.4% share of imports, almost double the respective figures for the USA (14.7% and 12%). Japan and China follow at a considerable distance.

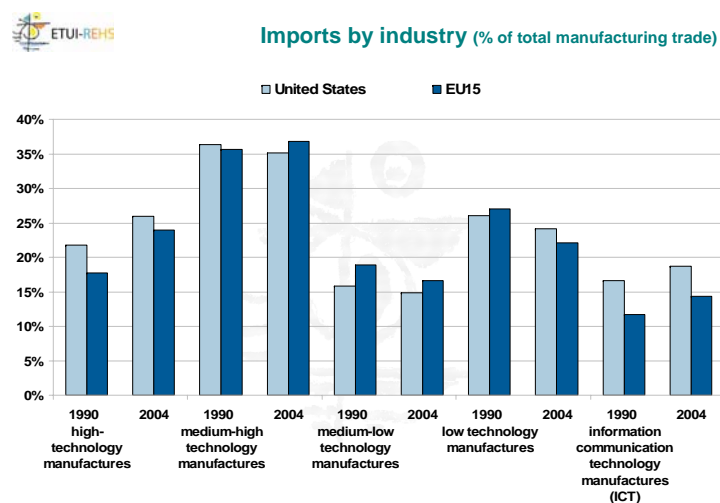
In the last decades, EU cross-border trade in services has increased considerably, particularly in the financial, insurance and ICT sectors (Eurostat 2005). Further sectoral breakdown shows that transport accounted for 22% of intra- and extra-EU trade flows of commercial services, travel for around 30% and 'other commercial services' for over 50% (WTO 2006b).

Nevertheless, it is often underlined that the economic importance of services (77% of GDP and a similar proportion of overall employment) is not reflected in services trade. Such figures are used to justify the argument that that 'services are the area of European comparative advantage with the greatest potential for growth in EU exports' (European Commission 2006b). Often trade barriers are identified as holding back services trade, leading to initiatives such as the Services (Bolkestein) Directive for internal and the GATS for external trade in services.

However it is important to note that the around three-quarter share of employment and output encompasses all services (private and public, including the armed forces) in EU25. Employment in private-sector services – the most rapidly growing and most traded services – accounts for only around half of total services employment. Another 10% of services sector jobs are in public administration, defence, and social security and the rest (around a third) are in education, health, be it in the public or private sector, and personal services. In all of these areas the scope for international trading is inherently limited and in some cases virtually inconceivable.

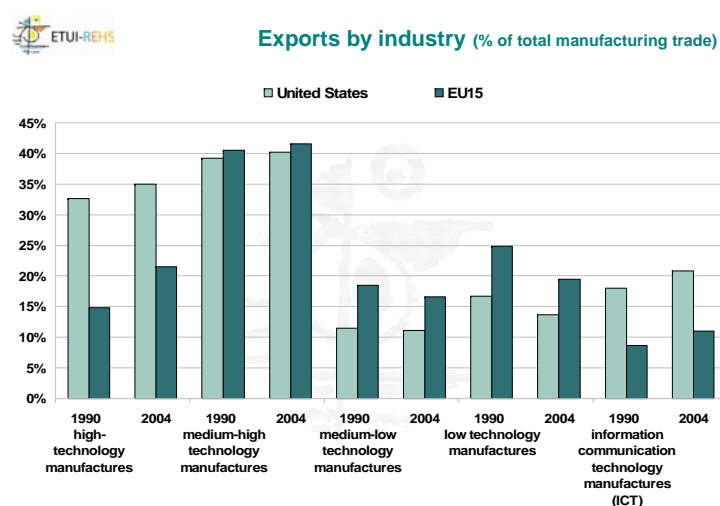
## IS EU COMPETITIVE IN THE 'WRONG PRODUCTS'?

Figure 9



Source: OECD (2006d)

Figure 10



Source: OECD (2006d)

It is sometimes claimed that the EU has missed out on or lost touch with newer hi-tech areas of production and is locked into a production model that will see its areas of comparative advantage increasingly eroded as the new emerging economies develop their productive capacities. There is indeed some evidence for this view.

The argument that the EU is 'medium-tech' seems to be confirmed by the figures above (data for the EU15 is available only), with export share of medium-high technology accounting for over 40% and import share for over 35% in 2004. The share for both imports and exports is similar to that of the USA and changed only marginally since 1990. The trade in medium-low technology is higher in the EU than in the USA, accounting for over 15% of EU15 manufacturing trade.

On the other hand, the EU15 lags substantially behind the USA in the exports of high-technology manufactures, with EU15 share in these products in total EU15 manufactures trade accounting for only half the share in the USA.

It must be noted, however, that this analysis is based on a rather crude comparison of product categories which are determined to be, in their entirety high, medium-high, medium-low or low technology. This may distort the picture, however. Automobiles, textiles, etc. can be produced in more or less technology-intensive ways, and the final product can contain more or fewer high-tech components. Thus the EU may specialise in the high end of each of the product categories being considered. Conversely much computer and other electronic equipment may be considered a high-tech product, but its mere assembly – the focus of much of China's export success – is labour-intensive and low-tech. To this extent care should be taken in drawing hasty conclusions from analyses of these sorts. This is certainly not to say Europe should not be investing more in developing its innovative capacity and Research and Development potential. However, a much finer analysis is needed of the precise product types exported by the EU compared with competitor countries. It may well be, though, as noted earlier, that individual EU countries whose specialisation and comparative advantage hitherto has been in areas which are now coming under increased competitive pressure from China and other emerging economies will come under major adjustment pressure.

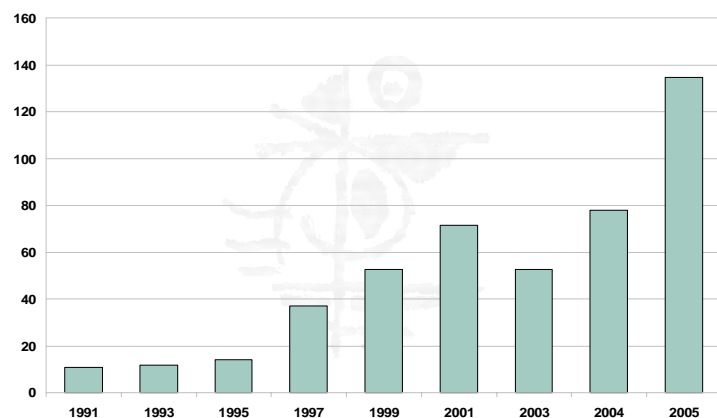
## 10.4. FOREIGN DIRECT INVESTMENT TRENDS IN THE EUROPEAN CONTEXT

### GLOBAL FDI FLOWS IN 2005: THE POSITION OF EUROPE AND THE EMERGENCE OF COLLECTIVE INVESTMENT FUNDS

Figure 11



Value of invested capital by collective investment funds 1991-2005 (bn USD)

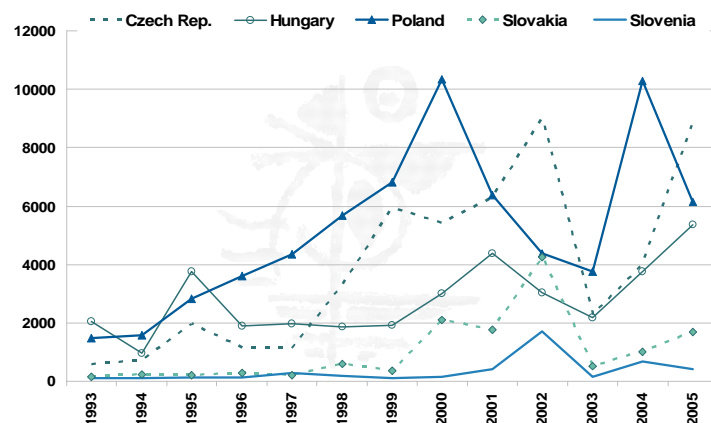


Source: UNCTAD (2006)

Figure 12



Inflow of FDI between 1993 and 2005 (in €millions)



Source: WIW (2005)

If we look at the worldwide distribution of foreign direct investment, the EU15 countries were the most important target of global FDI, with US\$389bn of inward investment in 2005, 42% of total world FDI inflows (UNCTAD 2006). In international comparison, FDI flows to the new member states do not seem particularly high. The new member states received US\$33bn (€26bn), only 8% of the amount received by the 'old' member states. The dominance of western Europe in worldwide inward FDI does not, however, mean that the EU15 is the greatest beneficiary of international capital flows, for the EU15 also leads the field in terms of outward FDI flows, amounting to approximately US\$550bn in 2005. As such, there was a net FDI outflow from the EU15.

It should also be kept in mind that the bulk of both inward and outward FDI for the EU15 is due to intra EU15 capital flows. On the basis of overall FDI figures, FDI outflow from the EU15 towards the EU8 does not seem substantial, when compared to both intra EU15 capital flows and total FDI outflow from the EU15.

A new trend is appearing in global FDI flows in the form of the emergence of collective investment funds (hedge funds, private equity funds). The value of acquisitions by collective investment funds has risen from US\$13.9 bn in 1995 to US\$134.6 bn in 2005, accounting for 15% of world inward FDI flow (UNCTAD 2006) (Figure 11). Private equity and hedge funds have become mighty economic players controlling, in individual cases, larger capital and employment volumes than the largest global producer companies. As they are not subject to transparent regulatory rules and remain outside the institutional framework of industrial relations (not appearing as employers), their emergence poses a new challenge to trade unions. Pursuing short-term investment strategies often based on leveraged buy-out (debt being burdened on company assets), they tend to extract income out of the enterprise and threaten long-term viability.

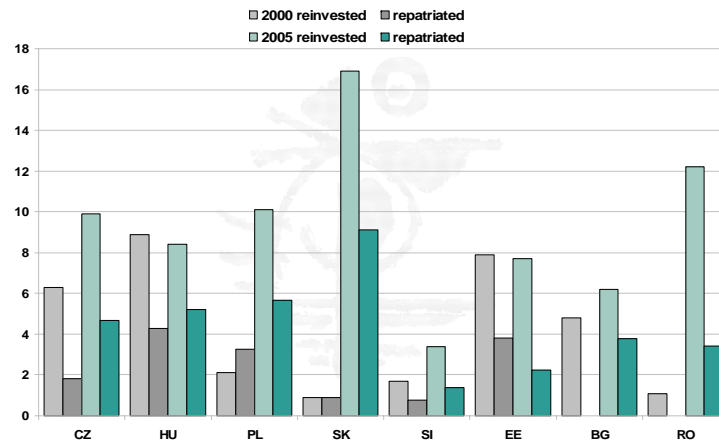
## 10.4. FOREIGN DIRECT INVESTMENT TRENDS IN THE EUROPEAN CONTEXT

### TRENDS OF INWARD FDI IN THE EU8: THE INCREASING ROLE OF REINVESTED PROFITS

Figure 13



Size and structure of FDI-related income relative to inward FDI stock, selected countries (%)



Source: Hunya, G. and B. Galgóczi (2006)

In 2005 FDI to the EU8 reached a new high of €26bn, an increase of almost 20% over the revised data of the previous year, as illustrated by Figure 12. The upward trend in FDI is in line with the strong economic activity in most of the countries concerned and the high revenues realised in privatisation deals. Five of the countries had higher inflows in 2005 than in the previous year. (EU8: central-eastern European new member states)

FDI capital generates income or losses to the foreign owner, who either transfers the income abroad or reinvests it in the host country. In the new member states the share of reinvested earnings in FDI inflows has increased over time from a negligible level to 30-50%.

Relating FDI income outflow to inward FDI stock, we get the rate of return on the foreign investment (Figure 13). This 'profit rate' fluctuates significantly between countries and over the years. The rate of return on the FDI stock is rather low in Slovenia and (until recently) in Slovakia, Poland and Romania. The highest rates of profit in the early 2000s were achieved in the countries with the highest FDI stock by GDP and the longest FDI inflow history, namely, Hungary, the Czech Republic and Estonia.

The relationship between reinvestment and repatriation shows the investors' intentions in a host country. For most countries the share of repatriation was about 50% in 2004-2005, meaning that half of the foreign investors' income was repatriated and half reinvested in the country.

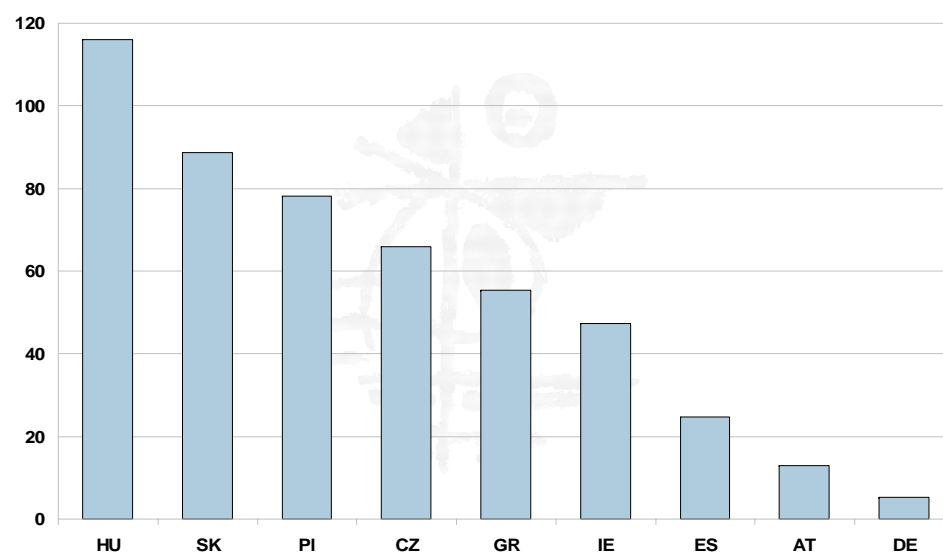
## 10.4. FOREIGN DIRECT INVESTMENT TRENDS IN THE EUROPEAN CONTEXT

### IS THERE MORE EVIDENCE THAT RELOCATION OF PRODUCTION FROM WESTERN TO EASTERN EUROPE IS TAKING PLACE?

Figure 14



Growth of export market shares in goods between 1995 and 2003 (%)



Source: OECD (2006)

Recent trends and the magnitude of investment flows from the West to the East are not particularly dramatic and do not seem to justify concerns about relocation. Some of the structural features of FDI flow and FDI stock in the EU8 do, however, indicate that relocation is taking place.

In the new member states intra-industry trade has substantially increased in the last ten years and this was accompanied by strong FDI activity, suggesting that relocation – in the sense of a substitution of east for west European production – has certainly played a central role. Intra-industry trade intensity is a sign that a large part of the production is being carried out in these countries with the intermediate products being re-exported to the home country, thereby substituting labour.

Manufacturing output and exports are increasingly being generated by foreign subsidiaries in the CEE new member states. Strong export expansion, especially in manufacturing, is thus characteristic of these countries. In the period 1995-2003 the OECD countries that increased their manufacturing export market shares on OECD markets to the greatest extent were Hungary, Slovakia and Poland (Figure 14).

High intra-industrial trade (the share of which within total manufacturing trade has grown from scratch to the level of the EU15 within a short period), a high share of FDI inflow into manufacturing (resulting in a strengthening of the manufacturing base in the EU8, while manufacturing in the EU15 is shrinking) and soaring manufacturing exports are features of the EU8 that are quite telling in relation to relocation.



## 10.5. EXTERNAL COMPETITIVENESS AND FLEXICURITY

### COMPETITIVENESS NEEDS FLEXIBILITY – WHAT ABOUT SECURITY?

As noted earlier, often calls for greater flexibility are based on the real or supposed needs to face up to globalisation and to competition from both advanced capitalist countries (especially the US) and the newly emerging Asian economies. Already the analysis so far, at the level of the EU25, has cast some considerable doubt on the basic premise of this approach: there is no clear evidence that the European Union faces a problem of external competitiveness. It is generally holding its own on world markets, in marked contrast to the US, in the face of rising competition from the BRICs, which, except for China, remains of limited quantitative importance.

The analysis can now be taken further by comparing the member countries of the European Union. Is there any evidence that countries that are particularly open to trade and/or successful in facing up to globalisation have achieved such success by cutting workers' security so as to become more 'flexible'? Of course flexibility is a notoriously difficult concept to operationalise and measure (Jepsen and Watt 2004). Trade openness can, in principle be measured directly (as in the figure above), but it is heavily influenced by country size and thus is of little value in terms of the link with flexicurity. Thus the approach taken here is to map EU member states' competitiveness against the amount of economic and social security that they offer their workers.

The competitiveness variable adopted is the ranking in the Global Competitiveness Index 2006/7 compiled by the World Economic Forum. This is a body with strong links to employers' organisations and multinationals and the index actually includes a component that is based on subjective assessment by 'executives'. It is thus hardly likely to be biased in favour of aspects of competitiveness that working people or trade unions would emphasise. The first indicator of security is total expenditure on 'social protection' as a percentage of GDP (taken from the Eurostat ESSPROS database). The second is an index of 'economic security' compiled by the ILO based on both quantitative and qualitative assessments of different aspects of security. Notably it incorporates elements such as dismissal protection, unemployment benefits and the collective voice of working people through trade unions and other forms of worker representation. Social protection expenditure has the advantage of being a precise quantitative indicator. However, it disregards all those regulatory aspects that enhance workers' security and, more importantly, are often held to be important obstacles to European competitiveness.

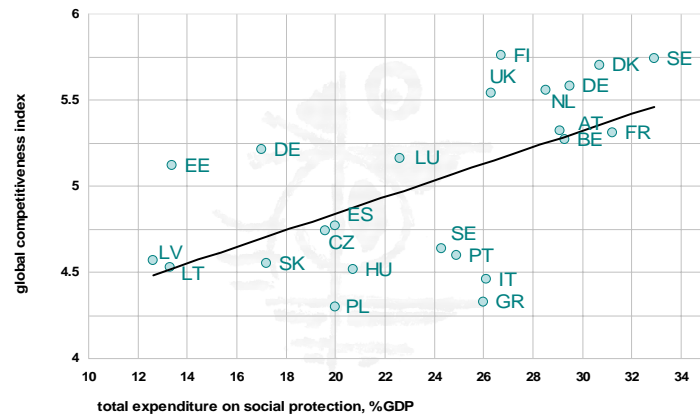
## 10.5. EXTERNAL COMPETITIVENESS AND FLEXICURITY

### PRODUCTIVE, OPEN AND COMPETITIVE COUNTRIES RELY ON A SECURE WORKFORCE

Figure 15



Correlation between competitiveness and social security spending

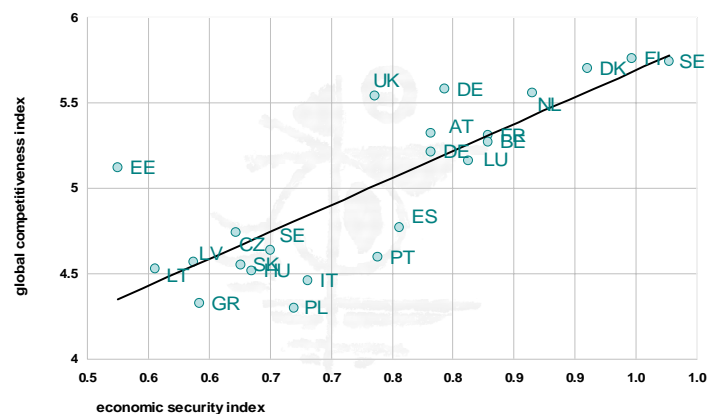


Source: Eurostat ESSPROS database, World Economy Forum (2006), own calculations

Figure 16



Correlation between competitiveness and economic security



Source: ILO (2004), World Economy Forum (2006), own calculations

If the standard view that countries need to reduce security for workers in order to be competitive is correct, then we should see a negative correlation between competitiveness and social security spending and the broader indicator of economic security. However, the evidence is in clear contradiction to the flexibility hypothesis. The correlation between competitiveness and social protection expenditure as a proportion of GDP is highly positive (0.59).

An even more impressive result is obtained when the security indicator is broadened to include legal and other institutional elements. On the ILO index there is a very clear positive correlation (0.8) between the amount of ‘economic security’ provided by European countries to workers and the ‘competitiveness’ of those countries.

It would be rash, of course, to read too much – and in particular causal links – into this correlation. Nonetheless the fits are remarkably high for a simple correlation ( $R^2$  is above 0.6). At the very least it is clear that high levels of security are not a barrier to competitiveness (as measured here). Indeed, it seems more likely that providing high levels of security is a positive force for competitiveness, if not actually a precondition.

The figures presented in this section enable a number of conclusions to be drawn regarding the position of the EU25 in the world economy. It is evident that globalisation is a real phenomenon, but that economic relations within Europe ('Europeanisation') remain predominant. With the exception of China, the rise of the BRICs has not yet had a decisive impact on the overall trading position of the European Union as a whole. Europe does not appear to be suffering from any serious overall problem of external competitiveness, contrary to the impression that many politicians seem intent on giving.

All this suggests that policymakers should increasingly consider the European economy as a whole before reaching policy conclusions. Europe is the leading economic actor on the world stage, not a cork bobbing on the high seas of the global economy. It should manage its economic affairs accordingly. It seems that overall the EU is well anchored in relatively sophisticated segments of production, and is an important exporter of services, although there are question marks about whether it is doing enough to keep up in some new high-tech areas. Further efforts to invest in education and learning, in innovation, and research and development, as foreseen under the Lisbon agenda, are clearly required. As regards the link between success on world markets and flexibility and security, there is simply no evidence that European countries need to retrench their social security and protection systems in order to be competitive.

If anything, the reverse seems to be true: countries that are successful on world markets offer their workers adequate and even generous levels of security. This suggests that a positive approach to the flexicurity agenda needs to be taken, rather than the 'more flexibility plus less security' approach that has appeared to predominate in actual policymaking, if not at the rhetorical level (Keune and Jepsen 2006). To the extent that flexibility is indeed important for competitiveness, it seems likely that the main reason for this finding is that the provision of security encourages flexibility. More generally, it promotes the sorts of behaviour (long-term investment, investing in skills, good job matching, etc.) that are good for productivity and thus good for successful performance on world markets.

The quantitative and qualitative features of foreign direct investment (FDI) flows can be used to estimate the extent of relocation in the European context. Even if FDI outflow from the EU15 towards the central-eastern European NMS (EU8) does not seem substantial, when compared to both intra EU15 capital flows and total FDI outflow from the EU15, the structure and qualitative features of inward FDI, in conjunction with the growing importance of intra-industry trade, enable us to identify significant relocation of manufacturing production from western to eastern Europe.

# 11. WORKING ENVIRONMENT AND OCCUPATIONAL HEALTH AND SAFETY

This chapter deals with 15 years of musculoskeletal disorders (MSD) at the heart of Europe's health problems. The fourth five-yearly survey by the European Foundation for the Improvement of Living and Working Conditions (Dublin Foundation) will be published in 2007. It contains analyses and figures resulting from a set of questions put in 2005 to 30,000 workers in the 25 member states of the European Union, the two new member states (Bulgaria and Romania), the two candidate countries (Croatia and Turkey) and two EFTA member countries (Norway and Switzerland).

Since it is the fourth study of its kind, this survey makes it possible to identify the main trends in the working environment to have emerged and developed over the last fifteen years, especially with reference to health and safety. The comparisons which can be drawn are, to some extent, limited, since the successive Dublin Foundation studies have followed the expansion of the European Union. Thus the current survey addresses the situation in 31 countries, whereas the previous publications, appearing in 1991, 1995 and 2000, covered 12, 15 and 26 countries respectively.

The following list highlights some of the key trends affecting the working environment and which are liable to impact on the health and safety of workers:

- an ongoing reduction in working time, resulting from two main factors:
  - an increase in part-time work (not always resulting from personal choice, and if not, then a type of involuntary partial unemployment). This is not necessarily a positive thing in our view;
  - a decline in the number of people working very long hours
- although most workers have fixed working hours, the proportion of those with flexible schedules is slowly increasing
- for most workers, the pace of work depends directly on demands from customers

- workers report constantly increasing levels of work intensity since 1991
- autonomy at work in Europe is relatively high, but it is on the decline
- the percentage of workers regularly using computers has grown from 31% in 1991 to 47% in 2005
- One in four workers feel that their work represents a risk to their health and safety (this figure is as high as 40% in the new member states).

## Themes

11.1. What are the main complaints from workers?

11.2. A few facts about MSD

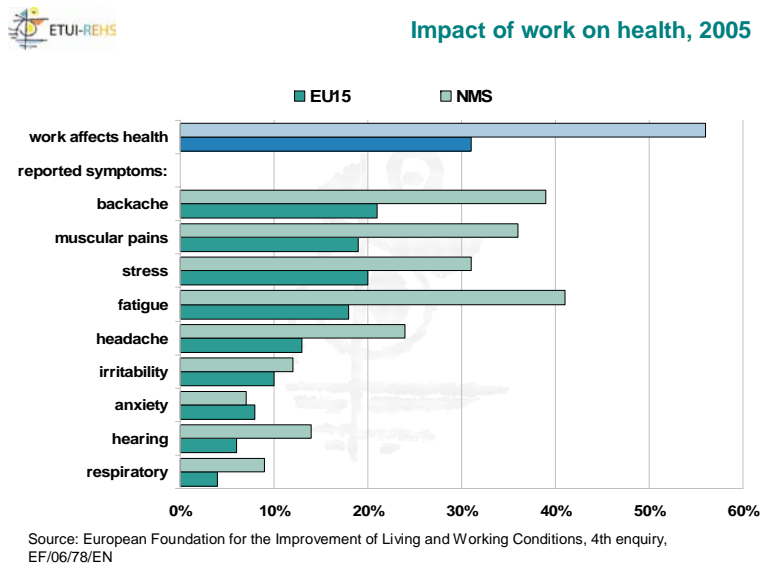
11.3. A brief attempt to explain the causes of MSD

11.4. Conclusions

## 11.1. WHAT ARE THE MAIN COMPLAINTS FROM WORKERS?

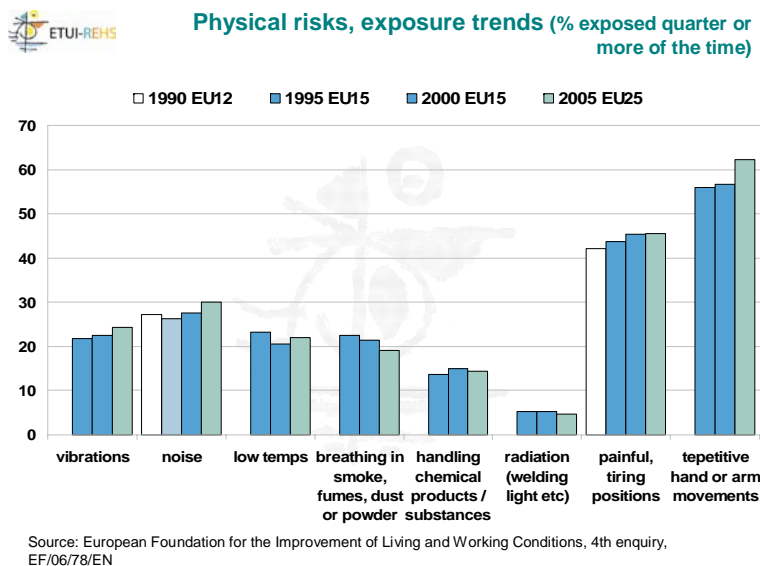
### BACKACHE, MUSCULAR PAINS, STRESS, FATIGUE

Figure 1



As is shown in Figure 1, the most frequent complaints relate to backache, muscular pains, stress, fatigue, etc. These are experienced by a third of workers in the fifteen older EU member states, and by more than half of those in the new member states.

Figure 2



For many years now, levels of exposure to the main factors behind MSD, such as repetitive movements and uncomfortable (painful or tiring) positions, have remained more or less constant. It would almost seem that in spite of the awareness-raising campaigns and relevant legislation, no preventive measures have been taken, even though the framework directive and its specific individual directives (on display screen work and the manual handling of loads, principally) require such measures to be put in place.

It is, in any event, striking that in spite of all that has been done, or that should have been done, the risk factors to which most workers are exposed are those potentially affecting the locomotive apparatus, and that for the last fifteen years the main causes of complaint – in quantitative terms – have been backache, muscular pain, stress and fatigue.

Experts agree that MSD result from exposure to biomechanical factors, but that these alone are not sufficient to explain the epidemic growth of these conditions among workers. Work organisation and the degree of worker satisfaction also play a key role in the onset of MSD.

Traditionally, MSD affected workers carrying out heavy physical tasks. Today, however, other categories – such as those using computers or handling ultra-light loads – may also suffer from them.

The measures taken have not been sufficient to reverse these trends: the number of complaints has remained more or less steady for the last fifteen years.

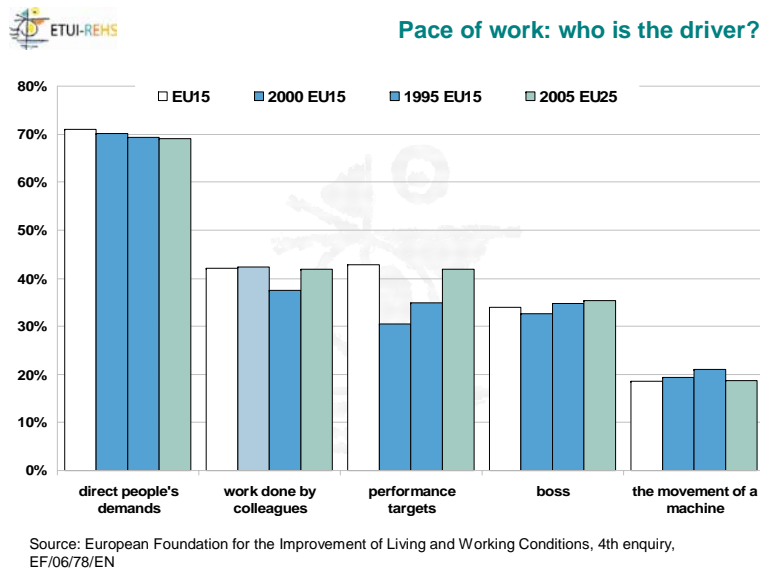
A broad-based approach to MSD is necessary to take stock of the psycho-physiological processes which trigger ‘reward mechanisms’ in the brain when working conditions are favourable and those which give rise to positive or negative feelings as a result of a whole series of signals – physical, psychosocial and organisational – existing in the working environment and relating to the work to be done.

Unintentionally, or due to a lack of knowledge, the new forms of work organisation tend, by their very nature, to aggravate the current MSD epidemic. This is especially true since any type of ‘flexisecurity’ which strikes the wrong balance between physiological and economic needs will be a major contributing factor to the dramatic increase in these disorders, rather than helping to lessen their impact. This phenomenon may be so severe as to compromise even the least optimistic forecasts of European economic growth and performance.

## 11.3. A BRIEF ATTEMPT TO EXPLAIN THE CAUSES OF MSD

### MULTIPLE CAUSES

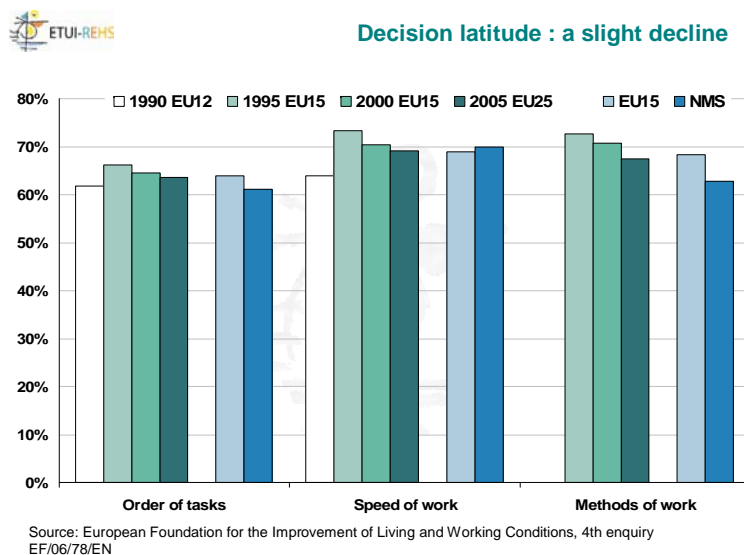
Figure 3



1. Exposure to biomechanical risk factors does not vary much over time. The risk factors involved are essentially the following:
  - a. repetitive gestures
  - b. heavy loads
  - c. extremely broad movements
  - d. 'hand-arm' or 'whole body' vibrations

These biomechanical factors may exist separately or, as is often the case in the working environment, several may occur together. They may be associated with other physical risk factors, such as exposure to cold or the need to wear PPE (personal protective equipment), or may be combined with non-mechanical factors.

Figure 4



2. The other risk factors are organisational and psychosocial in nature. They may also be a consequence of the so-called 'new forms of work organisation'. Here are a few examples:



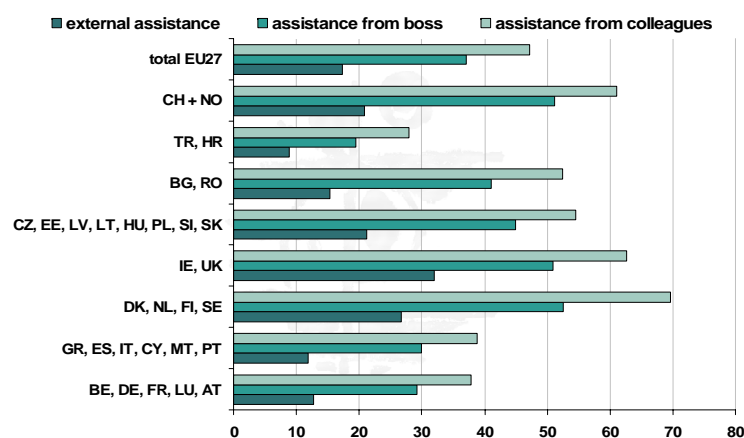
## 11.3. A BRIEF ATTEMPT TO EXPLAIN THE CAUSES OF MSD

### MULTIPLE CAUSES

Figure 5



#### Social support

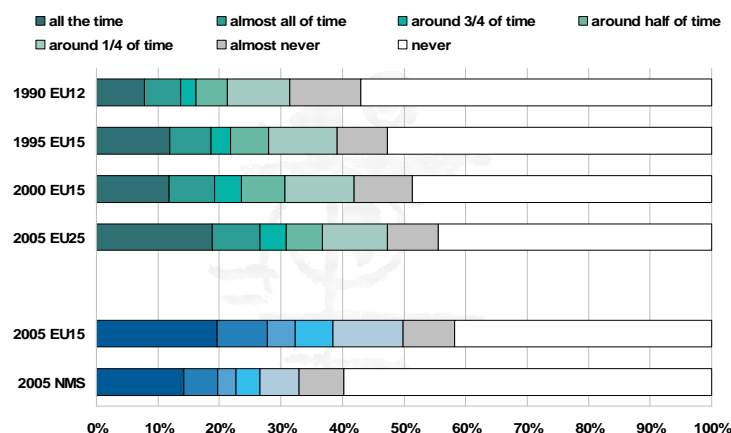


Source: European Foundation for the Improvement of Living and Working Conditions, 4th enquiry EF/06/78/EN

Figure 6



#### Substantial increase in computer-use



Source: European Foundation for the Improvement of Living and Working Conditions, 4th enquiry, EF/06/78/EN

Social support is one of the key variables which, in the so-called Karasek model, can moderate the impact of decision latitude and psychological demands (workload). There are a number of definitions describing this phenomenon of involuntary part-time work, including the ILO definition: 'Time-related underemployment exists when the hours of work of an employed person are insufficient in relation to an alternative employment in which a person is willing and available to engage'.

Involuntary part-time work is only rarely dealt with explicitly. It can act as a trap for women and involve the risk of marginalisation or loss of options on the labour market. Where it is involuntary and not offset by some sort of unemployment benefit, part-time employment (or, more accurately, unemployment) should be seen as one factor in the casualisation of labour.

There is a broad link between the increased use of computers and new health problems. These result from a complex set of factors, including a more sedentary working life, relative lack of joint movement, very low physical loads but greater mental strain, as well as constant pressures on the nape of the neck and shoulders, wrists, hands and fingers. The various structures in the lower back are also subject to static stress when the worker remains seated for some time.

A greater freedom to take decisions implies, as is shown in Figure 4, the ability to organise one's work; to determine the order in which various tasks should be carried out, the pace of work (e.g. the speed at which the various parts travel on an assembly line), or the working methods to be used. Such freedom enhances worker well-being, since it allows operators to adjust their work to take account of their circumstances, in particular of joint pain, mental overload or unforeseen technical incidents.

It should be noted that, where an increase in flexibility implies greater autonomy, it can have beneficial health effects. If, on the contrary, greater flexibility increases organisational pressures and physical and mental loads by restricting individual freedom, it will have negative impacts on occupational health and safety, as well as on the productivity of workers and the frequency of ill health-related absenteeism.

## 11.3. A BRIEF ATTEMPT TO EXPLAIN THE CAUSES OF MSD

### MULTIPLE CAUSES

Figure 7



#### % of part-time workers and proportion of involuntary part-time workers

	part-time						involuntary unemployment		
	men		women		total part-time	%total part-time	% of all workers		
	part-time	involuntary part-time	part-time	involuntary part-time			men	women	total
BE	5.9	18.7	37.7	15.2	19.4	15.8	1.1	5.7	3.1
DK	11.0	10.6	31.4	18.2	20.6	16.0	1.2	5.7	3.3
FI	8.0	26.7	17.1	33.8	12.4	31.5	2.1	5.8	3.9
FR	5.0	33.0	29.7	22.3	16.2	24.1	1.6	6.6	3.9
GR	2.3	47.1	8.1	42.8	4.5	44.2	1.1	3.5	2.0
IE		27.9		9.5		13.7			
IT	3.7	40.9	16.7	27.5	8.6	31.1	1.5	4.6	2.7
LU	1.8		26.4		11.7	7.2			
NL	21.5	3.4	72.8	1.9	43.8	2.3	0.7	1.4	1.0
PL	7.1	13.1	16.4	20.4	11.3	17.9	0.9	3.3	2.0
ES	2.6	20.1	17.0	18.8	8.0	19.1	0.5	3.2	1.5
SE	11.2	20.5	32.9	23.2	21.4	22.4	2.3	7.6	4.8
DE	5.8	18.4	39.5	11.1	20.8	12.3	1.1	4.4	2.6
UK	9.4	16.1	44.0	6.3	25.0	8.3	1.5	2.8	2.1
AT	5.1	12.3	35.7	8.7	18.9	9.3	0.6	3.1	1.8
total EU	6.6	19.0	33.5	12.8	18.2	14.1	1.3	4.3	2.6

Source: Eurostat Labour Force Survey (2002) (combination of two tables from the European Foundation 2003a, "Part-time work in Europe", the data concerning the total are also in "OECD Employment outlook 2003")

Figure 7 shows the percentage, per country, of part-time workers, and the proportion of these workers who are in involuntary part-time work.

The left-hand side of the table (the first five columns) gives the percentage, by country, of men and women in part-time work, and, of these, the proportion in involuntary part-time employment.

The second part of the table shows, by country, the overall percentage of part-time workers and the percentage of these workers in involuntary part-time unemployment, as well as (in the last 3 columns) the percentage of the total workforce in involuntary part-time unemployment.

Globalisation and Europe's wish to rank amongst the most competitive world economies do not come cheaply. The price is being paid by workers, who, as well as facing traditional work-related pressures, now have to deal with new stresses which are no longer expressed in physical units of weight, frequency or degree.

The new demands on them are directly related to the new pressures on society: the drive to be competitive, pro-active, adaptable, flexible, versatile, amiable, considerate, responsible, capable etc.

The dominant need seems to be the requirement to be flexible. It entails a new pressure (constraint) on workers, requiring them to take account of a fluctuating set of variables, to which new parameters tend to be added, in order to keep up with others (cost) and to become ever more competitive.

Philippe Askenazy, a French economist, recently pointed out that it was no longer sufficient for a cashier in a supermarket to count up the amount owed and put the money in the till. She now had *'not only to move two tons of goods per day, but also to seek out thousands of barcodes, scan them, reply to your questions, anticipate how you intend to pay, as well as preventing goods going astray (theft)'*. This day-to-day example shows how much this one job has diversified and how it has gradually come to involve more and more tasks. Looking for the barcode does indeed mean that as well as physically handling the goods, the cashier has a further mental workload in the form of a number of cognitive tasks to be performed.

She must:

- identify the article visually, conjuring up a mental picture of the standard position of the barcode
- find the barcode on the article
- place the code against the sensor
- correct any misreadings by the sensor, etc.

Significantly, retail chains are increasingly delegating these 'burdensome' tasks to their customers, by the use of self-scanning procedures.

These new pressures on workers affect all jobs where technological developments, the demands of the market and of customers combine to form a drive towards ever-increasing levels of efficiency. The quest for efficiency ultimately comes up against the limits of human ability to cope with such changes, including the various forms of flexibility which underlie them. These limits are not purely physical; they are also linked to the very essence of what it is to be human, as opposed to an inanimate object, for human experience involves phenomena as complex and difficult to grasp as needs, satisfaction, emotion, sensitivity, etc. If these needs, especially if the primary needs – those at the base of Maslow's hierarchy – are not met, the human organism pays the price. And for physiological reasons too long to go into here, and related to the intimate link between body and spirit, this strain often comes to the fore in the form of musculoskeletal disorders.

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## Introduction

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<http://www.etuc.org>

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# LIST OF COUNTRY CODES



## List of country codes

<b>BG</b> Bulgaria	<b>IE</b> Ireland	<b>UK</b> United Kingdom
<b>CA</b> Canada	<b>IS</b> Iceland	<b>US</b> United States
<b>CH</b> Switzerland	<b>IT</b> Italy	<b>CEEC</b> Central and Eastern European Countries
<b>CN</b> China	<b>JP</b> Japan	<b>EEA</b> European Economic Area
<b>CY</b> Cyprus	<b>LI</b> Liechtenstein	<b>EU15</b> the EU member states, as from 1995
<b>CZ</b> Czech Republic	<b>LT</b> Lithuania	<b>EU25</b> the EU member states, as from 2004 onwards
<b>DE</b> Germany	<b>LU</b> Luxembourg	<b>EUR12</b> the EURO-zone
<b>DK</b> Denmark	<b>LV</b> Latvia	<b>NMS</b> new EU member states, as from 2004 onwards
<b>EE</b> Estonia	<b>MT</b> Malta	<b>OPEC</b> Organization of the Petroleum Exporting Countries
<b>ES</b> Spain	<b>NL</b> Netherlands	
<b>EU</b> European Union	<b>NO</b> Norway	
<b>FI</b> Finland	<b>PL</b> Poland	
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