International
Labour
Office

8th EUROPEAN
REGIONAL MEETING
LISBON

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Delivering decent work in Europe and Central Asia

Report of the Director-General
Volume I, Part 2

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The Report of the Director-General to the Eighth European Regional Meeting consists of two volumes. Volume I is entitled *Delivering decent work in Europe and Central Asia* and is divided into two parts. Part 1 provides an overview of recent world of work trends in the region. Part 2 contains seven background thematic chapters. Volume II is entitled *Towards decent work outcomes: A review of ILO work for 2005–08.*

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Abbreviations

ADB	Asian Development Bank
CEDEFOP	European Centre for the Development of Vocational Training
CFA	ILO Committee on Freedom of Association
CIS	Commonwealth of Independent States
EES	European Employment Strategy
EMU	Economic and Monetary Union
EPL	employment protection legislation
ETUC	European Trade Union Confederation
EU	European Union
EU-10	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia
EU-12	Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia
EU-15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom
EU-27	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom
Eurostat	Statistical Office of the European Communities
FDI	foreign direct investment
GDP	gross domestic product
GSP	Generalized System of Preferences
ILC	International Labour Conference
IMF	International Monetary Fund
OECD	Organisation for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
OSH	occupational safety and health
SGP	Stability and Growth Pact
SMEs	small and medium-sized enterprises
WIIW	Vienna Institute for International Economic Studies

1. Fundamental rights at work in Europe and Central Asia

Europe and Central Asia is the region with the highest ratification rate of the ILO's eight fundamental Conventions linked to the 1998 Declaration on Fundamental Principles and Rights at Work. Only three ratifications from Central Asian countries are missing. This high level of commitment to fundamental principles and rights at work offers a firm basis for the implementation of the Decent Work Agenda. However, problems of implementation remain in all parts of the region. Even where the legal commitment to rights at work is strong, there is an abiding need to ensure that the relevant national institutions, namely labour administrations and freely constituted and functioning employers' and workers' organizations, are equal to their tasks.

The global framework for fundamental rights at work was set at the 1995 World Summit for Social Development in Copenhagen and the ILO's responses have come in the form of the 1998 Declaration on Fundamental Principles and Rights at Work and now the 2008 Declaration on Social Justice for a Fair Globalization. In at least three respects, the ILO's normative functions offer a distinct and potentially powerful form of leverage in relation to the situations described in the present Report.

First, the various Conventions and Recommendations, together with the guidance provided by other important ILO texts, such as the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the 2007 Conclusions concerning the promotion of sustainable enterprises and the 2006 Conclusions concerning technical cooperation, lay out the ILO's objectives and the means of pursuing them.

Second, these standards prescribe a set of individual and collective rights that provide additional tools for workers and employers to address decent work issues. These consist of collective information and consultation rights and freedom of association and bargaining rights, individual rights to freedom from discrimination and statutory and negotiated rights concerning conditions of employment that can be asserted and enforced through the judicial system.

Third, the ILO's supervisory system, as mirrored in national dialogue and legal processes, enables all concerned to monitor States as they follow through on their commitments to rights and principles at work, to identify areas to be addressed by the ILO's advisory and technical cooperation services and to monitor the measures taken to address any shortcomings.

In addition, certain key institutions in the region have played an important role in strengthening fundamental labour rights, most notably the European Union (EU), the Council of Europe and the Organization for Security and Co-operation in Europe (OSCE). More recently, the European Bank for Reconstruction and Development has increased its cooperation with the ILO and has placed stronger emphasis on core labour standards. The EU Generalized System of Preferences (GSP and GSP+ for vulnerable economies requesting inclusion in the scheme), through which the EU grants non-reciprocal preferential access to the EU market, also plays a role in strengthening compliance with fundamental labour rights. Ratification of and compliance with fundamental ILO Conventions is a condition for receiving GSP+ preferential trade access. In addition, countries may be withdrawn from the GSP beneficiary list in the event of serious and systematic violations.[1] The promotion of decent work, including the ILO Conventions on fundamental rights at work and other ILO Conventions classified by the ILO as up to date, also forms part of ongoing EU dialogue and is an aspect of agreements with other regions and countries in the world.

As all the EU Member States (the EU-27) have ratified the ILO Conventions on fundamental rights at work, and as the promotion of these Conventions is part of the role of EU external policy instruments, it is important to ensure consistency between the internal and external dimensions. One element that deserves attention in this context is that the European Court of Justice has recently issued rulings on the relationship between the fundamental rights of workers, such as the right to collective action and collective bargaining, and economic freedoms in the EU internal market, such as the provision of transnational services and the right of establishment throughout the EU.[2] The ILO has noted with interest that the renewed European Social Agenda of 2 July 2008 underlines that the European Commission is committed to ensuring that there is no contradiction between economic freedoms and the protection of fundamental rights. Furthermore, the European Parliament recently adopted a report on challenges to collective agreements in the EU[3] which refers explicitly to the ILO Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98). In its report, the Parliament considers that the exercise of fundamental rights, as recognized in EU Member States, ILO Conventions and the Charter of Fundamental Rights of the European Union, should not be put at risk. Furthermore, it highlights that the Lisbon Treaty (not yet in force) includes the Charter of Fundamental Rights and that these instruments will be made legally binding. It also underlines the importance of the Labour Clauses (Public Contracts) Convention, 1949 (No. 94), for contributing to the social dimension of public procurement.

1.1. Freedom of association

Europe and Central Asia can be satisfied with the almost universal ratification of Conventions Nos 87 and 98. Convention No. 98 has been ratified by all the countries in the region while only Uzbekistan has not ratified Convention No. 87.

Table 1.1. Number and percentage of ILO member States having ratified

	Africa	Americas	Asia–Pacific*	Europe and Central Asia	Arab States of West Asia
Convention No. 87	48 (91%)	33 (94%)	14 (45%)	50 (98%)	3 (27%)
Convention No. 98	52 (98%)	32 (91%)	17 (55%)	51 (100%)	6 (55%)

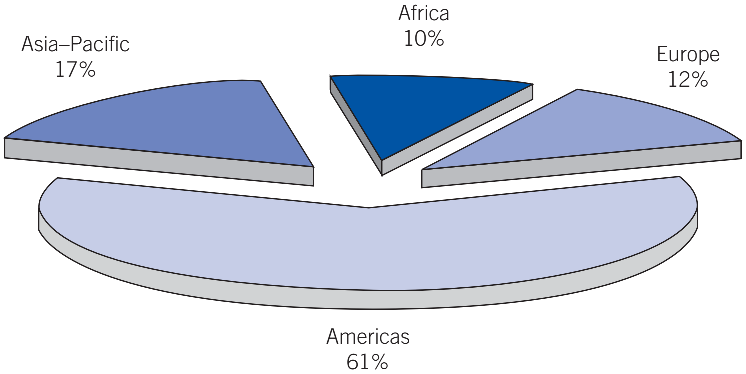
* Excluding members from the Arab States.
Source: ILO.

[1] Belarus has been temporarily withdrawn from the list since 2006, until it is decided that the reasons justifying the temporary withdrawal no longer prevail (Council Regulation (EC) No. 1933/2006), in view of evidence suggesting violations of ILO Conventions Nos 87 and 98.

[2] The Viking case (C-438/05); the Laval case (C-341/05); the Rüffert case C-346/06; and case C-319/06 (*Commission v. Luxembourg*).

[3] 2008/2085(INI).

Figure 1.1. Individual reports adopted by the CFA between March 2005 and June 2008 by region



Source: ILO.

However, ratification does not mean that the rights and principles concerned are implemented in full in all countries. The situation regarding the actual application of freedom of association and collective bargaining rights, in both ratifying and non-ratifying member States, is reflected in the ILO's supervisory work. At one time or another, cases have been raised in the supervisory system regarding freedom of association and collective bargaining relating to almost all the countries in the region. The most recent trends, especially as seen in the ILO Governing Body Committee on Freedom of Association (CFA), are reviewed below, updating the information submitted to the June 2008 session of the International Labour Conference (ILC) in the most recent Global Report (ILO, 2008).

In the period from March 2005 to June 2008, the CFA adopted 43 individual reports on cases relating to countries in the region, of which 33 related to Central and Eastern Europe.

A breakdown of the allegations made according to their subject matter indicates that, while the number of cases in Europe and Central Asia relating to the denial of civil liberties and acts of anti-union discrimination was lower than the global average, the allegations on other categories of problems highlight the need to focus on improving legal frameworks and procedures, such as those pertaining to the establishment of workers' and employers' organizations and efforts to ensure that they function freely.

Table 1.2. Allegations examined by the CFA between March 2005 and June 2008 concerning countries in Europe and Central Asia, by type of allegation (per cent)

	Denial of civil liberties	Restrictive legislation	By-laws, elections and activities	Establish-ment of organiza-tions	Right to strike	Acts of anti-union discrimin-ation	Interference	Collective bargaining
Worldwide (673)	14	6	7	10	9	31	8	15
Europe and Central Asia (77)	5	13	18	10.5	14	17	10.5	12

Source: ILO.

Some of the newly constituted trade unions in the countries of the Commonwealth of Independent States (CIS) continue to face difficulties in functioning alongside traditional trade union structures. Some cases are long-standing and serious, such as that of Belarus, on which a Commission of Inquiry issued a set of recommendations in 2004. This case relates to the obstacles to registration faced by non-traditional trade unions and the harassment of their leaders and members. While the Government of Belarus has recently indicated that it wishes to solve the problems through negotiations and consensus between all organizations, key recommendations of the Commission of Inquiry have not yet been implemented.

In the case of the Republic of Moldova, the CFA expressed its concern about the merger of two trade union centres, which had taken place in a context of persistent allegations of interference and pressure on independent trade unions to change their affiliation to become members of a confederation allegedly supported by the Government (Case No. 2317). Other challenges faced by trade unions in the CIS countries, as sometimes acknowledged by their respective governments (for instance in Azerbaijan), include obstacles to the rights to organize and collective bargaining encountered in affiliates of multinational enterprises.

The issues raised by the supervisory bodies in respect of countries in Europe and Central Asia are not confined to one subregion. These bodies have continued to express concern at the restrictions on the right to strike across the region, particularly in the civil service (Albania, Bulgaria, Germany, Norway, Poland and Turkey). For a number of years, the supervisory bodies have been requesting the Government of Turkey to amend legislative provisions which, among other restrictions, prohibit general and sympathy strikes and strikes in many services that cannot be considered essential. In 2008, at the request of the Committee on the Application of Standards of the ILC, the Government of Turkey accepted an ILO mission, which helped the Government assess possible approaches to legislative reform that would respond to the concerns of the supervisory bodies. Norway has been requested by the ILO supervisory bodies to avoid the use of legislative intervention and compulsory arbitration to end industrial action in sectors that are not considered essential.

The ILO supervisory bodies have emphasized the need to adopt specific legislative provisions providing for effective and sufficiently dissuasive sanctions in cases of anti-union discrimination (Georgia, Republic of Moldova, Poland, Switzerland and Ukraine). The supervisory bodies have also commented on acts of interference by employers in internal trade union matters (Bulgaria, Malta, Republic of Moldova, Poland and Ukraine).

The ILO Committee of Experts on the Application of Conventions and Recommendations has noted that the Labour Code of Georgia adopted in 2006 is not in conformity with the provisions of, in particular, Convention No. 98, as it does not provide adequate protection against anti-union discrimination and acts of interference by employers' organizations in trade union activities and would appear not to promote collective bargaining. The case was discussed by the Committee on the Application of Standards, which emphasized the importance of tripartite cooperation to find solutions.

In the case of Switzerland, the CFA has noted that national legislation does not meet the requirements of Convention No. 98, as it does not provide for the possibility of ordering the reinstatement of trade union representatives who have been dismissed for anti-union reasons. It has also noted that the compensation provided in such cases, which must not exceed six months' wages, is nominal and fails to act as a deterrent. The CFA has therefore called for greater protection against anti-union dismissal (Case No. 2265). With regard to Poland, attention has been drawn to the need to examine cases concerning anti-union discrimination rapidly so that the necessary remedies can be really effective (Case No. 2474). The case in question concerned the dismissal of a trade union leader in 2004, and yet was still pending before the courts in 2008. As regards Ukraine, a number of alleged cases of anti-union discrimination and interference in the internal affairs of trade unions were first examined in 2005. Following a direct contacts mission to Ukraine, the CFA noted the efforts made by the Government through constructive dialogue with the two largest trade union centres to resolve the issues raised. In 2008, the CFA noted with interest the information provided by the Government on the outcome of investigations into all cases of alleged violations of trade union rights and considered that this case did not call for further examination (Case No. 2388).

In a number of cases relating to the freedom of association of employers' organizations (Bosnia and Herzegovina, Republic of Moldova, The former Yugoslav Republic of Macedonia), the CFA has considered issues relating to registration and fiscal treatment, and has noted that progress has been made. In 2004, the National Confederation of Employers of the Republic of Moldova (CNPM) submitted a complaint to the CFA alleging that, by not allowing membership contributions to employers' organizations to be considered tax-deductible costs, the Government was limiting the activities and development of employers' organizations (Case No. 2350). The CFA invited the Government to review the Fiscal Code, in full consultation with the social partners concerned, with the aim of finding a mutually agreeable solution to the issue. In 2007, the CFA noted with satisfaction that the Fiscal Code had been amended in 2006 so as to allow the tax deductibility of membership fees.

With reference to The former Yugoslav Republic of Macedonia, the Union of Employers of Macedonia (UEM) submitted a complaint to the CFA in 2001 alleging that employers' organizations could not register or engage in collective bargaining (Case No. 2133). The CFA, noting the apparent absence of legislation for the registration and legal recognition of employers' organizations, requested the Government to ensure the recognition of employers' organizations under a status corresponding to their objectives and to finalize the registration of the UEM. In 2006, the Committee of Experts noted with interest the news provided by the Confederation of Employers of the Republic of Macedonia, a successor of the UEM, stating that it had been registered.

In 2001, the Employers of Bosnia and Herzegovina and the Employers' Confederation of Republika Srpska presented a complaint to the CFA alleging that employers' confederations could not register as employers' organizations (Case No. 2140). In 2002, the CFA requested the Government to initiate discussions with a view to finalizing the registration process of the complainants and that of the Employers' Confederation of Bosnia and Herzegovina. In June 2007, the Employer members at the Committee on the Application of Standards indicated that the legal situation in the country no longer appeared to affect the possibility for employers' organizations to organize at the national level.

Meanwhile, legislative reforms and the introduction of new regulations in a number of countries over the past few years have continued to enhance the rights to organize and to bargain collectively. These internal transformations in law and practice are taking place at a time when the impact of globalization is being felt. Freedom of association and collective bargaining are key elements in the development of national and sectoral responses to the new economic and social realities, although further research is needed in this area. This aspect of the ILO agenda, as emphasized by the Governing Body in November 2007, includes promoting the ratification and effective implementation of the respective international labour standards, the provision of services to constituents in areas that help them give effect to these principles and the strengthening of the ILO's knowledge base to facilitate this work and its advocacy functions.[4] A discussion of the situation, trends, deficits and achievements concerning freedom of association and collective bargaining in the countries of the region will enrich this aspect of the ILO's agenda.

1.2. Child labour

Ratification of the fundamental Minimum Age Convention, 1973 (No. 138), and Worst Forms of Child Labour Convention, 1999 (No. 182), is almost universal in the region. Only Turkmenistan has not ratified Convention No. 182, while neither Turkmenistan nor Uzbekistan has ratified Convention No. 138 (in both cases the necessary declaration concerning the specified minimum age has not been duly submitted).

Although the ILO's latest child labour estimates show a decline in the number of children working both globally and in the region, there are significant data gaps in relation to various countries in the region, in terms of both the numbers of children involved and the sectors in which they are active (ILO, 2006a). The lack of information on child labour concerns EU countries in particular. A focused effort to generate both statistics and studies on child labour (including examples of good practices) would therefore be greatly beneficial.

The work of the ILO supervisory bodies confirms that even the most developed countries face some forms of child labour, including its worst forms – from hazardous work by adolescents to the use of children in prostitution – and that international cooperation and assistance is needed.

It is clear that child labour is still endemic in certain areas. In Central Asia and the Caucasus, many street children fall victim to the worst forms of child labour and rural children perform hazardous work in agriculture. In addition, children from rural areas are commonly trafficked to urban centres or wealthier countries for labour exploitation, including commercial sexual exploitation. The significant informal economy also fosters the exploitation of children in the subregion.

While the approach adopted by the ILO's International Programme on the Elimination of Child Labour (IPEC) in the region may be similar to that adopted in other parts of the world, there are some features that are specific to the region. The EU is a driving force for social change in the region, through the accession process, the Stabilization and Association Process and the Neighbourhood Policy, all of which can help to accelerate progress in the elimination of child labour. Regional bodies, such as the Council of Europe and the OSCE, have considerable leverage in obtaining political support for certain issues such as the elimination of trafficking in human beings. Existing child protection mechanisms and institutions, such as child protection officers in three cities in Albania and the National Authority for the Protection of Child Rights in Romania, provide a structure around which activities can be carried out.

The role of trade unions and employers' organizations in addressing child labour is exemplified in Albania and Tajikistan. In Albania, child labour has often proved to be an issue over which trade unions of opposing political ideologies are prepared to put aside their differences in order to combine forces and resources for the common good. For example, through an IPEC capacity-building project, leaders and officials of the two education trade unions in the country were provided with the knowledge, skills and tools to develop joint programmes and activities on issues of common concern. The two unions

[4] GB.300/ESP/1.

then jointly negotiated a revised collective agreement with the Ministry of Education to include a clause on child labour, focusing on school enrolment and attendance and on working children. Tajikistan has been selected for a school-to-work transition survey with a view to developing policy recommendations to mainstream child labour issues into national youth employment strategies.

Trafficking and other worst forms of child labour also persist in the region owing to the lack of job opportunities, the rising cost of living, increasing social stratification and the weakening of the social safety net. However, reliable statistics on the magnitude of trafficking are lacking. The available data mostly relate only to prosecutions, and therefore hugely underestimate the extent of the problem. In relation to child trafficking, there is still a need to improve legislative cooperation between the region's countries. For example, in Romania, which remains a source country, the Government has increased collaboration with certain destination countries. The measures taken include the conclusion of an agreement with Spain to resolve the problems of unaccompanied Roma children in Spain. An agreement with France on the protection and repatriation of unaccompanied Romanian children has been renewed and negotiations are being held with Italy to sign a bilateral agreement on the issue.

Some children, especially Roma children, are particularly vulnerable, especially to the worst forms of child labour. The Committee of Experts often recommends that countries take the necessary steps to protect Roma children by ensuring their withdrawal from the worst forms of child labour, rehabilitation and integration into society and their access to education. Education is clearly the correct response to child labour. Primary school enrolment rates throughout the region are at around 90 per cent, which is well above the global average. However, there has been a steep decline in pre-school attendance, secondary schooling and vocational education and training over the past 15 years. Illiteracy is also rising in certain countries. The population categories with the lowest level of school achievement include the poor, ethnic minorities, rural families, children with special needs and children in institutions (orphanages).

Table 1.3. Percentage of children (7–14 years) by activity status (selected countries)

Country	Children involved exclusively in economic activity	Children exclusively attending school	Children combining economic activity with school	Children neither involved in economic activity nor attending school
Azerbaijan	0.3	92.4	4.9	2.4
Portugal	0.1	95.9	3.5	0.5
Romania	0.3	93.0	1.1	5.6
Turkey	1.0	90.9	1.6	6.6
Ukraine	0.1	95.4	2.8	1.7

Note: Different base years ranging from 1999 to 2006.
Source: ILO Statistical Information and Monitoring Programme on Child Labour (SIMPOC).

1.3. Forced labour

Forced labour in Europe and Central Asia is often associated with prison labour camps during the Communist era or the trafficking of women for sexual exploitation. Over recent years, however, awareness has increased of coercive labour practices that can penetrate mainstream economic sectors. More than 80 per cent of forced labour today takes place in the private economy. Most forced labour in Europe and the CIS is the outcome of largely irregular migration processes.

According to ILO estimates, there are at least 570,000 victims of forced labour in industrialized and transition countries at any given point in time, of whom 470,000 have been trafficked (ILO, 2005a). Similarly, the European Police Office (Europol) estimates that the number of victims in Europe "should be counted in hundreds of thousands" (Europol, 2008). Given the hidden and often criminal nature of human trafficking, it is difficult to produce reliable estimates. Countries with robust figures, such as Germany and the Netherlands, have often developed strong law enforcement and data collection mechanisms. Nevertheless, even then, the real number can be assumed to be much higher, since most victims are not identified. Systematic data collection across the region has been hampered by the fact that the various countries involved have different legal frameworks and victim identification mechanisms. A process of harmonization is under way among the EU-27 but has not led to better data for the time being.

The victims of human trafficking are recruited either in their country of origin or in transit or destination countries. Recruitment is often deceptive, sometimes even coercive. Migrants are deceived about living and working conditions or the nature of their work, tricked into contracts that make them dependent on the trafficker or future employer or are forced to pay high fees on their way to the destination country. In some cases, this may result in debt bondage. The most common means of coercion is the withholding of wages, combined with threats of denunciation or harm to family members. These threats are real to people who have incurred debts (often because of high recruitment and transportation fees), are unaware of their rights, do not speak the language of the destination country or have nobody to turn to. In some cases, more violent means of coercion are used, such as restriction of freedom of movement or violence. It is also common for traffickers to retain the passports of irregular migrant workers, supposedly to regularize their status, which often turns out to be a false promise.

While it is estimated that the majority of victims are women, men can also fall prey to traffickers. In subregions such as Central Asia, where migration is dominated by men, they may in fact be more affected by trafficking. Victims of forced labour trafficking tend to belong to the poorest strata of the population. They may also be discriminated against in their home country and may therefore have less access to legal employment and migration channels. An ILO survey carried out in four countries of South-Eastern and Eastern Europe in 2003 (Albania, Republic of Moldova, Romania and Ukraine) found that over 50 per cent of victims of forced labour considered themselves poor compared to others living in the same area, whereas only 27 per cent of migrants who were not in forced labour thought the same.

In practice, it is sometimes difficult to distinguish between forced labour and sub-standard working conditions. Forced labour often occurs against a backdrop of generally poor working conditions. It is linked to economic activities that are unprotected or poorly protected under labour law, such as prostitution, domestic work, begging or illicit activities. Labour-intensive sectors are also affected, such as construction, agriculture and horticulture, food processing, textiles and garments or the service industry. Forced labour can often be disguised through complex subcontracting chains that blur responsibilities and enable employers to avoid sanctions.

In the absence of reliable data, it is difficult to ascertain trends in human trafficking. Based on qualitative research, however, the following patterns appear to be emerging. The trafficking of women for sexual exploitation to countries of the Western Balkans has probably decreased due to greater stability and vigorous responses in the region. Labour

Box 1.1
Labour trafficking in the EU

As an example of labour trafficking within the EU, a prison-like labour camp was discovered by the Italian police in 2006 in the south of Italy. An international criminal ring lured Polish farm workers to Italy to work for paltry wages in squalid conditions. Many victims were recruited through newspaper and Internet advertisements promising seasonal jobs picking fruit and vegetables. The Poles had to pay a fee and were transported by bus to Italy. They were forced to work 12 hours a day, and sometimes 16, picking vegetables under the eyes of armed guards. They were only paid half the minimum wage and deductions for food, water and sleeping quarters left many with nothing, and others in debt. Anyone unable to work because of sickness was fined. Beatings occurred regularly in the camps. More than 100 victims were rescued and assisted by Italian and Polish non-governmental organizations and 49 arrest warrants were issued in Poland and Italy.

trafficking has only recently received the attention of policy-makers and policy responses are still weak. It is the predominant form of trafficking in the Russian Federation, Central Asia and possibly some Western European countries. Source countries of victims, such as Poland and the Czech Republic, have turned into destination countries following their accession to the EU. The modus operandi of traffickers changes constantly and can be adapted quickly to new circumstances.

When trafficking emerged as a priority on European policy agendas in the 1990s, pressure was put on source countries to stem irregular migration, fight organized crime and reintegrate victims. Significant investments were made to reinforce border controls and train police and other law enforcement bodies, whereas preventive measures received less attention. While the pressure to migrate has decreased in some countries, particularly in the new Member States of the EU, new migration routes have emerged, for example in Central Asia. Most migrant workers in this subregion are irregularly employed and severely exploited.

Most source countries in Eastern Europe and the CIS have adopted national action plans against trafficking in human beings, usually under the leadership of the ministry of the interior and often with little consultation of their ministry of labour or the social partners. A number of these national policies therefore lack coherence with migration and employment policies. Only some countries, such as Georgia and Ukraine, have allocated budgets for the implementation of their national action plans. Increasingly, however, preventive measures are being recognized as an important policy instrument to complement law enforcement. These measures include, for example, awareness-raising campaigns that seek to inform potential migrants and not simply stop them from migrating; pre-migration and vocational training; facilitation of legal channels of migration; the possibility of joint membership of trade unions in source and destination countries; regulation and monitoring of private recruitment agencies; and addressing gender and other forms of discrimination.

A newly launched joint project between the ILO and the United Nations Development Programme (UNDP) in Tajikistan aims to target the root cause of human trafficking – namely, the poverty of men and women in rural areas. Research has shown that many men leave Tajikistan in search of work abroad, while the women stay behind with little or no income. Many migrants are at risk of being deceived and severely exploited in neighbouring countries, and some of them never return home as they are unable to earn sufficient money. The project aims to empower migrant workers so that they leave Tajikistan better prepared, and has the support of local community structures called Jamoat Resource Centres and trade union branches. The workers will receive pre-migration training and opportunities for alternative income-generating activities. The project also supports women who have become single heads of households due to the prolonged absence of their spouses.

The prevention of abusive recruitment practices has also received increasing attention from policy-makers in source and destination countries alike. While most migrants, including victims of human trafficking, leave through their own social networks, many have to turn to intermediaries to organize their travel abroad. Only a few private recruitment agencies offer legal employment abroad, and these often cater only to the needs of highly skilled workers. Much more common are travel agencies and other intermediaries carrying out recruitment under other guises. For example, Ukrainians who left for employment in Portugal in the early 2000s were offered package deals by travel agencies, which often turned out to be deceptive. The jobs that had been promised either did not exist or were very different from what had been advertised. Some of the workers became victims of highly violent extortion networks. A similar situation prevailed in Albania and the Republic of Moldova. These countries have now introduced or strengthened licensing regulations for private employment agencies recruiting for employment abroad. Nevertheless, the monitoring and enforcement of the new laws remain a major challenge.

The situation in Central Asia is similar, despite the fact that there are no visa restrictions to migration. Prospective migrants tend to rely on bus companies of questionable honesty or individual intermediaries (often former migrants themselves) to find seasonal jobs in Kazakhstan or the Russian Federation. While not all of them end up in forced labour or slave-like conditions, many do, as they are sold to the employer and are unable to earn enough money to repay the resulting debts. Countries in the CIS have now started to address the problem of unregulated recruitment, although most private employment agencies are still in the early stages of development. Trade unions and employers' organizations play a key role in this process, particularly with regard to information dissemination and the self-regulation of the recruitment industry.

The reintegration of victims of trafficking is another major challenge facing source countries. Mechanisms to refer victims to assistance organizations have been established throughout the region. Most Western Balkan and Eastern European countries have developed institutionalized referral mechanisms to ensure that victims are not criminalized upon their return, but instead provided with legal advice and medical and other forms of assistance.

Trade unions have also started addressing the issue, focusing primarily on victims of labour trafficking. Bilateral cooperation agreements, such as those between Tajik and Russian or Kazakh trade union branches in the construction industry, have helped to support potential and actual victims. Romanian and Italian trade unions are now being integrated into an existing anti-trafficking network in Romania. In Germany, the European Migrant Workers' Union supports migrant workers who have been deceived regarding their wages or otherwise exploited.

It is increasingly widely recognized that the prosecution of trafficking cases, victim protection and preventive measures all require cooperation between source and destination countries. Trafficking cases can involve sophisticated criminal networks that are difficult to dismantle and many victims cannot return to their home country on account of the risks involved. Moreover, until they address the underlying demand factors that contribute to the severe exploitation of vulnerable workers, policy measures will remain reactive rather than proactive. The adoption in 2000 of the Palermo Protocol to Prevent, Suppress and Punish Trafficking in Human Beings, especially Women and Children provided significant momentum for the harmonization of anti-trafficking policies across Europe.

In 2002, the European Council adopted its Framework Decision on combating trafficking in human beings, requiring all Member States to bring their anti-trafficking legislation into line with international standards. An expert group on human trafficking was established and found in its 2004 report that in order to counter trafficking effectively, policy interventions should focus on forced labour and services, including forced sexual services, slavery and the slavery-like outcomes of trafficking, no matter how people arrived in such conditions, rather than on (or in addition to) the mechanisms of trafficking itself.

The recommendations of the expert report were instrumental in shaping the new EU plan on best practices, standards and procedures for combating and preventing trafficking in human beings, adopted in 2005.[5] Chapter 4 of the plan focuses specifically on demand factors related to employment regulations. The plan also refers to the need for new types of specialization and cooperation with partners, such as agencies responsible for the control of working conditions and financial investigations related to irregular labour. The adoption of the plan has spearheaded the development of national policies in some EU Member States.

In 2004, a tragic incident leading to the death of 23 Chinese cockle pickers, along with a number of other cases of serious exploitation, including forced labour, spurred public debate in the United Kingdom on “gangmasters” and exploitation in aquaculture and other related industries. Many labour providers in such industries were found to be operating outside the law by facilitating the entry, employment and often exploitation of largely irregular migrant workers. As a consequence, the Gangmasters (Licensing) Act was adopted in 2004, together with a voluntary code of conduct to regulate the industry. An impact assessment carried out by the Government-sponsored Ethical Trading Initiative in 2006 revealed that suppliers were pleased with the new registration scheme and thought that good performance helped retain if not increase business. Some informants, however, pointed out that the conflict between retailer requirements and the code of conduct still persisted, restricting their ability to improve labour standards. In addition to the Gangmasters Act, the Government started a consultation process on its first National Action Plan to Tackle Human Trafficking, which was adopted in 2007, and in which it is recognized that more needs to be done to support victims of other forms of trafficking, particularly trafficking for forced labour.

The new Council of Europe Convention on Action against Trafficking in Human Beings entered into force in February 2008, following its ratification by ten Member States. The Convention makes victim protection obligatory. Victim protection is also anchored in EU law, albeit less comprehensively. In 2004, the EU Justice and Home Affairs Council adopted Directive 2004/81/EC on the residence permits issued to third-country nationals who are victims of trafficking in human beings or who have been the subject of an action to facilitate illegal immigration and who cooperate with the competent authorities. In practice, however, many victims are still deported without claiming their rights.

Forced labour and trafficking mainly occur in an environment where labour regulations do not exist, are very weak or are not enforced. In Europe and Central Asia there is a large supply of vulnerable migrant workers who can easily be exploited because of their irregular status, ignorance of their rights or dependency on a trafficker or specific employer. Deceptive and abusive recruitment is often the beginning of a spiral of exploitation that may end in forced labour. Unscrupulous employers can use a wide range of coercive measures to retain workers under conditions that they have not chosen freely.

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[5] *Official Journal of the European Union* C 311 of 9 December 2005.

Policy interventions should promote the prevention of trafficking through employment-based measures, better migration management and awareness-raising in source and destination countries. Prosecution should focus not only on those who operate criminal networks but also on employers who benefit from the exploitation of trafficked persons. Labour administration and labour law are of key importance in this respect. Laws and mechanisms to protect migrants who have escaped their exploiters or been rescued from forced labour need to be strengthened so that those migrants can seek justice.

1.4. Discrimination

The achievement in practice of equality of opportunity and treatment and equal remuneration remains a challenge. In some sectors in some countries – including some of the EU-27 – the gender pay gap is widening, exacerbated by a lack of gender-friendly work and an absence of family reconciliation measures. Evidence shows that members of groups that suffer discrimination often fail to achieve success in job placement and training schemes. Past conflicts and civil wars have worsened racism in parts of Eastern Europe (the Caucasus and the Balkans). Inconsistencies have continued to emerge in perceptions regarding religious freedom at work. Younger workers receive less favourable treatment in various respects. Moreover, persons with disabilities suffer increased difficulties in finding a job.

One of the most pressing political, social and human rights issues facing the region is the poor treatment and extreme poverty of the Roma, the largest ethnic minority group in Europe and Central Asia, who number around 10 million. In countries such as Albania, Bosnia and Herzegovina, Bulgaria, Croatia, The former Yugoslav Republic of Macedonia, Montenegro, Romania and Serbia, unemployment among Roma people, and especially Roma women, ranges between 50 and 90 per cent. This has led governments in Central and South-Eastern Europe to launch the Decade of Roma Inclusion 2005–15, the first cooperative transnational effort in this region to change the lives of these people. In September 2008, the EU held the first European Roma Summit, aimed at raising awareness of the persistent discrimination and exclusion faced by the Roma and helping to identify effective policies.

Awareness of the issue of discrimination has nonetheless generally improved, especially in the EU. In recent years, EU-27 countries have transposed Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation into national law, rendering unlawful all discrimination based on race, religion or belief, age, disability or sexual orientation. The establishment of institutions dealing with multiple forms of discrimination, and not just discrimination on grounds of race, ethnicity or sex, reflects a commitment to the elimination of discrimination over and above what is required by EU law and an acknowledgement that all victims of discrimination have a right to protection.

The experience of mainstreaming gender and promoting gender equality through the European Employment Strategy (EES) is unique in the world and illustrates the advantages and challenges of gender mainstreaming. Launched in 1997, the EES requires Member States to develop annual national reform programmes (until 2005 known as national action plans) on employment based on common agreed targets. Gender equality has been incorporated in this process through the requirement for gender issues and impacts to be addressed by the reform programmes, the adoption of a specific target for women's employment of 60 per cent by 2010 (set at the 2000 Lisbon Summit) and the introduction in 1997–2002 of a specific pillar (one of four) on the promotion of equal opportunities for men and women. Some countries have set national targets and timeframes to make substantial reductions in gender gaps in employment, unemployment and pay, but have not always specified the policies needed for this purpose. The involvement of the social partners in addressing these issues has been an important feature in many countries.

The increased presence of migrant workers has engendered feelings ranging from concern over jobs to outright hostility, giving rise to discrimination. Foreign-born workers represent a significant and rising proportion of the workforce in many countries. As 10 per cent of the workforce in Western Europe is currently made up of migrants seeking better job opportunities outside their home countries – a figure that is likely to increase over the coming years – the plight of migrants will be a growing concern.

The related issue of discrimination based on religion is affecting many countries. In the EU, the issue of the "Islamic veil" or hijab, for example, has highlighted the different perceptions prevailing among the EU-27 regarding secularism and religious freedom. Data and facts in the complex and delicate area of religious discrimination are, however, hard to obtain. Concerted efforts to identify and address such discrimination are required.

Discrimination based on disability is a serious issue in employment. One important source of exclusion or disadvantage for people with disabilities is the fact that they are still often perceived as unproductive, unable to perform a job or too costly to employ. The likelihood of a person with a disability of finding a job seems to decrease as the level of disability increases. In Western Europe, a person aged between 16 and 64 who has a mild disability has a 66 per cent chance of finding a job; this rate falls to 47 per cent for a moderately disabled person and 25 per cent for a person with a severe disability.

Significant progress has been made by the EU-27 members in enacting anti-discrimination legislation to implement the anti-discrimination and gender equality directives. This has also encouraged legislative action to address discrimination in non-EU countries such as Norway and in countries aspiring to EU membership. It has clearly strengthened the application of the Discrimination (Employment and Occupation) Convention, 1958 (No. 111), in the region, including with regard to additional prohibited grounds of discrimination, such as disability, age or sexual orientation. While new laws in the region have tended to cover discrimination based on race, colour, sex, national extraction and religion, the Committee of Experts has systematically emphasized that Convention No. 111 requires ratifying States to adopt national policies to address discrimination on all the grounds explicitly listed in the Convention, including social origin and political opinion. However, recent anti-discrimination legislation generally fails to address discrimination based on social origin. Political opinion may be covered by the ground of "belief" mentioned in Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation, but the point of departure for assessing compliance with Convention No. 111 is national law and practice. Austria has indicated that the ground of Weltanschauung ("worldview") mentioned in its national legislation and intended to cover the ground of "belief" set out in the Directive would include political opinion. However, no jurisprudence is available to confirm this.

The Committee of Experts has also expressed concern where the implementation of EU directives has led to the repeal of non-discrimination provisions that were more comprehensive than the protection available under the directives. For instance, in the Czech Republic, the non-discrimination provisions in the Labour Code, which covered discrimination based on family responsibilities, marital status or trade union membership, were withdrawn in the process leading to the adoption of comprehensive anti-discrimination legislation to implement the EU directives.

With anti-discrimination legislation in place in a vast majority of the countries of the region, the focus of the Committee of Experts has been on monitoring implementation, enforcement and actual effects. In this regard, the Committee of Experts has emphasized the need to collect, analyse and disseminate information on cases concerning discrimination in employment and occupation dealt with by national equality bodies, courts and labour inspectorates. Such information is crucial to assessing the effectiveness of available legal protection in practice, encouraging victims to bring complaints and raising awareness of the consequences of breaching the law. The information available to the supervisory bodies suggests that in many countries such information is not yet being compiled on a regular and systematic basis. Another point often raised by the Committee of Experts is the need to ensure close cooperation between all the authorities competent to deal with discrimination at work. For instance, in Bulgaria, the Commission for Protection against Discrimination has concluded a cooperation agreement with the labour inspectorate.

In many of its comments, the Committee of Experts emphasizes that, beyond creating enforceable rights for individual victims of discrimination, it is crucial to step up systematic and proactive measures to address the structural inequalities and discrimination that exist, especially through bodies that have the capacity and a clear mandate to do so, such as the labour inspectorate. For example, the labour administration in Belgium has set up a unit to advise and train labour inspectors on discrimination issues.

Under the impetus of Council Directive 2000/78/EC, the majority of the EU-27 have transposed the provisions on age-based discrimination into national law. For example, the UK Employment Equality (Age) Regulations, which came into force in October 2006, prohibit direct and indirect discrimination, harassment and victimization on grounds of age against people of any age, young or old. The potential of genetic testing to mean that a person is denied a job due to predisposition to a present or future medical problem has also led countries to adopt legal measures. Several EU Member States, including Denmark, Finland, France and Sweden, have introduced legislation prohibiting genetic discrimination. Others, such as Austria, Greece, Italy, Luxembourg and the Netherlands, have prohibited or restricted the collection of genetic data from employees without their explicit consent.

While EU directives and the laws of many countries do envisage positive action, many uncertainties remain as to who should take responsibility for such measures and how they should be taken. Only a very limited number of laws in the region require enterprises to take active steps to promote equality and diversity, despite the emphasis placed by the ILO supervisory bodies on the adoption of policies and practical measures at enterprise level as a key element in changing realities on the ground. There are still obstacles in numerous countries to the collection of appropriate statistical data as a means of assessing the progress made in eliminating discrimination and exclusion along ethnic or racial lines. While the Committee of Experts is aware of the legal issues relating to privacy and data protection, it emphasizes the need to obtain statistical information, disaggregated by sex, to allow assessments of the progress achieved in inclusion of and equality for discriminated groups.

Raising public awareness with regard to discrimination is key to giving real effect to recent welcome changes in the law. The new equality and non-discrimination bodies have an important role to play in offering legal and other assistance to victims of discrimination.

In relation to several countries, mostly in Eastern Europe and Central Asia, the Committee of Experts has underlined the need to ensure that rights and benefits related to the exercise of family responsibilities are available to men and women on an equal footing.

Legal provisions that allow men to benefit from child-care related rights only if the child's mother is unable to do so reflect gender-biased assumptions and should be removed. The exclusion of women from certain occupations is acceptable only to the extent that it is necessary and proportional to ensure protection during pregnancy and maternity. While it is now recognized throughout the region that further progress in achieving gender equality at work can only be made if more decisive action is taken to facilitate work and family reconciliation, the Workers with Family Responsibilities Convention, 1981 (No. 156), has obtained few new ratifications since the last European Regional Meeting.[6]

With regard to pay equity, Finland, France and Spain adopted proactive laws in 2005 and 2006 requiring employers not just to abstain from discriminating in remuneration on the basis of sex, but to take measures to promote equal opportunities in pay, for example through equal pay reviews and job evaluation methods, and to correct any pay differentials due to discrimination. Pay equity commissions or commissions with broader anti-discrimination jurisdictions can play a useful role in the achievement of pay equity. In Sweden, for instance, since 2001, the Equal Opportunities Ombudsman has been taking steps, through information and education, to help workers' and employers' organizations to meet their obligations under the Equal Opportunities Act, with special emphasis on wage mapping.

With regard to the Equal Remuneration Convention, 1951 (No. 100), the Committee of Experts has noted progress in terms of legislation setting out the principle of equal remuneration for work of equal value. Where legislation restricts the application of this principle to the level of individual enterprises, the Committee has emphasized the need to promote and ensure its application beyond that level. This is of crucial importance if gender-based pay discrimination is to be eliminated within the context of persisting occupational segregation based on sex. The European Committee of Social Rights has similarly requested States Parties to the European Social Charter to amend legislation that limits the application of the principle of equal pay for work of equal value to the enterprise level. The Committee of Experts has also emphasized that collective bargaining and minimum wage setting are important entry points in this regard, provided that they do not undervalue jobs and occupations predominately held by women. More generally, the comments of the Committee of Experts regularly draw attention to the need for further action to promote the development and use of objective job evaluation methods.

Participants may wish to consider the following questions:

- What are the challenges to the full exercise of the right to freedom of association and collective bargaining in the countries of Europe and Central Asia and how can these challenges be overcome?
- Given that the international labour Conventions dealing with fundamental principles and rights at work are almost universally ratified by the countries of Europe and Central Asia, what are the major issues faced in their implementation?
- Are rights at work sufficiently integrated into economic and social policies in the region? What should be done to promote and sustain their integration?

[6] As at 23 October 2008, Convention No. 156 has been ratified by 40 countries. The most recent ratifications in the region were Albania (2007), Bulgaria (2006) and Lithuania (2004).

2. Economic context and employment situation (1995–2007)

This chapter examines the macroeconomic situation in the region, before going on to analyse recent labour market trends, including levels of labour force participation, employment and unemployment. It identifies the main factors behind the vast differences in labour market performance in the region, gauges current achievements against relevant strategic goals and standards and proposes a policy framework to overcome existing deficits in the field of employment policy, with the objective of harmonizing the attainment of *more and better jobs*.

2.1. Macroeconomic context

The period 1995–2007 saw a number of economic (and political) developments in the different parts of the region, including the continuation of the EU integration process with the accession in 1995 of three high-income countries (Austria, Finland and Sweden), bringing EU membership to 15 (the EU-15); the introduction of the Economic and Monetary Union (EMU) in 1999 (initially with 11 members, rising to 15); and the next wave of enlargement in 2004 and 2006 with the accession of 12 more countries, most of which were former transition countries (the EU-12), bringing total EU membership up to 27 (the EU-27). Three more countries currently have the status of accession or candidate countries (Croatia, The former Yugoslav Republic of Macedonia and Turkey), with several others aiming at EU membership over the next decade.

During the latter half of the 1990s, the EU-15 enjoyed a relatively high gross domestic product (GDP) growth rate (averaging 2.8 per cent a year, compared with 1.6 per cent in the first half of the 1990s), although this rate was not as high as that of the United States. Economic growth in the EU-15 then fell to 1.75 per cent during the period 2000–06. However, the employment situation improved during the same period, resulting in a 2-3 percentage point reduction in the unemployment rate. In the transition economies of Central and Eastern Europe, the major economic contractions of the early transition had been overcome by the mid-1990s, although there were secondary transition crises in several economies, partly linked to difficulties relating to structural reforms (privatization, banking), and partly associated with severe monetary crises, which meant that the Central and Eastern European economies did not grow faster than those of the EU-15 over the second half of the 1990s, as might have been expected. The situation changed quite strikingly from around 2000, however, when, despite the slowdown in Poland in the early 2000s, the new Member States established a persistent GDP growth differential of 2–3 percentage points with respect to the EU-15.

Structural and macroeconomic crises in the Russian Federation (1998–99) and Turkey (1999) and political (and military) turbulence in The former Yugoslavia took their toll until the first years of the new millennium. However, starting from 2001, the EU-12, the Commonwealth of Independent States (CIS), the non-EU Balkan countries (with certain exceptions) and Turkey embarked on a path of sustained growth. With the growth achieved over the past six or seven years, a wide range of low- and medium-income countries in the region now appear to be on the path to catching up with the more affluent countries of Western Europe in terms of income per capita.

2.1.1. Patterns of growth and employment in a differentiated regional economy

Income differentiation and catching-up

Levels of GDP per capita in the region in 2007 follow a distinctive North-west–East–South-east pattern of income differentiation. Western Europe (including the EU-15 and other Western European economies, such as Norway and Switzerland) accounts for about half the population in the region, but for over 70 per cent of total GDP. The economy in the region, which has become increasingly integrated over the past decade and a half, now shows much greater differentiation than it did prior to 1989. This has important implications for current and potential patterns in the division of labour across the integrated European space and for growth potential.

Since 2001, there has been a clear and sustained pattern of catching-up (or convergence of income levels) in the region, with the growth rates of lower income economies exceeding those of higher income economies. All the groups of lower income economies (the EU-12, candidate countries, Western Balkan countries, the Russian Federation, Turkey and Ukraine) have embarked on a path that shows a 2.5–3.5 percentage point growth differential compared to the EU-15. This does not mean that their growth paths may not be interrupted by either domestic or external shocks (domestic shocks include instabilities in the political economies of countries and major policy errors; external shocks include terms of trade shocks and destabilizing international capital movements). However, the evidence tends to show that most of the low-income economies are on a convergence path.

The main factor underlying the success of the catching-up process in the current context of a liberalized regional (and global) economy is the broad scope for productivity growth in lower income (lower productivity) economies. Productivity levels are a function of access to and implementation of technology in its broad sense, including both production techniques and organizational practices, which allow the more efficient use of production factors.

Catching-up processes are now taking place at very high rates in the region because the transfer of knowledge, the ability to implement new production techniques and the adoption of better organizational practices can proceed much more rapidly than in previous eras, largely due to: the information technology (IT) revolution; the greatly increased mobility of skilled personnel and students; and the liberalization of trade and international direct investment, as trade with higher income markets creates pressure to upgrade products to meet more sophisticated requirements. In particular, the EU integration process offers broad scope for the international dissemination of institutional and legal norms, which provide an institutional and behavioural anchorage for catching-up economies. The *acquis communautaire* (body of EU law), which is probably the most elaborate form of institutional anchorage in today’s global economy, acts not only as a compulsory institutional and legal framework for the EU-27, but is also increasingly influencing other countries in the region.

However, the importance of these factors clearly differs for the various economies with respect to: their capacity to absorb better technologies and organizational practices (which depends on the availability of skilled personnel and national institutional circumstances); the nature of their natural production specialization (for example, the availability of raw materials) and how this affects possibilities for upgrading and specialization; and, of course, the extent to which their anchorage in European and international institutional frameworks affects their paths of economic and political development.

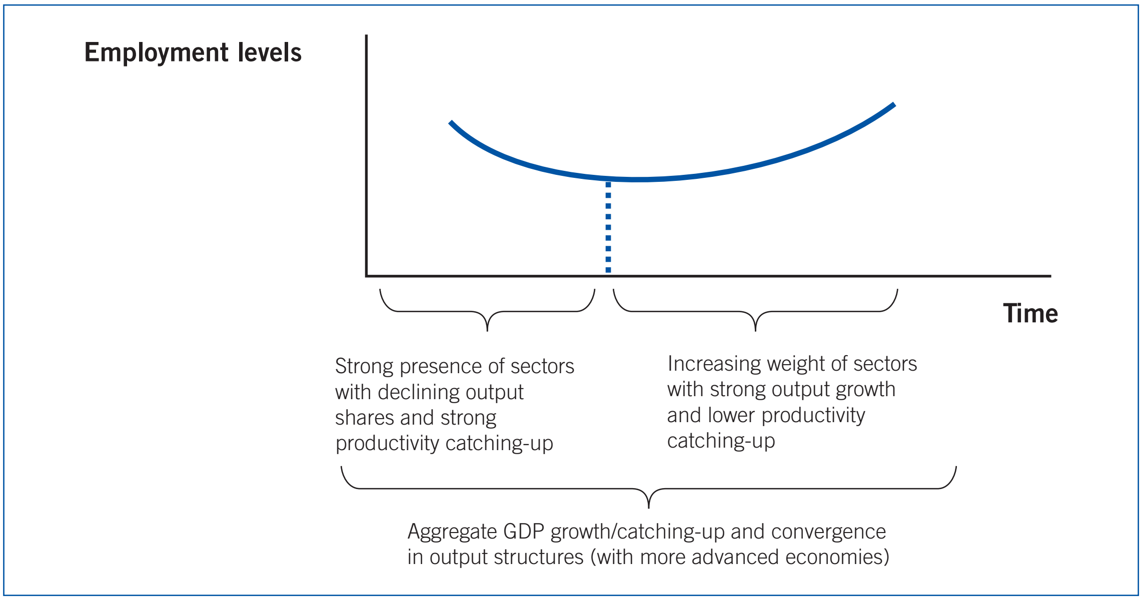
There are also downsides to these developments in medium- and low-income economies. First, the very strong terms of trade shocks that have occurred in recent years, particularly for commodities such as oil, gas and metals, have resulted in positive shocks for producers (in certain CIS countries) and negative shocks for others. Secondly, the situation is still vulnerable with regard to macroeconomic policy regimes, both in the case of regimes with fixed exchange rates and those with flexible exchange rates. This may be accentuated by ill-advised policy measures such as, in certain cases, strong exchange rate realignments and "stop-go" fiscal policies initiated by electoral cycles, which have led to temporary slowdowns in the growth of certain catching-up economies.

The relationship between employment and output

There is a striking difference in the behaviour of two macro variables between the EU-15 and the catching-up economies, namely there is a strong discrepancy between GDP and aggregate employment trends in the EU-15 and the EU-12. While the EU-15 experienced moderate cumulative GDP growth over the period 1995–2007 of slightly more than 30 per cent, the figure in the EU-12 over the same period was over 60 per cent. In contrast, while the EU-15 experienced positive employment growth of about 18 per cent during that period, employment levels in the EU-12 in 2007 were about the same as they had been in 1995; in other words, the EU-12 experienced zero employment growth or "jobless growth".

These striking differences may be interpreted as simply reflecting what a catching-up process is all about, namely the rapid growth of labour productivity levels in catching-up economies. Cumulative aggregate labour productivity growth in the EU-12 over the period 1995–2007 was 60 per cent, while that of the EU-15 amounted to only 14 per cent. However, a more complex explanation relates to the structural patterns of the development

Figure 2.1. Stylized U-shaped pattern of employment growth in the EU-12



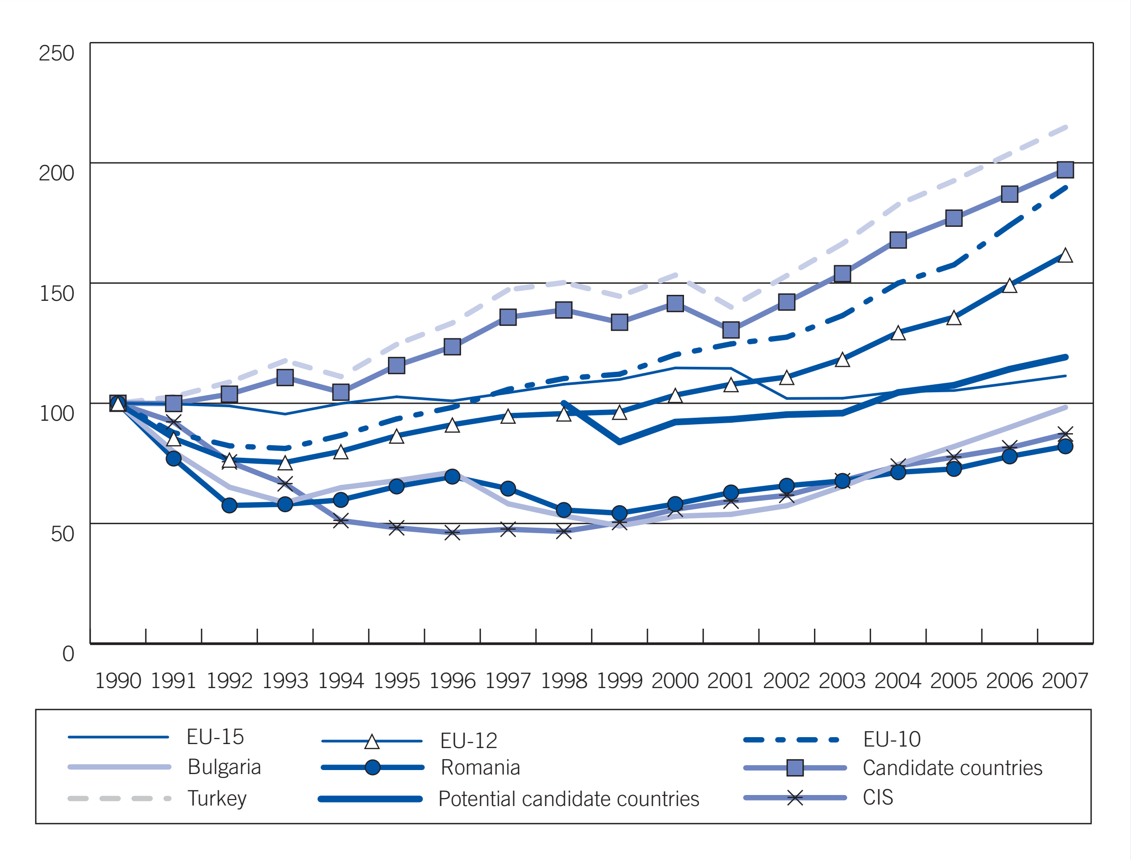
Source: Vienna Institute for International Economic Studies (WIIW).

process (figure 2.1). The first phase of transition in the former planned economies was characterized by the under-representation of the tertiary sector and an over-representation of agriculture and industry in GDP and employment. As the transition progressed, there was a rise in tertiary activities and a reduction in the employment share of agriculture and initially of industry. As productivity growth was very strong in the latter two sectors, they continued to weigh heavily in GDP while the fall in employment in these sectors dominated the employment picture, with aggregate employment therefore tending to fall during the first phase of transition. During the second phase, the weight of tertiary activities, and particularly market services, increased in aggregate GDP, but they were characterized by lower labour productivity growth than agriculture and industry, resulting in a positive effect on aggregate employment growth, combined with stability in terms of productivity and steadier GDP growth. Although employment trends throughout the subregion are still very diverse, this path has also been followed, with some delay, by the countries of South-Eastern Europe.

Re-industrialization

An important difference between the economies of the region is the development of the share of industrial production. As shown in figure 2.2, all the transition economies

Figure 2.2. Industrial production
Index from beginning of available data



Note: Data for EU-10 exclude Bulgaria and Romania. Data for EU-12 exclude Cyprus and Malta. Data for CIS exclude Turkmenistan, Tajikistan and Uzbekistan.

Sources: WIIW database; Statistics of the CIS; Statistical Office of the European Communities (Eurostat).

went through a dramatic process of de-industrialization, although the duration of the process differed widely. The countries that joined the EU in 2004 started to recover as early as 1993, largely due to foreign direct investment (FDI) flows into industry, while the other former transition economies, including Bulgaria and Romania, the Western Balkan countries and the CIS countries, experienced a much more extended period of declining or stagnating industrial production. As a result, the EU-12 countries have maintained a relatively high, and now fairly stable, share of employment in industrial production that is significantly higher than in the EU-15. Although very high growth rates have recently been achieved in industrial production in the Western Balkan and CIS economies, it should be borne in mind that they started from a very shrunken base following the significant contraction of the industrial sector.

The intracountry regional differentiation of growth

The issue of the intracountry regional differentiation of growth is of great policy importance for both the EU-15 and the catching-up economies, as illustrated by the marked deterioration in (per capita) income differentiation within the EU-12 compared to the relative stability in the EU-15. There are a number of reasons why regional income differentiation has increased quite strongly in the former transition economies of Central and Eastern Europe: the shift of economic activity towards the border regions adjacent to Western Europe; the very strong concentration of high value-added activity in capital cities, which are at the forefront of the higher value-added tertiary sector and the principal seats of both multinational enterprises and the main public institutions; and the emergence of a new industrial belt in Central and Eastern European economies. In contrast, problem regions away from the Western border regions have emerged during transition, principally in agricultural or mining areas, or areas with a concentration of older (heavy) industries. The emergence of a deep-seated problem of intracountry regional income differentiation is therefore a major policy issue in the EU-27, particularly in relation to the use of the EU Structural Funds.

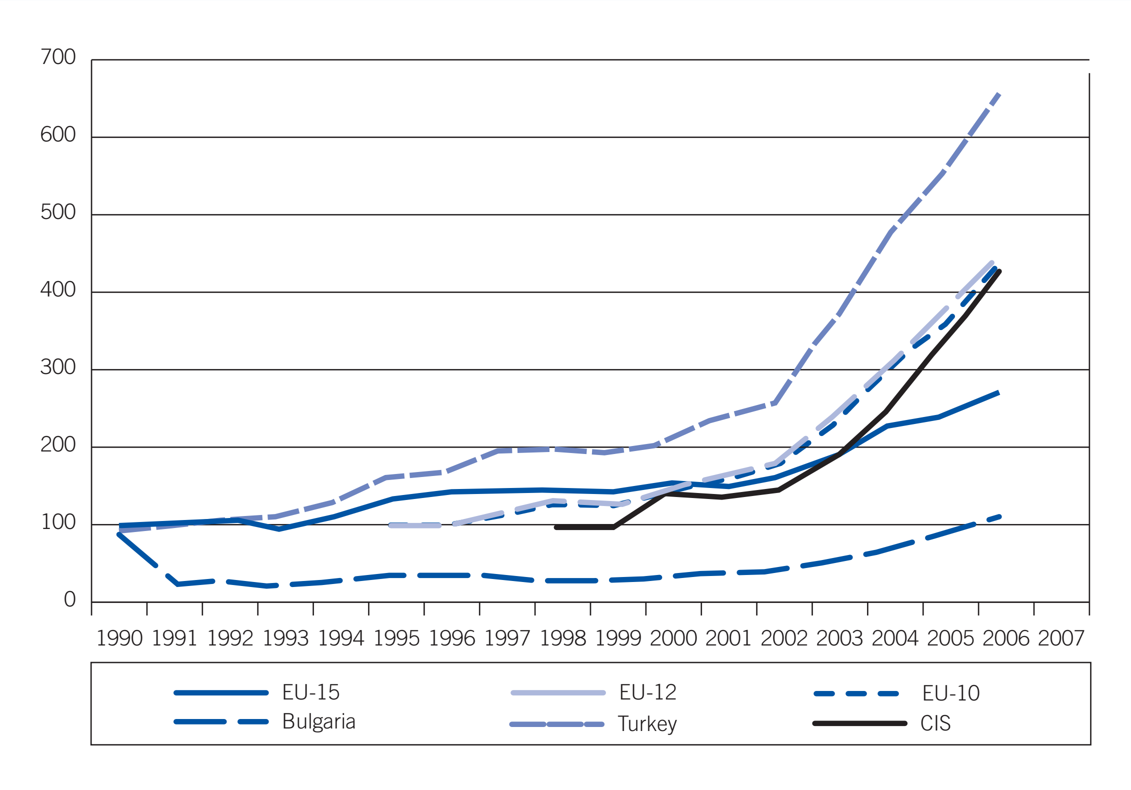
2.1.2. Trade specialization, current accounts and exchange rate regimes

Trade specialization is a direct outcome of an integrated regional economy that has become more differentiated as a result of the East-West integration process, generating a distinct pattern of trade specialization. The basic pattern is clear. The advanced EU economies are specializing in skill-intensive exports, while lower income economies focus on less skill-intensive products. However, between 1999 and 2007, some Central European economies moved quite markedly towards exporting more skill-intensive products.

There is also a clear differentiation between the economies of the EU-12, South-Eastern Europe, Turkey and the CIS. The EU-12 economies are the most advanced in terms of the technological sophistication of their exports, for example, and there is a considerable gap in this respect in relation to the countries of South-Eastern Europe and Turkey. The overall export performance of the EU-12 (and Turkey) is impressive (figure 2.3), far outstripping export growth in the EU-15. More recently, other former transition economies have also succeeded in achieving rapid export growth, although CIS exports tend to be highly concentrated on a few commodities.

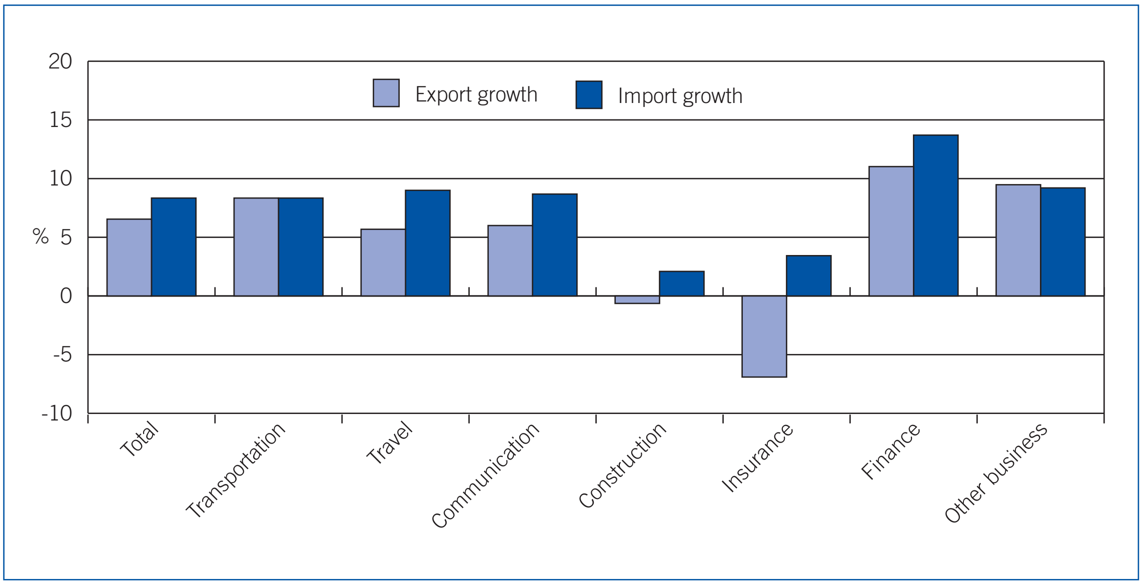
With regard to trade in services (figure 2.4), growth rates in the EU-12, particularly in terms of imports of travel, communications, insurance, financial and other business services, are very high and are outstripping those of their exports. Most of the EU-12

Figure 2.3. Total exports of goods
Index from beginning of available data



Note: CIS data exclude Turkmenistan, Tajikistan and Uzbekistan.
Sources: WIIW database; Eurostat; Statistics of the CIS.

Figure 2.4. Services trade growth in the EU-12
Long-run average annual growth rates, 1994–2004



Source: WIIW.

countries therefore have a significant disadvantage in the various branches of financial and business services compared with the more advanced EU-15 countries.

There is a significant difference in the market orientation of the CIS economies compared to the EU-12, particularly in relation to EU markets. Between 65 and 85 per cent of EU-12 exports are to EU markets, while this figure is between 20 and 55 per cent for the CIS countries (with the exception of Kyrgyzstan). Intracountry trade within the CIS is still sizeable, as is CIS trade with the rest of the world. There are also major differences between two groups of countries in terms of the composition of exports. One group of CIS economies relies strongly on oil and gas exports (Azerbaijan, Kazakhstan, Russian Federation and Turkmenistan) and another (Armenia, Belarus, Georgia, Kyrgyzstan, Republic of Moldova, Tajikistan, Turkmenistan and Ukraine) on commodity exports (agricultural goods and precious and other metals) and labour-intensive manufactures (textiles and clothing). For all the CIS economies, the issue of the diversification of their exports (particularly in terms of trading with higher income markets) is therefore crucial in order to reduce their vulnerability to trade shocks and to increase the scope for technological upgrading. In contrast, the export structure of the EU-12 has undergone impressive technological upgrading.

International investors are important agents in the upgrading of export structures. In this respect, the EU-12 has tended to receive much more FDI than either the CIS or the Western Balkan economies. Exceptions include Croatia, which has a similar profile to the EU-12 countries, and oil-rich economies such as Kazakhstan, while the other Balkan economies, including Montenegro and Serbia, have been catching up recently owing to the impact of widespread privatization.

External disequilibria and exchange rate arrangements

There are currently 15 full members of the EMU, including three of the EU-12 countries (Cyprus, Malta and Slovenia, to be joined by Slovakia in January 2009). As it approaches its tenth anniversary, the EMU is generally considered a success, although tensions have clearly arisen. According to economist Robert Mundell’s criteria, this is because the euro zone is not an *optimum currency area* (OCA).[7] The countries of the euro zone are subject to asymmetric shocks (partly domestic, such as differentiated inflationary processes, and partly external), while the mechanisms that should usually absorb such shocks (principally labour mobility and other labour market characteristics) are not yet operating effectively. There is also the added frustration that, while monetary policy has been fully centralized, this is not the case for fiscal policy, where the rules and coordination mechanisms are far from perfect.

The situation is likely to worsen in the medium term as new members add to the heterogeneity of the euro zone. The question also arises as to whether, despite failing to meet the criteria for an OCA (particularly in the case of new and prospective members), countries may nevertheless wish to join the EMU because the costs of staying outside outweigh those of membership. This is particularly true for small open economies that are highly integrated in the EU through trade and capital flows, and raises a serious issue in relation to a broad group of countries (especially in the Western Balkans).

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[7] In economics, an optimum currency area (OCA), also known as an optimal currency region, is a geographical region in which it would maximize economic efficiency to have the entire region share a single currency.

Experience has shown that it is very difficult for such economies to conduct monetary (and exchange rate) policy without being prone to costly policy mistakes (for example, Hungary, Romania and Serbia) or to the volatility of international capital flows and exchange rates. In order to avoid such pitfalls, a significant group of countries (the Baltic countries, Bulgaria and the other Western Balkan economies) have chosen fixed or quasi-fixed currency regimes which have, however, led to the build-up of strong (and unsustainable) external disequilibria. Although there is strong evidence that these countries are well wide of the OCA criteria, they tend to regard the costs of staying out of the euro zone as being greater than those of membership.

The economy in the region, except for the oil-rich CIS economies, has therefore been moving consistently towards a unified monetary and exchange rate anchor (the euro). There have been moves by various countries outside the EMU towards "euroization", or fixed or quasi-fixed currency regimes, which have tended to come increasingly under strain. However, the EU-12 countries have improved their external position over time by being attractive to FDI and strongly competitive in goods production. Other groups of countries (particularly in the Balkans) are still suffering from the de-industrialization of the 1990s, or are potentially endangered by their tendency to focus very closely on a narrow range of commodities (the CIS countries).

2.1.3. Macroeconomic policy settings: Fiscal policy constraints, coordination and EU support programmes

The establishment of the EMU was accompanied by a shift in fiscal policy regimes, which has been of relevance not only to current, but also to prospective EMU members (all EU and prospective EU members, except those – Denmark and the United Kingdom – which obtained an opt-out clause when the EMU was formed; new members are no longer entitled to such opt-outs). The change in fiscal policy regime is regulated by the Stability and Growth Pact (SGP), or the so-called Maastricht criteria, which have come under severe criticism by economists as being rather arbitrary and lacking a clear analytical foundation. Critics have further claimed that the SGP rules apply uniformly to countries at different stages of development and thereby demonstrate a lack of, and even direct conflict with, theoretical economic foundations. The breaking of rules by certain powerful EU Member States (France and Germany) has led to some reforms (including a differentiation between spending for investment and consumption spending when calculating the relevant deficit rule), and discussions are continuing on the extent to which the SGP should take into account the varying requirements of countries at different stages of development.

In overall terms, the macroeconomic policy framework of the EMU reflects the unfinished nature of the European integration process, with a fully-centralized monetary policy, but weak fiscal policy coordination and a very weak income side of the EU budget.

In this context, the issue of *tax competition* has surfaced rather prominently in recent years, particularly as a result of attempts by former transition countries to attract international investors by offering a very transparent low-tax environment. Flat and very low corporate tax regimes (for example, in Ireland) have been spreading across former transition countries, placing significant pressure on neighbouring high-income economies (such as Austria and Germany) to respond by lowering corporate tax rates. The issue of tax competition arises at a time when the strains on the European social model are generally quite significant, with high social security contributions being seen as a deterrent to the hiring of low-paid employees and therefore contributing to high levels of (long-term) unemployment among the poorly qualified and the young. In non-EU countries (particularly the Western Balkans) this can lead to a very significant informal economy.

Finally, although the overall EU budget is quite small (about 1 per cent of GNP), EU expenditure programmes are nevertheless significant in terms of cohesion (for example, in Greece, Ireland, Portugal and Spain) and, since 2007, have started to take on significance for the EU-12. The relaxation of fiscal constraints on countries that are facing severe problems in sustaining their budgetary situations continues to be one of the main incentives for low-income economies to become full members of the EU, although it is too early to evaluate the effectiveness of EU structural programmes on the EU-12.

2.2. Employment

The view "better a bad job than no job at all" was sometimes voiced in the past when unemployment was high or rising. It rests on the assumption that there is a trade-off between the quantity and quality of employment and that, if a choice has to be made, any job is better than none at all. More recently however, thinking has evolved. It is increasingly believed that having a job and having a decent job can and should go hand-in-hand. To strive simultaneously for more *and* better jobs has become a fundamental goal of the ILO's Decent Work Agenda, and is incorporated into the norms and targets set by the EU.

However, the achievement of the twin objectives of full employment and decent work depends on policy choices. Better jobs can hardly be attained unless labour market outcomes are balanced. Large unused labour reserves exert downward pressure on wages, fringe benefits and working conditions, in turn encouraging a decline in the demand for goods and services, which further exacerbates existing shortfalls in the demand for labour. The end result is even higher unemployment. A sizeable labour surplus tends to undermine incentives and efforts to invest in vocational training, which can be detrimental to economic growth and living standards, and sooner or later backfires in terms of employment prospects, given the critical importance of skills development for productivity and competitiveness. Excess labour may also encourage a lax attitude towards the proper enforcement of employment conditions and social protection. The difficulties of finding a job in the formal economy may induce workers to turn to the informal economy, which in turn jeopardizes productivity, workers' rights, social security and the flow of state revenues, from which public labour market programmes are financed. Finally, high and persistent unemployment may make workers decide to seek work abroad, thereby reducing the potential for national growth and development, particularly when a country's most skilled labour resources are lost.

Conversely, severe labour shortages in tight labour markets may also affect the quality of employment, as well as production and investment. They are likely to give rise to: overly long hours of work, harming workers' health and productivity; an increase in work accidents or occupational diseases, which may in turn force workers into early retirement, thereby aggravating the labour shortage; inflexible and long work schedules, which may place women and men under stress in terms of reconciling working life with family responsibilities; and pressure to fill the gaps with immigrant workers.

These are just some of the many interactions between employment levels and job standards. They show that sufficient job opportunities for the individual and a high, but not overstretched, level of employment in the economy as a whole are crucial to the successful pursuit of the Decent Work Agenda.

2.2.1. The changing labour force

The labour force in the region is undergoing a profound transformation in terms of both volume and composition. In many Central and Eastern European countries, the labour force fell between 1990 and 2005. High rates of negative annual labour force growth were recorded in Armenia, Bulgaria, Estonia, Georgia and Latvia (between -1.7 and -2.8 per cent).

A key factor underlying the changing size of the labour force is demography. Nearly all countries in Central and Eastern Europe and the CIS saw their populations shrink between 1990 and 2005, and further declines are expected up to 2015. Between 2000 and 2005, nowhere in the world was fertility as low as in Central and Eastern Europe and the CIS (as well as Germany, Greece, Italy and Spain), with the birth rate per woman being about 1.3 in most of these countries, compared with a world average of 2.6.

For some time now, there has been a process of population ageing (European Commission, 2007a), which will accelerate over the coming decades (see Chapter 5). People are living longer and are in better health. In 2005, average life expectancy at birth in the EU-25 stood at 81.9 years for women and 75.8 years for men, up from 79.7 years for women and 72.8 years for men in 1995. At the same time, family size has been diminishing. The proportion of citizens aged 65 and over will rise from 17 per cent in 2005 to 30 per cent by 2050.

However, there are some deviations from these dominant demographic trends. For example, in the Nordic countries fertility rates have increased since the 1980s, despite the rise in female employment rates. The Nordic countertrend can be attributed to family-friendly employment policies, including parental leave, high quality child-care facilities and tax incentives favouring women's employment. In contrast, birth rates are low in countries such as Germany and Italy despite the much lower female employment ratios and a substantially larger share of tax-favoured single breadwinner households.

The ageing of the population will have a far-reaching impact on economic growth, the labour market, the social security system, consumption patterns, education and other spheres of life. Various options exist to arrest the negative repercussions of the respective changes, including: higher labour productivity to offset lower labour input; immigration to raise the supply of labour; raising the official retirement age, or bringing the effective retirement age more closely into line with the statutory retirement age; and introducing or extending family-friendly employment policies. Each of these options has implications not only on the level of employment, but also the quality of jobs. Each option has its limitations, or depends on adjustments in other policy fields.

There is considerable scope for increasing the economically active population. Recent trends are encouraging. In the EU, the *labour force participation rate* of the population aged 15–64 years rose to 70.1 per cent in 2006, an increase of 1.5 per cent since 2001 and 0.5 per cent since 2005. This was largely due to a higher average *female participation rate* (which increased by 2.7 per cent, compared to only 0.4 per cent for men). However, the mean total activity rate is currently about 5 points below that of the United States and 11 points lower than that of Switzerland, indicating that there is still substantial room to boost labour supply in the EU.

Labour force participation varies greatly within the EU-27, from slightly over 80 per cent in Denmark and Sweden to under 60 per cent in Malta. There are also major differences between male and female activity rates in many countries. While they are nearly equal in Sweden and Finland, the female participation rate falls far short of that of men in southern European countries. The CIS countries have the lowest labour force activity rates in the world for both men and women. In each of the 12 CIS countries, except for Kazakhstan, labour force participation fell by an average of 6.7 per cent between 1990 and 2000, before stabilizing after 2000.

2.2.2. Trends in employment and unemployment

Both within and across the various subregions there are broad disparities in the level and rates of employment. In some countries the employment level is rising with increased economic growth, in others employment is stagnant despite substantial GDP growth, while in still others employment is dwindling and unemployment rising.

In the EU-27, the number of employed persons has risen substantially over recent years. By the third quarter of 2007, total employment had increased by 14.5 million since the last peak in the economic cycle in the second quarter of 2000. In the late 1990s, average annual employment growth in the EU-27 was between 1 and 2 per cent. It then declined during the cyclical downswing of 2002, before rising again during the subsequent economic recovery in 2006. While employment growth differed greatly across EU countries during this period, with negative rates in certain countries, in 2006 it was positive in all EU Member States, with an aggregate employment growth of over 4 million jobs.

Substantial change in the level and structure of employment is likely. In the EU-25 (the EU-27 without Bulgaria and Romania, for which data are not available), plus Norway and Switzerland, a net increase of over 13 million jobs is expected between 2006 and 2015, despite the loss of over 2 million jobs in the primary sector and half a million in manufacturing. The gains will be greatest in business and miscellaneous services (nearly 9 million jobs). Some 3 million new jobs are expected in both the distribution and transport sector (including hotels and catering) and in non-marketed services (including health and education) over the next decade (European Centre for the Development of Vocational Training (CEDEFOP), 2008).

Employment rates

The *employment-to-population ratio* (“employment rate” or “employment ratio”) shows the proportion of a country’s working-age population that is employed and reflects a country’s ability to generate jobs.

In the EU-27, the proportion of employed persons in the population aged 15–64 increased from an average of 60.1 per cent in 1996 to 64.5 per cent in 2006. In the EU-15, the mean employment rate reached 66.2 per cent in 2006, up from 60.1 per cent in 1995, thereby diminishing the gap with the employment rates in Japan and the United States to 4.6 points, compared with 10 points ten years earlier. The average employment rate in the EU-12 increased substantially in the second half of the 1990s. But by 2006, the employment rates in the EU-12 were still on average 7.8 points lower than those in the EU-15.

The mean *full-time equivalent employment (FTE) rate*, which indicates the employment rate if employment consisted entirely of full-time jobs, also rose between 1995 and 2006 by 3.3 points to 59.3 per cent in the EU-15, compared with a rise of 5.9 points in the overall employment rate. The gap between the FTE and the overall employment rate mirrors the increase in the share of *part-time work* (see Chapter 3 for more details).

Even more impressive is the growth in *women's employment rates*, which rose from 50.1 to 57.3 per cent in the EU-27 between 1996 and 2006 (a rise of 7.2 points). In comparison, the men's employment rate rose by just 1.5 points to 71.6 per cent, implying a significant reduction in the gender gap between employment rates for men and women. In the EU-15, the *female employment ratio* increased even faster, rising by over 9 points to 58.7 per cent.

However, the employment rate of *young workers* aged 15–24 evolved much less favourably. In most of the EU-27, the youth employment rate rose in the second half of the 1990s, but declined thereafter. Between 2001 and 2006, the average youth employment rate fell by 1.2 points to 36.3 per cent in the EU-27, and by 0.8 points to 40.1 per cent in the EU-15. The enormous disparities between youth employment rates across the EU-27 countries reflect differences in the rate of enrolment in education and vocational training, the length of education (and academic study in particular) and differing employment opportunities. In Denmark and the Netherlands, about two-thirds of young people are in employment, while the youth employment rate is less than 30 per cent in 12 EU countries, and less than one quarter in seven. Teenagers and young adults who are neither in education and training nor in employment are of special concern to policy-makers. In 2006, the mean rate of inactive or unemployed youth aged 20–24 amounted to 18.6 per cent in the EU-27, ranging from 7 per cent in Denmark to almost 30 per cent in Bulgaria (European Commission, 2007a).

On the other hand, the employment rate of *older workers* aged 55–64 in the EU-27 grew rapidly, rising by 8.3 points to 43.5 per cent between 1997 and 2006. In the EU-15, it rose by 9.3 points to 45.3 per cent over the period 1995–2006. The overall rise in employment rates in the EU-27 can therefore be attributed in large part to higher employment among older workers and women.

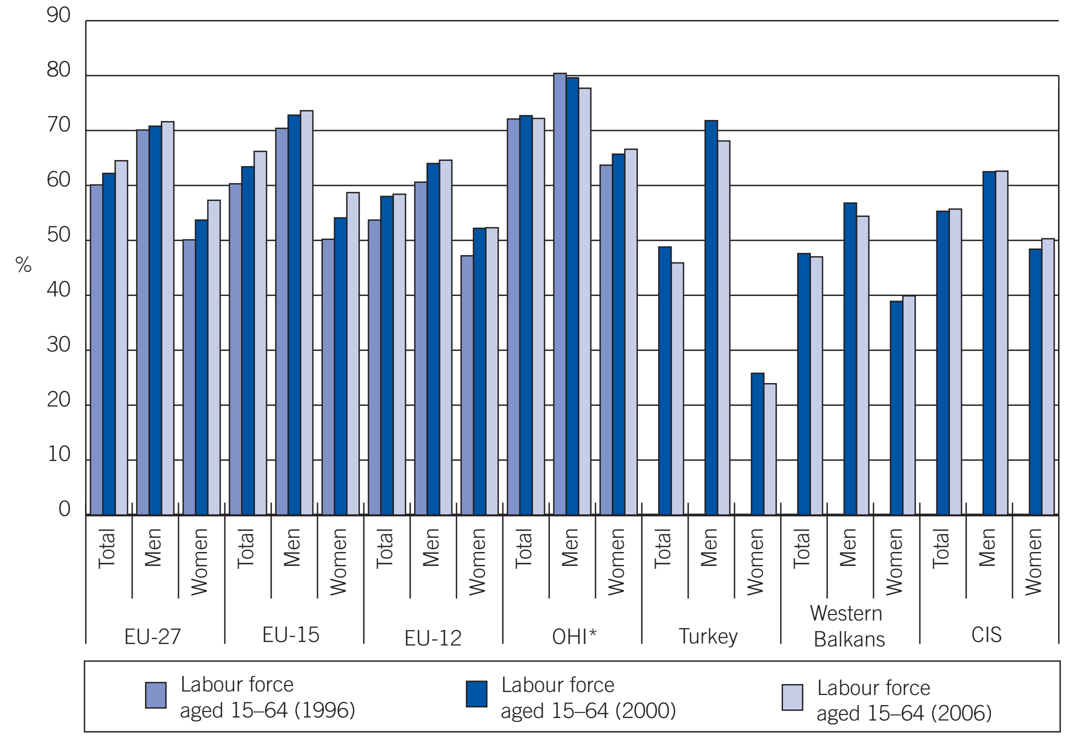
Employment ratios vary greatly across the EU-27, ranging between 77 per cent in Denmark in 2006 and just 55 per cent in Poland in 2006. Employment rates in the EU-27 have been moving closer to the *strategic goals* set by the Lisbon and Stockholm European Councils summits in 2000 and 2001, respectively, of 70 per cent for the overall employment rate, 60 per cent for women and 50 per cent for older workers (aged 55–64). Five Member States (Austria, Denmark, the Netherlands, Sweden and the United Kingdom) have already met the target for overall employment, while another six are within 3 points of it. The target for women's employment has been attained by 13 Member States (led by Denmark and Sweden), although the rate is below 50 per cent in four Member States. Nine Member States (led by Denmark and Sweden) have reached the target for workers aged 55–64. However, the employment share of older workers is below 30 per cent in 11 Member States.

Although most of the EU-27 countries have not yet reached the employment targets, the large disparities between subregions have started to vanish over the past decade, with progress being more rapid in southern Europe than in northern Europe (where the employment ratios were already high in the mid-1990s), thereby assisting convergence.

The employment ratios in the three non-EU Western European countries are far above the EU average. The highest total employment ratio is in Iceland (85.3 per cent in 2006, with 88.7 per cent for men and 81.6 for women), nearly 10 points above Norway (75.5 per cent) and nearly 8 points ahead of Switzerland (77.9 per cent). The employment rate in Israel (of the population aged over 15 years) remained almost constant at slightly below 50 per cent, with the rate for men declining and the women's rate rising by about 4 points each.

In 2006, the employment rate in Turkey stood at 45 per cent, slightly lower than in 1994 and almost 3 points lower than in 2000. Both male and female rates fell, the latter to the extremely low value of 23.9 per cent, with the rate for young women falling below the

Figure 2.5. Employment rates by subregion and gender (selected years between 1995 and 2006)



*OHI = Other high-income countries outside the EU, namely Iceland, Israel, Norway and Switzerland
Sources: Eurostat; ILO, 2007.

20 per cent mark. The falling employment rates in Turkey, and the gender gap, are largely associated with the decline in rural employment, which is in turn related to the agricultural policies pursued. The share of total employment in agriculture fell from 44 to 27.3 per cent between 1995 and 2006, with the women's share plummeting from 71.2 to 48.5 per cent.

The employment rates in the Western Balkan and CIS countries shown in figure 2.5 are not comparable with the figures for other subregions. The rates in the Western Balkans were low for both men and women, with the male rate falling considerably from the mid-1990s to 54.4 per cent in 2006 and the women's rate remaining nearly stable at just below 40 per cent.

In the CIS countries, the average employment rate of the population aged over 15 years stood at 55.7 per cent in 2006, ranging from 64.7 per cent in Kazakhstan to 47.9 per cent in Tajikistan. The mean rates for men and women were 62.6 and 49.5 per cent, respectively. Between 1995 and 2000, employment rates in the CIS shrank by an average of 2.2 points, before rising again between 2000 and 2006.

Unemployment

In the EU-27, the *mean total (open) unemployment rate* for the labour force aged over 15 years fell from 10 per cent in 1995 to 8.6 per cent in 2000, before rising to 9 per cent in 2003 and 2004, and then falling to 8.2 per cent in 2006 during the economic upswing. Between 2005 and 2006, the unemployment rate fell in each of the EU-27 countries. A further fall to 7.2 per cent took place in 2007 and a fall to 6.7 per cent is projected for 2008. In the EU-15, the unemployment rate dropped from 10 per cent to 7.7 per cent between 1995 and 2006. There was a rise in joblessness in the EU-12, peaking at 13.7 per cent in 2002 before falling back to 10 per cent in 2006. Throughout the period 1995–2006, the average rates of women's unemployment exceeded those of men. However, the gender gap shrank to 1.3 points in 2006, with the gap being smaller in the EU-12 than in the EU-15.

Table 2.1. Rates of unemployment and long-term unemployment (labour force aged over 15 years) in the EU, by sex and year (per cent)

		Unemployment				Long-term unemployment	
		1995	2000	2005	2006	2000	2006
EU-27	Total	10.0	8.6	8.9	8.1	4.0	3.6
	Men	8.9	7.7	8.3	7.6	3.4	3.3
	Women	11.4	9.8	9.6	8.9	4.7	4.0
EU-15	Total	10.0	7.6	8.1	7.7	3.4	3.1
	Men	8.9	6.7	7.5	7.0	2.8	2.8
	Women	11.4	8.9	8.9	8.5	4.2	3.5
EU-12	Total	9.1*	12.3	11.9	10.0	5.8	4.1
	Men	9.6*	11.8	11.4	9.6	5.9	4.0
	Women	8.4*	12.9	12.5	10.4	5.8	4.3

*1996.
Source: Eurostat, 2007.

The *long-term unemployment rate* in the EU-27 rose from 4 per cent in 2000 to 4.2 per cent in 2004, before falling to 3.6 per cent in 2006. National rates range from 1.1 per cent in Denmark to 11.7 per cent in Slovakia (European Commission, 2007a).

Unemployment among young people remains a severe problem in the EU-27. Although the overall EU *youth unemployment rate* fell slightly from 19.1 per cent in 2004 to 17.5 per cent in 2006, it increased in several Member States. In 2006, the youth unemployment rate was 2.4 times higher than that of prime-age adults. The rate of unemployed young men in the labour force stood at 17 per cent in 2006 and that of young women at 18.1 per cent, although the gender gap among unemployed youth has shrunk in recent years. The youth unemployment rate varies dramatically in the EU-27, ranging from under 10 per cent in five countries to between 10 and 20 per cent in 14 countries and over 20 per cent in eight countries. *Long-term unemployment among workers aged 15–24* fell in the EU-27 from 33.9 to 30 per cent between 2000 and 2006. However, in six Member States it exceeded the 40 per cent mark, and was over 50 and 60 per cent, respectively, in Romania and Slovakia in 2006.

The *youth unemployment ratio*, or the proportion of unemployed in the total population aged 15–24, was 7.7 per cent in the EU-27 in 2006, with the ratios for young women and men being 7.2 and 8.1 per cent, respectively. Despite the slight reduction in the share of young people without jobs, there has still been no real breakthrough in combating youth unemployment in the EU-27, where a significant proportion of young people remains trapped in temporary and often low-paid jobs (European Commission, 2007a). The poor employment prospects of young people and the associated precarious financial situation are tending to aggravate the unfavourable demographic trends of low fertility and population ageing in much of the EU.

In contrast, the other high-income countries in the region (Iceland, Norway and Switzerland), as well as Israel, enjoyed low unemployment throughout the period 1995–2006, with a total mean rate of 5.1 per cent in 2006 (4.7 per cent for men and 5.6 per cent for women).

Statistical information on unemployment in the other subregions of Europe and Central Asia is incomplete. Most of the Balkan countries face double-digit unemployment rates, although the open unemployment rate fell in some countries, such as Croatia, where it shrank from 14.7 to 12.6 per cent between 2002 and 2005. Elsewhere in the Balkans, unemployment rose from an already very high level (for example, from 39.4 to 44.9 per cent in Bosnia and Herzegovina and from 32.2 to 37.2 per cent in The former Yugoslav Republic of Macedonia between 2000 and 2004). Extremely high youth unemployment figures were recorded during the period 2000–04 in Croatia (32 per cent in 2005), The former Yugoslav Republic of Macedonia (62 per cent) and Serbia (48 per cent).

The total unemployment rate in Turkey rose from 6.5 per cent in 2000 to 10.5 per cent in 2003, before falling back slightly to 9.9 per cent in 2006. Total youth unemployment in 2006 stood at 18.7 per cent, while the rate for young women was 1.6 points higher than for young men. If the substantial hidden unemployment and underemployment in Turkey are added to the official unemployment figures, there is a surplus female labour force of 24.5 per cent and a surplus male labour force of 17.6 per cent.

In the Russian Federation, unemployment fell steadily from a high of 13.3 per cent during the economic crisis in 1998 to 7.2 per cent in 2005 and 2006. Over the same period, the rate of joblessness fell from 11.6 to 6.8 per cent in Ukraine and from 11.2 to 7.4 per cent in the Republic of Moldova. In both of these countries, the unemployment rate for women is lower than that for men. Youth unemployment, although on a downward trend, was still as high as 14.9 per cent in Ukraine and 18.8 per cent in the Republic of Moldova in 2005.

Georgia recorded an unemployment rate of 13.8 per cent in 2005, up from 10.8 per cent in 2000. Its youth unemployment rate rose from 21.1 to 28.3 per cent over the same period. In contrast, the unemployment rate fell from 12.8 to 8.4 per cent in Kazakhstan and from 12.5 to 8.4 per cent in Kyrgyzstan between 2002 and 2004 (ILO, 2007).

2.2.3. The background to divergent employment trends

The question therefore arises as to why there is such a broad divergence in labour market performance in the region. Why have some countries improved their employment record in tandem with economic growth, while others have failed to do so?

Cyclical variation

In an increasingly globalized economy, economic performance and employment throughout the region have become more closely aligned with global cyclical movements. Following the burst of the dot-com bubble in 2000, labour market performance worsened nearly everywhere in the region for several years, but then improved with the global economic upswing in 2004. Much of the favourable employment performance has originated in the economic boom sparked by the extraordinary growth in China, India and other emerging economies. The recent economic recovery, and the concomitant growth in employment, has been especially visible in countries with a strong export performance, such as the Czech Republic, Germany (see box 2.1), and Slovakia. Growth and employment in the Russian Federation and the other CIS countries have benefited from sharply rising oil and gas prices.

The downside of the greater dependence of growth and employment on the global economy is the resulting vulnerability to economic crises. The latest statistical data for the second half of 2008 already reveal significant declines in GDP growth rates and first signs of employment cuts as a result of the global financial crisis. The International Monetary Fund (IMF) warns that Central and Eastern European countries will be particularly affected because of the vulnerability of their credit markets (*The Financial Times*, 26 September 2008).

Public and private transfers

As part of the EU's convergence policies, financial support has been provided to new Member States during the successive stages of enlargement. The phenomenal rise in employment and fall in joblessness in Spain and Ireland are in part attributable to the financial and non-material transfers received from European structural and regional funds with the aim of promoting cohesion within the EU. The EU-12 countries have also benefited from this support. In parallel, the rapid growth of many transition economies has been fuelled by massive inflows of FDI and portfolio investment from multinational

Box 2.1
What is behind the recent upturn in employment in Germany?

Following years of stagnation, Germany enjoyed strong economic recovery, with rising employment and falling unemployment rates above the EU average between 2005 and 2007. However, views diverge as to the precise reasons for Germany's upbeat labour market performance. Some observers attribute it to the comprehensive package of labour market reforms (the "Hartz reforms") initiated by the Schröder Government in 2002, which brought an expansion in self-employment, part-time work, temporary jobs and agency work, at the expense of full-time regular jobs. "Atypical" jobs now account for between one quarter and one third of total employment. Cuts in the duration of and more stringent eligibility rules for unemployment benefit are believed to have made the unemployed more ready to take up vacant jobs, especially unattractive work opportunities. Other analysts emphasize the effect of wage moderation associated with the rising proportion of non-standard forms of employment, including low-paid "mini-jobs", which are not fully covered by social security. The risk of joining the "working poor" is increasing and the rapid expansion of the low-wage sector has been facilitated by shrinking collective bargaining coverage and the absence of statutory minimum wage fixing. While recent employment developments point to more jobs, there is also a growing share of precarious jobs. Decent work is at stake.

Rising global demand for durable goods in a global upswing has led to a strong export boom in Germany. The boom was also helped by stagnating labour costs, while productivity increased. The external economic environment is therefore partly responsible for the upturn in growth and employment, particularly since domestic demand has been depressed as a result of low earnings and the pensions freeze. In contrast, private and public investment has started to pick up.

Germany's strong reliance on exports as a driver of aggregate demand and employment may prove unsustainable in view of the appreciation of the euro and the instability in the global economy. Growth and employment could therefore be hit badly by a global recession, as the latest economic results seem to suggest.

companies, which have helped to realign and modernize economic structures in recipient countries and to narrow or close gaps in technology and management techniques. However, in many cases the distribution of FDI inflows has been uneven, favouring more advanced areas and capital cities and bypassing backward areas, thereby often exacerbating existing inequalities.

Variable employment content of economic growth

Until recently, many former transition economies suffered from the low employment content of economic growth, with annual employment growth rates often three to four times lower than GDP growth rates (Cazes and Nešporová, 2007). In the non-EU Central and Eastern European countries and the CIS, average employment elasticity was estimated at an average of 0.15, meaning that no more than 15 per cent of the GDP growth could be attributed to employment growth, with 85 per cent resulting from productivity gains. Employment elasticity in these subregions was by far the lowest of any major world region (ILO, 2007).

As most of the new EU Member States in the Baltic and Central Europe have enjoyed employment expansion above the EU average since 2004, the period of jobless growth may have come to an end in these countries. However, jobless growth remains an issue in Hungary and most South-Eastern European countries, where the employment intensity of growth is low despite the fairly high GDP growth rates.

World Bank economists have attributed this disjuncture between growth and employment to overprotected labour markets and excessive social benefits, preventing labour adjustment (Rutkowski et al., 2005). But this explanation is hardly tenable, as employment performance has not improved following the scaling down of protective standards and the introduction of new flexible forms of employment. This situation has led two observers to conclude that labour markets in transition economies are “flexible but jobless” (Cazes and Nešporová, 2007). Moreover, there has been some flexibility in these countries as a result of the failure to enforce protective labour legislation (see Chapter 3).

Several factors may account for the insensitivity of employment to economic growth:

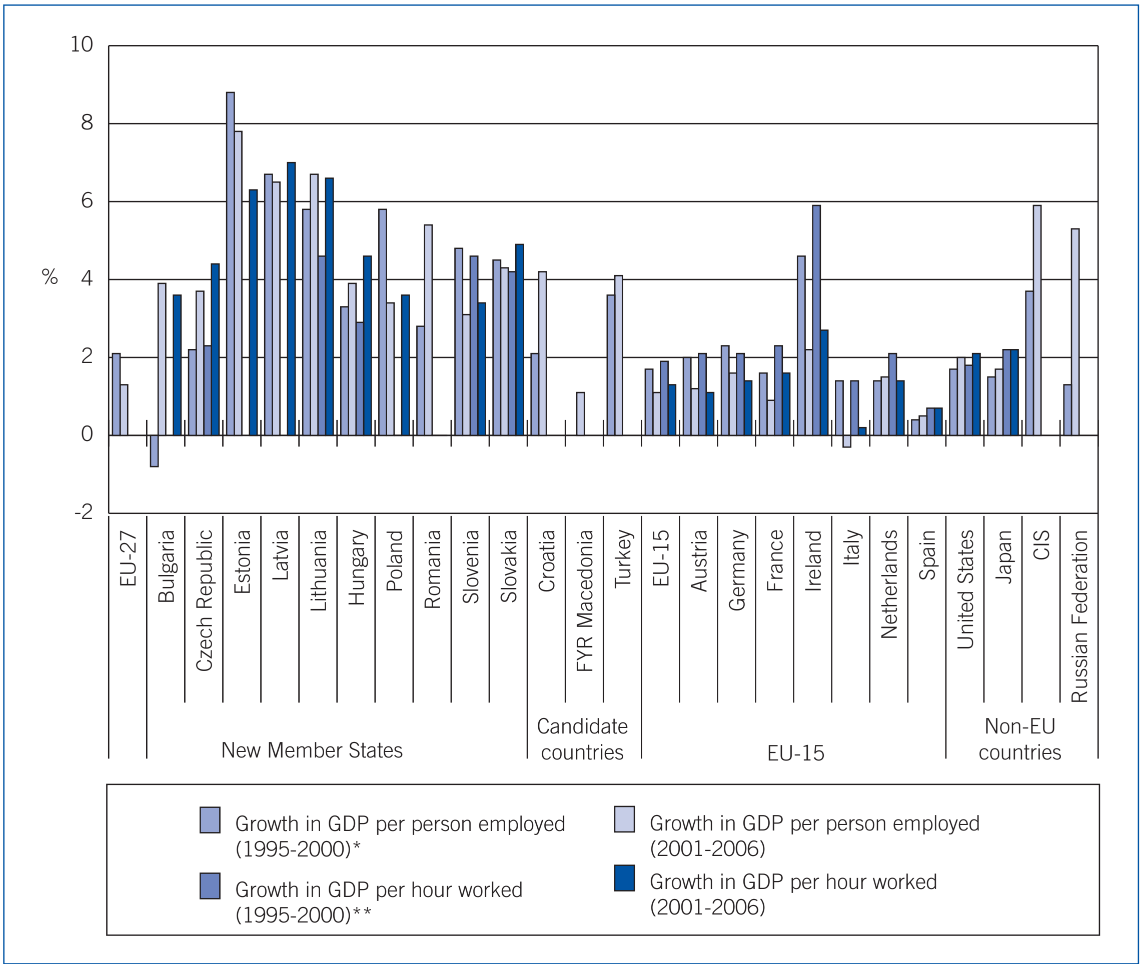
- labour saving productivity growth – the period of overstaffing dating from the era of centrally planned economies may have come to an end in some countries, but not in others;
- job creation lagging behind job destruction – in transition economies in the 1990s job creation was outpaced by job destruction, leading to net employment losses. Thereafter, job flows began to be synchronized in certain countries, while the gap grew in others;
- adjustment to changes in labour demand through variations of hours of work, rather than the number of workers.

In certain countries, the low response of employment to growth is at least in part a statistical artifact caused, inter alia, by: the growth of the informal economy, which is not statistically recorded; the net effect of labour migration, as migrant workers are not included in the national employment statistics of their home countries, but may add to national growth through their remittances; and the reduction of labour input and labour costs without shedding staff, through measures such as so-called administrative leave, shorter working hours and wage arrears, measures which were widely used in the CIS countries in the 1990s, but have been less used since.

2.2.4. Productivity growth

As noted above, most of the EU-12 and the candidate countries, as well as the CIS, have recorded labour productivity growth rates far in excess of the EU average, which may be seen as part of the process of the gradual catching-up with the technology frontier (see figure 2.6). Part 1 of this thematic Report points out that the acceleration of labour productivity growth has been a result of better access to knowledge and more rapid transfer and absorption of knowledge through FDI, subcontracting and trade liberalization in general. Also, the adoption of better organizational practices has enabled a more efficient use of production factors, in particular capital and labour. Moreover, the process of accession to the EU and (to a lesser extent) the World Trade Organization has contributed to a significant improvement of national legislation and institutions, sending positive signals to domestic and foreign investors. There are important differences between lower income countries in terms of their capacity to absorb new technology and organizational practices, depending on the availability of skilled personnel and the institutional framework, the availability of raw materials, comparative advantages in production and the macroeconomic policy applied. These differences are reflected in significant variations in economic growth and labour productivity developments.

Figure 2.6. Average labour productivity growth in selected countries (1995–2000 and 2001–06)



*1996–2000 for the EU-27, Bulgaria and Slovenia and 1997–2000 for Croatia. **1996–2000 for Lithuania and Slovenia
Source: European Commission, 2007a; ILO calculations.

In the EU-15, the average rate of labour productivity improvement was modest in the years following the turn of the century, and well below that of the United States and Japan. Indeed, annual average GDP growth per person in France and Spain has fallen below 1 per cent, and Italy even recorded slightly negative growth (see figure 2.6), raising the question of whether Western Europe has begun to suffer from a tendency towards "growthless jobs".

Volume I, Part 1 of this Report suggests that the slowdown in labour productivity performance of the EU-15 should be attributed to a combination of a slowdown in technological change, in particular information and communication technologies (as a consequence of low, and in some cases declining, rates of investment in physical capital) and employment improvements, largely connected to an increase in atypical, often less productive, jobs. The lower productivity of such jobs results from the reluctance of employers to invest in training and skills upgrading of temporary or part-time employees and the lower motivation of such workers to engage in productivity improvement.

2.2.5. Informal employment

Informal employment presents a dual challenge in terms of the Decent Work Agenda. First, workers in the informal economy do not usually benefit from the protection and support provided by labour law, social insurance and assistance or active labour market policies. They are often denied even basic workers' rights. Second, standard employment indicators may not be relevant to informal work because it is not officially registered or reported. Where this occurs, labour market information is distorted and it loses value for policy formulation.

Statistical information on the incidence of undeclared employment in the region is scant and scattered. Estimates vary according to the measurement method used, whether survey-based or derived from non-observed economic activities in national accounts. Definitions and measurement methodologies differ between countries. Moreover, levels of informal work differ markedly between men and women, and between the urban and rural sectors. During the economic crisis in the Russian Federation and some Central and Eastern European economies in the late 1990s, the volume of informal work increased significantly, before shrinking again with economic recovery. For example, the percentage change in the level of undeclared work within a few years in the 1990s was as high as 70 per cent in Kazakhstan and over 60 per cent in Kyrgyzstan. In Lithuania, the rate of informal employment rose from 48.5 to 72 per cent between 1998 and 2000 (ILO, 2007 and 2006b).

In the late 1990s, 5 per cent or less of work was undeclared in high-income Organisation for Economic Co-operation and Development (OECD) countries, while the incidence of undeclared work was several times higher in certain southern European OECD countries. The size of the informal economy in the EU was estimated at between 7 and 16 per cent of total GDP in 2003. In South-Eastern Europe and the CIS, the average relative share of the informal economy is high, whereas it is moderate in Central Europe. According to the national accounts discrepancy method, the proportions ranged from 22 per cent in Bulgaria (in 2000) to 53 per cent in Bosnia and Herzegovina. In the CIS countries, the range was from 11 per cent in Belarus (2002) to 50 per cent in Kyrgyzstan (2003). In Central Europe, the Czech Republic had a low share at 9 per cent and Hungary a high share at 18 per cent in 2000. Using the so-called currency demand method, the shares of informal economic activity in most countries in South-Eastern Europe were estimated at 30–40 per cent between 2000 and 2004. In the CIS, the figure varied between 37 per cent in Uzbekistan and 68 per cent in Georgia (table 2.2).

Table 2.2. Size of the informal economy in South-Eastern Europe and the CIS (2000–04, per cent of GDP)

	National accounts discrepancy method	Currency demand method
South-Eastern Europe		
Albania (2002)	28	35
Bosnia and Herzegovina (2003)	53	37
Bulgaria (2003)	22	38
Croatia (2000)	7	35
Romania (2000)	21	37
Serbia and Montenegro (2004)	35	39
FYR Macedonia (1999)	14	36
CIS		
Armenia (1999)	29	49
Azerbaijan (2003)	20	61
Belarus (2002)	11	50
Georgia (2001)	34	68
Kazakhstan (2003)	22	45
Kyrgyzstan (2003)	50	41
Republic of Moldova (2000)	31	49
Russian Federation (2003)	23	49
Tajikistan (2003)	15	–
Ukraine	–	55
Uzbekistan	–	37
Central Europe		
Czech Republic (2000)	9	20
Hungary (2000)	18	26
Poland (2003)	14	29
Slovakia (2000)	15	20
OECD*	–	16

* Unweighted average, excluding Turkey.
Source: United Nations Economic Commission for Europe: Economic Survey of Europe, 2005, No. 2, Table 3.5.

In most countries, women account for the majority of workers in the informal economy, which means that they are subject to greater job insecurity and lack access to training, social protection and other resources, making them more vulnerable to poverty and marginalization.

The reasons for informal employment are complex (for a detailed discussion, see OECD, 2003). Some of those that are frequently cited do not always stand up to scrutiny. For example, high taxes, social security provisions and the regulatory burden are often held responsible for informal employment. However, international and historical comparisons do not necessarily support the belief that high tax rates are associated with high levels of undeclared work. For example, there are a number of high-income countries, such as the Nordic States, where high tax rates are combined with a relatively low incidence of undeclared work.

2.2.6. Migration for employment

Migrating to find employment abroad has been an increasingly common response by workers to unsatisfactory employment prospects and conditions, economic insecurity and war or persecution (for example, in the Balkans in the late 1990s). The incentive to migrate is accentuated by cross-country disparities in wages and working conditions. Where there is little public support for the jobless, outmigration may be the only means of survival.

Migration may be legal or illegal. Within the EU, the free movement of labour is guaranteed under Article 39 of the Treaty establishing the European Community, while the General Agreement on Trade in Services and, in particular, Directive 2006/123/EC on services in the internal market, are aimed at promoting temporary and circular international labour flows. EU regulations also allow temporary transfers of skilled employees for up to one year and the temporary movement of contractual service suppliers from outside the EU-27 for up to six months.

Within and outside the region, temporary migration has increased over the past decade. It has been possible to identify four major geographical migration streams in the region since the mid-1990s: cross-country flows within the EU-27, mainly from the EU-12 to the EU-15; inflows from outside the EU, mainly from Eastern Europe, the Western Balkans, North Africa, Asia and Latin America (into Spain); flows from Central Asia and the Caucasus to the Russian Federation and Kazakhstan; and the migration of skilled and highly skilled workers (the brain drain) from the EU and other European countries to North America. Labour migration disproportionately concerns the top and bottom ends of the skills spectrum.

Net migration in the EU-25 (i.e. without Bulgaria and Romania) has shown a steep upward trend, rising from 0.6 million in 1994 to 1.85 million in 2004 (Eurostat, 2007). But the figures underestimate the true extent of flows between countries as they do not include clandestine migration (illegal immigrants or human trafficking). Between 1994 and 2004, the stock of the foreign labour force as a percentage of total labour supply increased throughout the EU-15. Strong increases were registered in Ireland, Italy, Portugal and Spain, which all changed from traditional emigration to net immigration countries. In percentage terms, the strongest contribution of immigration to national employment growth was in Austria, Denmark, Germany and the United Kingdom. The enlargement of the EU brought a dramatic acceleration of migration from the EU-12 to the EU-15, particularly from Poland, followed by Romania and Bulgaria (OECD, 2007). The number of Polish citizens abroad rose from about 1 million in 2004 to 1.95 million at the end of 2006, equivalent to nearly 12 per cent of the national labour force.

Labour migration has also been heavy in South-Eastern Europe and the CIS. The Russian Federation, Ukraine and Kazakhstan are large net receivers of migrant workers, many of whom are from the Caucasus and Central Asia, regions that have lost skilled labour through emigration. It is estimated that Ukraine loses some 15,000 highly educated specialists each year (Mansoor and Quillin, 2006), while 9 per cent of Bulgaria's population left the country between 1998 and 2004. Nearly two-thirds of the emigrants were well-educated young men, many of whom found work in low-skilled jobs, such as caring for children and the elderly, housekeeping, agriculture and construction.

Many countries in the region face problems of illegal immigration. For example, in the Russian Federation, the Federal Migration Service estimated in 2006 that there were half a million regular migrants and between 5 and 14 million undocumented immigrants in the country (see the ILO's *World of Work* magazine, No. 57, September 2006). Estimates of illegal migrants in the EU range from between 2 and 8 million, with the number of trafficked persons being estimated at between 300,000 and 500,000 (European Commission, 2007a). According to ILO studies of illegal migrants in Austria and the Czech Republic, the main reason for the irregular employment of foreign nationals is reduced labour costs due to the non-payment of social security contributions and taxes.

Significant trafficking of migrant workers for sexual exploitation has been documented by the ILO from such countries as the Republic of Moldova, Romania and Ukraine. Next to the lack of employment prospects, the strongest push factors behind trafficking are the lack of economic resources and social services in the countries of origin.

Migration offers benefits if the cross-country flow of labour helps to redress labour market imbalances by reducing unemployment in the sending country and mitigating labour shortages in the destination country. However, the potential positive effects of migration are compromised if emigrants are employed below the level of competency acquired through their education and training.

Migrants' remittances can be an important source of investment and growth in their home country. For example, in 2004, the GDP share of officially recorded earnings transfers was over 20 per cent in Bosnia and Herzegovina and the Republic of Moldova (World Bank, 2006), generating significant multiplier effects through consumption and investment, with positive implications for employment. However, the negative impacts of labour migration include the loss of labour, in particular skilled workers, in sending countries and the resulting impairment of productivity, competitiveness, innovation, investment and GDP growth, as well as diminished efforts to train workers in both sending and destination countries.

From the outside, the EU is often seen as a "fortress", especially at its southern and eastern edges where it is closing its doors to refugees and asylum-seekers. The stream of migrants, notably from Africa, trying to find jobs and incomes in Europe has swollen, with those concerned often risking their lives crossing the Mediterranean as they try to escape the consequences of unemployment, civil war and droughts, floods and other effects of climatic change.

Box 2.2
How trade policies in the North cause unemployment and migration pressure in Africa

EU policies may be exacerbating migration pressure from the South. Trade rules and practices have contributed to the growing economic disparity between the North and the South. Some existing trade arrangements and forms of domestic support have had severe trade-distorting effects. Rich countries in the North have set tariff and non-tariff barriers for manufacturers and agricultural producers in developing countries and have invested heavily in subsidizing their own production. The resulting huge subsidized surpluses (including cotton, corn, soyabeans, wheat, rice, tomatoes, poultry, milk powder and fruit) are sold to poor countries at prices that, despite very low local production costs, make it virtually impossible for them to compete. Moreover, fishers from West Africa are experiencing increasing difficulties because big fishing fleets from European countries, with highly subsidized modern equipment and fuel, are operating along their shores. For sub-Saharan Africa, the impact of these trade practices is disastrous because a large proportion of the population lives on agriculture and fishing.

A fair deal for migrant workers

The employment conditions of many migrant workers pose one of the most serious challenges to the Decent Work Agenda. Some of the most unacceptable conditions are the result of irregular migration, the lack of social protection, discrimination and the sexual exploitation of migrants. In October 1999, the European Council called for the development of a common EU policy in the fields of immigration and asylum, to include the following elements: partnership with countries of origin, a common European asylum system, fair treatment of third country nationals and the management of migration flows. The ILO has a constitutional mandate to protect migrant workers. A resolution adopted by the ILC at its 92nd Session (2004) called on the Office and constituents to implement a Plan of Action for Migrant Workers aimed at: the development of a non-binding multilateral framework for a rights-based approach to labour migration; the wider application of international labour standards and other relevant instruments; implementation of the ILO Global Employment Agenda; the social protection of migrant workers; capacity building, awareness raising and technical assistance; strengthening social dialogue; improving the information and knowledge base; and promoting policy cooperation and dialogue. The action taken at the regional level for the implementation of the Plan of Action is reviewed in Volume II of this Report.

2.3. Where the region falls short of its aspirations: Major employment deficits to be overcome

Although the majority of countries in the region have improved their employment records in recent years, many continue to fall short of the targets set by their own governments or their commitments as members of international organizations, including the ILO and the EU.

Multilateral standards and strategies for employment

The ILO's principal standards on employment policy, particularly the Employment Policy Convention, 1964 (No. 122), are aimed at achieving full, productive and freely chosen employment. The means and measures to be taken for this purpose include expansionary macroeconomic policies, active and passive labour market policies, education and vocational training, structural policies, the promotion of industrial and rural development and the active involvement of employers, workers and their organizations in policy formulation and implementation. ILO guidance on migration policy, including the Plan of Action contained in the 2004 ILC Resolution, is based on the premise that migration should be undertaken by choice and not by necessity.

As the largest multilateral organization in the region, the EU has set standards and strategic targets that are closely aligned with ILO standards. In 2000, the European Council Summit in Lisbon set the ambitious target for the EU to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion" by 2010. The European Council's employment guidelines, adopted in 1998 and replaced in 2003, are implemented through the so-called open method of coordination, based on national action plans. The same technique has also been applied in recent years as part of the Stability Pact for South-Eastern Europe in the context of the Bucharest Process.

Coordinating micro- and macro-policies

In its 2003 Global Employment Agenda, the ILO makes a strong plea for macroeconomic policies for growth and employment and calls for policy integration and coordination, which are also crucial for attaining the EU's overarching goals of economic, social and territorial cohesion.

The real question is whether there has been sufficient recognition in the EU of the crucial role of macroeconomic policy for employment and living standards, and whether there has been adequate integration of labour market and social policies. More specifically, consideration should be given to whether, in devising the goals and instruments of EU macroeconomic policy, employment has been an overarching objective, or merely a residual factor. In contrast to the United States, where the Federal Reserve Bank is mandated to balance its monetary policy in accordance with the goals of price stability, economic growth and full employment, the overriding objective of monetary policy for the European Central Bank (ECB) is to contain consumer price inflation. Yet experience shows that inflation inevitably exceeds the chosen 2 per cent limit in industrialized countries in cyclical upswings. The ECB's comparatively restrictive monetary policy has therefore limited the space for growth and employment expansion in the short term, and countries outside the euro zone, such as Denmark, Sweden and the United Kingdom, have had a better employment record over the past decade than those in the zone. This suggests that economic growth and full employment should be placed on an equal footing with price stability in the EU.

A second issue is whether the EU has not at times exerted excessive constraints on fiscal policies, thereby making it difficult to achieve fuller and better employment. In applying the rule of a maximum permissible budgetary deficit of 3 per cent, no distinction has been made as to whether public spending is geared to consumption or investment, leading EU governments and para-fiscal agencies to place excessive restraints on public expenditure, even in periods of economic downturn. This has clearly narrowed public policy options for the promotion of more and better jobs, including public spending on research and development, education and vocational training, active labour market policy measures, the public provision of childcare and other investments in social infrastructure and services. More generally, the question is how the EU will be able to implement its Lisbon Strategy without raising its level of investment in research and development or human resources. Moreover, consideration should be given to how the noble EU objective of convergence in regional development and in standards of living can be attained without sufficient investment in backward or disadvantaged regions and areas. It should be noted in this respect that the EU Member States with the best employment performance tend to be those with either the highest level of public expenditure on active labour market policies or vocational training (especially Denmark, Netherlands and Sweden).

Restrictive macro-policies that hamper employment have also been observed outside the EU-27. For example, in Turkey, until very recently, policy-makers did not consider employment promotion as a priority and concentrated instead, almost exclusively, on anti-inflationary policies. The consequences of this policy are apparent, as Turkey experienced a further decline in its employment rate after 2000 from an already low base.

Investment in worker skills and employability

It is a cause of great concern that around 30 per cent of the working age population in the EU is currently low skilled, particularly in view of the estimated increase of over 12.5 million jobs in the EU between 2006 and 2015 for the highly skilled and nearly

9.5 million jobs at a medium level of qualification, compared to a fall of 8.5 million for the low skilled (CEDEFOP, 2008). The countries of South-Eastern Europe and the CIS also face special requirements for skills training, mainly due to the continuing restructuring of their economies and the widespread loss of skills due to outmigration.

Most of the former centrally planned economies in the region started the transformation process with a strong tradition of technical and vocational training. However, education and training participation rates dropped, partly because much of the training had become irrelevant during the transition phase and mismatching of skills emerged. The switch in many countries in the region from vocational training to extended tertiary education, and from an emphasis on technical fields to social studies, led to shortages of technicians and technically skilled manual workers, and an excess of graduates in social sciences. At the same time, public education and training budgets declined markedly in the 1990s and participation in education fell, particularly in the Caucasus and Central Asia, as fees were introduced, thereby threatening skills development.

According to a 2003 European Union Labour Force Survey, the participation rate of the adult working population aged 25–64 in learning activities, whether formal, non-formal or informal, averaged 42 per cent (Eurostat, 2007). Moreover, participation in training is highly uneven across countries and among categories of enterprises, employees and economic sectors. Training intensity is about four times higher in the Nordic countries and Ireland than in the EU-12 (Nestler and Kailis, 2003). Technologically advanced sectors spend the most on adult technical and vocational training, and large enterprises invest considerably more working time in continuing training than small and medium-sized enterprises (SMEs). Moreover, men tend to enjoy better access to lifelong learning than women, while the training rate is higher for persons with initial higher education. Participation patterns in vocational education and training therefore tend to exacerbate, rather than diminish, prior skills differentials in the labour force, including existing skills gaps between men and women, different age groups and holders of permanent and temporary work contracts, thereby further undermining attainment of the Lisbon Strategy commitments to productivity, competitiveness, equality of opportunity and social cohesion.

Next to investment by employers in skills training, active labour market policies are key to the employability of the labour force and its adaptability to shifts in the structure of labour demand. In most of the EU-27, such policies have become more personalized in recent years, although expenditure on them has tended to decline since 2000, both as a share of GDP and per worker (Eurostat, 2007, see also figure 3.6). On average, the EU-12 countries spend less on active policies than the EU-15.

The countries of the Stability Pact for South-Eastern Europe, in the context of the Bucharest Process, have made great efforts to adopt labour market policies, including active policies, and to develop effective public labour market administration on the EU model. However, the implementation of these policies has been constrained by funding and staff resources, partly due to restrictive fiscal policies. The resulting mismatch between supply and demand may be a reason for the low employment content of economic growth in these countries.

Redressing inferior employment opportunities for women and young and older workers

Many countries in the region, in contrast with the Scandinavian countries, United Kingdom and United States, have low employment-to-population ratios for women workers, young workers aged 15–24 and older workers aged 55–64. Nearly all the former transition economies have youth employment ratios below 30 per cent. To a large extent, the low employment shares of young, older and women workers explain the low overall employment rates.

There are various reasons for the poor employment situation of these groups, including insufficient overall demand for labour. Young workers also suffer from problems relating to the school-to-work transition, deficits in their general education and the poor quality of vocational and continuous training (Eurostat, 2007). Views differ as to why the employment opportunities of older workers in Europe have been impaired. It has been argued that their employment has been depressed by overly generous unemployment benefits, high tax wedges and compressed wage structures that "drive a wedge between labour costs and productivity of the least productive workers, thereby driving them out of the job market" (Bertola et al., 2002). However, the assertion that older workers are less productive is open to challenge. While physical capacity normally declines with age, this is less significant in the knowledge-based economy, which should value experience, good judgement and the ability to organize and manage, all of which tend to increase with age.

Important barriers to the increased employment of older workers include age discrimination and deliberate policies, often introduced in the 1990s, to take such workers out of the labour market, partly with a view to enhancing job opportunities for younger workers. More recently, as early retirement policies have proved unsustainable in view of the ageing of the labour force, the financial situation of pension funds and mounting labour shortages, a policy shift has been initiated to promote the employment of older workers with a view to increasing overall employment rates. Yet there remains much scope to upgrade the employment opportunities of older workers through: countering age-based discrimination in employment; developing more or better opportunities for lifelong learning and on-the-job training; improving job quality and working conditions to sustain working capacity over the course of a lifetime; and fostering the enhanced valuation of their skills and age-specific work experience. In return for an extension of average working life, more opportunities for paid leave could be made available to workers during the phases of life that are associated with high stress so as to ensure that workers are able to spend more years in employment. Finland has been among the most successful countries in raising its rate of labour force participation and employment for older workers, and in so doing increased its labour force participation rate by 15.6 points from 42.9 per cent in 1995 to 58.5 per cent in 2006.

Box 2.3
Employment promotion of older workers in Finland

Against the backdrop of a very deep economic recession, high unemployment, a rapidly ageing population and a high rate of early retirement, the Government of Finland, in collaboration with the social partners, launched a national programme in 1997 to upgrade the labour market status of older workers (55–64 years) and ageing workers (45–55 years).

The measures adopted were designed to change attitudes towards older workers and value their experience as a positive element of their employability and as a national asset. In addition, the supply of vocational training for older workers was expanded, job requirements were adapted to correspond to their capabilities, workplace health improvements were introduced, special vocational rehabilitation measures were adopted and pension reforms were undertaken to provide incentives to stay at work longer.

The programme, which was based on a broad social consensus and implemented at the inter-ministerial level, generated positive results and led to a spectacular increase in the employment rate of workers aged 55–64, a strong decline in long-term unemployment in this category and a narrowing of the gap between the statutory and average retirement age.

Women's employment can be promoted by combating gender discrimination in recruitment, job assignment, promotion and pay, and by measures to reconcile work and family responsibilities (see Chapter 4). Unless conflicts between work and family needs are resolved, the negative impacts include stress, absenteeism, extended sick leave, high staff turnover, lower productivity and difficulties in recruiting appropriate personnel. Or, in more positive terms, family-friendly employment arrangements offer multiple benefits. In the Nordic countries, high rates of employment for women were largely achieved through the expansion and quality enhancement of public education, health and social services, while the opportunities offered to women for promotion to managerial positions have helped to reduce the gender pay gap to the lowest levels in the region.

The widespread weakness in providing employment opportunities for young, elderly and women workers is related to shortcomings in general education and initial and adult vocational education and training. Unless mid-career and older women returning to work after raising a family have access to specific skill and training efforts, they are likely to experience downward occupational mobility. Similarly, comprehensive and coordinated policy packages of age-friendly measures are needed to increase the employment opportunities of older workers.

2.4. Conclusions

In large parts of the region, the employment situation is better today than it was in early 2005 when the ILO held its Seventh European Regional Meeting, in Budapest, although the current financial crisis may again deteriorate employment figures. Benefiting from the global economic upswing, every country in the EU saw its employment rate rise and unemployment fall after 2004. In 2006, the average rate of employment in the EU-27 was higher and the mean rates of unemployment and long-term unemployment were lower than the levels recorded ten years earlier, with the gap narrowing in these areas in relation to the United States and Japan. Women's employment growth has outpaced that of men, diminishing the gender gap. However, the improvement has been unequal across the EU-27. Outside the EU, employment has evolved erratically. The Russian Federation and Ukraine enjoyed a substantial rise in employment after the crisis in the late 1990s, but the situation stagnated or deteriorated in South-Eastern Europe. Turkey and most of the Western Balkans have been plagued by jobless growth.

The fact that most of the region now has a better employment record is at variance with the pessimistic notions about European labour markets that were popular a few years ago. Claims of "eurosclerosis" have proven untenable. While jobless growth persists in some countries, it is not a general feature of labour markets in the region. Even with comparatively high labour costs, European countries have been able to compete with emerging countries in Asia. Employment rates have risen in most countries, even as trade openness has increased and the loss of jobs through the relocation of production has been limited. Despite relatively high tax rates and social security spending, the Scandinavian countries lead the world on nearly all indicators of competitiveness, current account surpluses, solid public finances and labour market performance. Many workers migrate to European countries and find jobs there, and they would be joined by many more if entry were not restricted.

And yet, in spite of these improvements, many countries, especially outside the EU, face an employment situation that is far from satisfactory. Many EU countries have yet to reach the employment targets set for 2010. In the large EU countries, labour productivity improvement has weakened and some of the most qualified labour resources have been lost through emigration. South-Eastern Europe faces high levels of informal employment and emigration. While outmigration may provide temporary relief from high unemployment rates, it tends to worsen long-term prospects of economic development and employment, particularly through the loss of skilled young workers.

In order to overcome these employment deficits, the countries in the region will have to amend their policy framework. There is much scope for better policy integration and implementation across the region. More and better jobs can be attained through more expansionary macroeconomic policies, greater investment in worker skills and employability through training and active labour market policies, the provision of better employment opportunities for women, youth and older workers, and greater efforts to promote and protect the employment of migrant workers. These measures are also vital to counter the negative repercussions of the ageing of the population throughout the region.

Intriguing issues of critical importance therefore still need to be addressed. For example, consideration should be given to whether the reported progress in employment levels, where it has occurred, has been achieved at the expense of a loss in the quality of jobs, at least for part of the labour force. This and other issues are dealt with in the chapters that follow.

Participants may wish to consider the following questions:

- There have been tentative signs of economic convergence across the region in recent years as a result of financial and technology transfers and relatively rapid productivity growth in the non-EU-15 countries. What policies are required to maintain or accelerate economic catching-up in these countries? What are the causes and longer-term consequences of a significant slowdown in productivity growth in the EU-15 over the last decade and how can they be addressed?
- Employment trends across the region have been diverse since the mid-1990s, with positive developments in the EU-15 and also in the Russian Federation and Ukraine in the 2000s, but rather disappointing developments until recently in the EU-12, and persistent jobless growth in Turkey and most of the Western Balkans. How can positive experiences be maintained and negative trends reversed? How can further progress be made towards full employment?
- Despite the generally positive employment trends in most of the region in recent years, particular groups – the young, unskilled and migrants – have experienced less desirable employment trends and often end up in informal jobs. What can be done to lift employment rates among these groups? How can employment opportunities for better jobs in the formal economy be improved for women and young and older workers?

3. Labour market policies to reconcile flexibility and security

The debate about flexibility and security in labour markets in the region was a major focus of the Seventh European Regional Meeting in 2005. The background report for the meeting [8] noted that the debate on the pros and cons of labour market flexibility had its origins in the differences observed in the adjustment of employment and wages as a result of economic shocks in the United States and (Western) European labour markets during the 1980s. Some observers argued that the higher unemployment and lower job creation rates in Europe were mainly due to labour market rigidities in the form of restrictive employment protection legislation (EPL), union bargaining power, generous welfare systems and higher labour taxation. They argued that, once those elements of rigidity were eliminated, Europe's labour markets would recover.

The 2005 report observed that no consensus had ever been reached within Europe in favour of a United States-style approach to labour markets and that, instead, a more moderate position had emerged, which gave credit to European labour market institutions, while not entirely dismissing the positive effects of some additional elements of labour market flexibility on employment and unemployment. This was the emergence of the so-called *flexicurity* approach.

Flexicurity is rarely defined in precise terms, and various interest groups may emphasize different aspects of the concept. However, at the Seventh European Regional Meeting, the ILO's constituents reached consensus on the following perspective:

> Enterprises face enhanced competition as a result of globalization and adaptation to rapidly changing markets. A policy of flexibility and security for enterprises and for workers by providing new training opportunities to improve employability, job search assistance, income support and social protection has worked well in some countries. Critical elements in balancing flexibility with security are tripartite social dialogue in the framework of broader national macroeconomic strategies, collective bargaining and respect of labour legislation (ILO, 2005b).

Since the Seventh European Regional Meeting, the debate on flexicurity has evolved in other European forums. In particular, between late 2006 and early 2008, discussion focused on the European Commission's proposed set of common principles of flexicurity, namely:

1. Flexicurity involves flexible and reliable contractual arrangements (from the perspective of the employer and the employee, of insiders and outsiders); comprehensive lifelong learning strategies; effective active labour market policies; and modern social security systems. Its objective is to reinforce the implementation of the Growth and Jobs Strategy, create more and better jobs, and strengthen the European social models, by providing new forms of flexibility and security to increase adaptability, employment and social cohesion.

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[8] www.ilo.org/public/english/region/eurpro/geneva/regconf2005/report.htm.

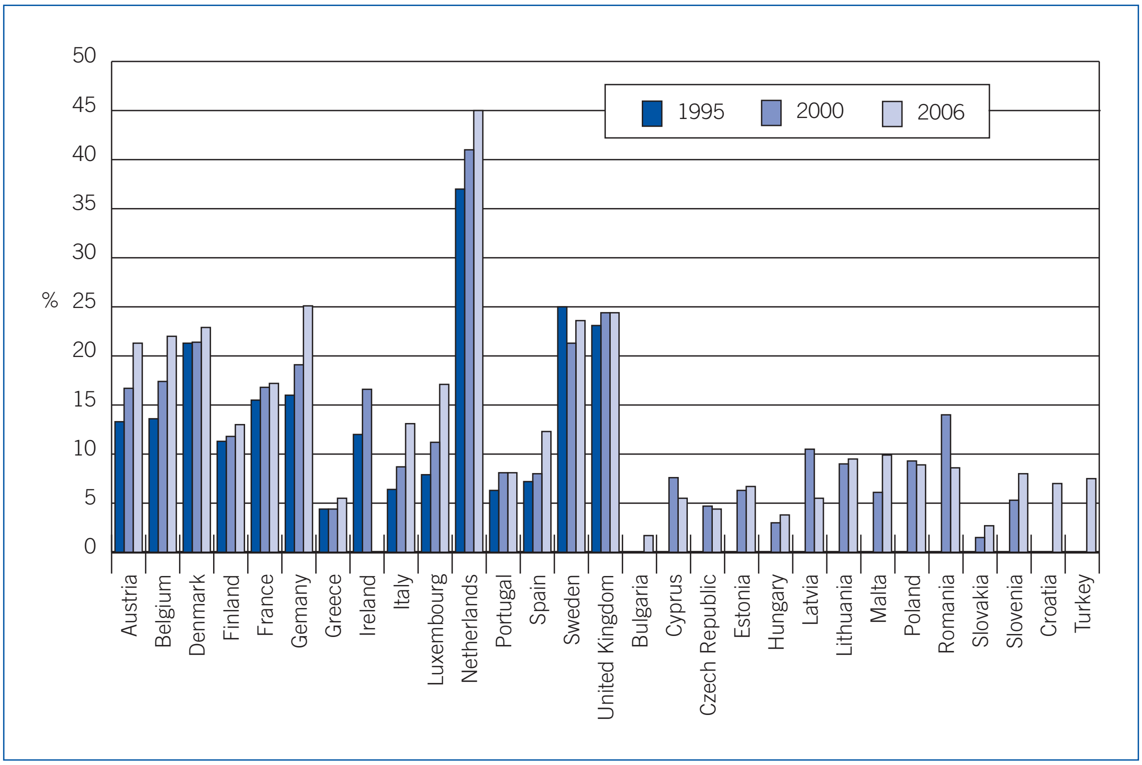
2. Flexicurity implies a balance between rights and responsibilities for employers, workers, job seekers and public authorities.
3. Flexicurity should be adapted to the specific circumstances, labour markets and industrial relations of the Member States. Flexicurity is not about one single labour market model or a single policy strategy.
4. Flexicurity should reduce the divide between insiders and outsiders on the labour market. Current insiders need support to be prepared for and protected during job to job transitions. Current outsiders – including those out of work, where women, the young and migrants are over-represented – need easy entry points to work and stepping stones to enable progress into stable contractual arrangements.
5. Internal (within the enterprise) as well as external (from one enterprise to another) flexicurity should be promoted. Sufficient flexibility in recruitment and dismissal must be accompanied by secure transitions from job to job. Upward mobility needs to be facilitated, as well as between unemployment or inactivity and work. High-quality workplaces with capable leadership, good organization of work, and continuous upgrading of skills are part of the objectives of flexicurity. Social protection needs to support, not inhibit, mobility.
6. Flexicurity should support gender equality by promoting equal access to quality employment for women and men, and by offering possibilities to reconcile work and family life as well as providing equal opportunities to migrant, young, disabled and older workers.
7. Flexicurity requires a climate of trust and dialogue between public authorities and social partners, where all are prepared to take responsibility for change, and produce balanced policy packages.
8. Flexicurity policies have budgetary costs and should be pursued also with a view to contribute to sound and financially sustainable budgetary policies. They should also aim at a fair distribution of costs and benefits, especially between businesses, individuals and public budgets, with particular attention to the specific situation of SMEs. At the same time, effective flexicurity policies can contribute to such an overall objective (European Commission, 2007b).

Most of the above principles reiterate concepts that have been part of the flexicurity debate within the region over the past decade. However, one of their novel aspects is the focus on both internal (within the enterprise) and external (from one enterprise to another) flexibility, as well as functional flexibility (changes of occupation), both within and outside the enterprise. This has been discussed extensively by the EU social partners and deserves attention. ILO constituents may wish to consider what practical measures and policies could be adopted to promote greater internal and functional flexibility and how this could be balanced with promoting external flexibility.

3.1. Flexibilization of employment relations

Over the period 1995–2006, there was a continuous trend of the “flexibilization” of employment relations, reflecting the need for greater adaptability at the enterprise level. However, it is necessary to examine whether flexible forms of employment have indeed contributed to the higher employment rates observed in the region, as well as the incidence of flexible forms of employment within different groups of workers and their impact in terms of labour market segmentation.

Figure 3.1. Part-time employment as a percentage of total employment (total working age population for 1995, 2000 and 2006 for selected countries)



Source: Eurostat.

There was spectacular growth in *part-time employment*[9] between 1995 and 2006 throughout the EU-15, which accelerated after 2000 in most countries. However, there are remarkable differences in the share of part-time employment in total employment in these countries, ranging from 5.7 per cent in Greece to 46.2 per cent in the Netherlands in 2006 (figure 3.1). In the EU-12, the incidence of part-time employment is very low (between 10.1 per cent in Malta and a mere 2 per cent in Bulgaria). Moreover, the share of part-time employees among all workers has further declined or stagnated in the EU-12, with the exception of Slovenia and Malta. Part-time employment is also low in the non-EU countries of South-Eastern Europe (6.6 per cent in The former Yugoslav Republic of Macedonia and 7.9 per cent in Turkey).

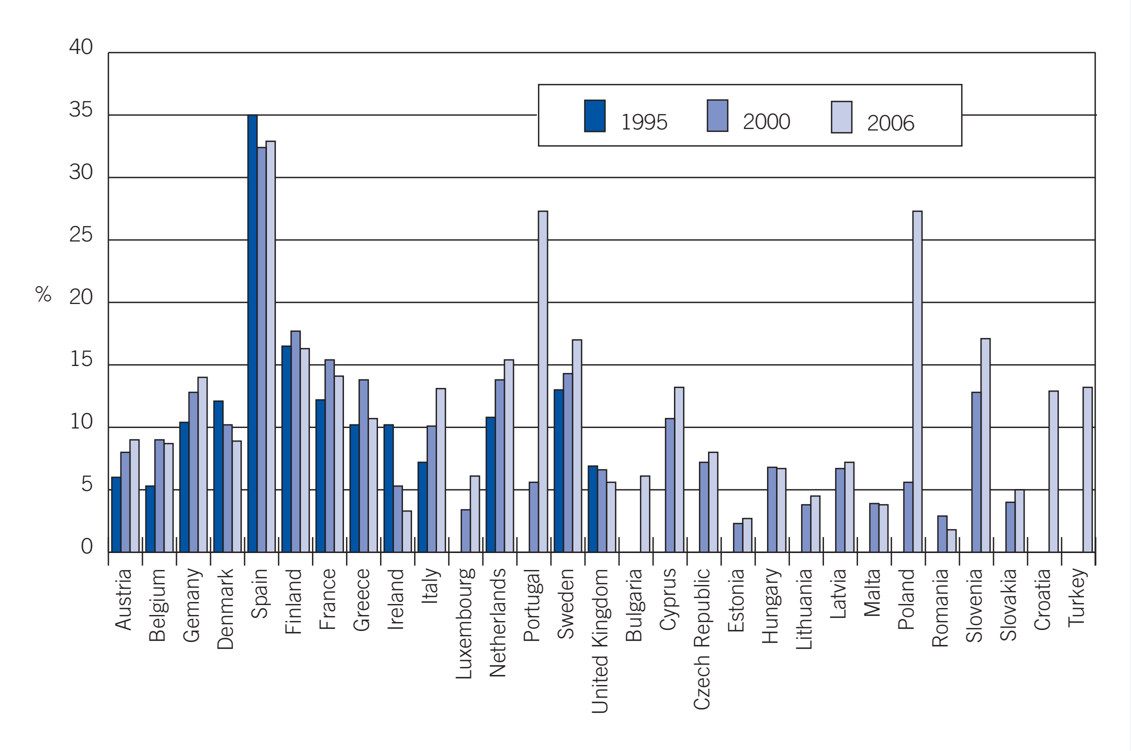
Part-time employment is prevalent among women, for a number of whom it is helpful in combining work with family and care responsibilities. However, in many countries, part-time employment also appears to be linked to the availability and scheduling of child-care facilities. Moreover, many women have to accept part-time employment due to a lack of alternative job opportunities. While only one in ten women work part time in Greece, three-quarters do so in the Netherlands. In the EU-12 in 2006, the share of women working part time ranged between 13 per cent in Poland and 2.5 per cent in Bulgaria, while the figure was 17.7 per cent in Turkey, with the rate tending to decline in all those countries. In contrast, part-time employment is increasing among men in the EU-15, although the prevalence of women is still significant, ranging from twice as many women as men in part-time employment in Finland and Portugal to 14 times as many in Luxembourg. The

[9] In this context, part-time employees are those who do not perform a full day's work or do not complete a full week's work.

gender difference is smaller in the EU-12 and the candidate countries, with levels being almost equal in Romania. Engagement in part-time employment also depends on educational level, with the rate in the EU-27 in 2007 being highest (38 per cent) for women with primary and lower education, compared with 31.7 per cent for women with secondary education and 23.7 per cent for women with tertiary education. The quality of part-time jobs is often lower compared with similar full-time jobs with respect to hourly earnings, social security coverage, access to training and career possibilities.

Temporary employment[10] has tended to increase in 16 of the EU-27, as well as in the Western Balkan and CIS countries (figure 3.2). The fastest growth was in Poland, where levels increased more than five-fold between 2000 and 2006. The share of fixed-term contracts also doubled in Portugal and Slovenia between 1995 and 2006. The rate of temporary employment in the Russian Federation rose from 2.3 to 6 per cent between 1995 and 2004, and from 1.3 to 2.1 per cent in Ukraine between 2000 and 2006.[11] In contrast, the rate of temporary employment fell in seven EU countries over that period, particularly in Denmark, Ireland and the United Kingdom, with a fall in another three EU countries after 2000. The rate also decreased in Spain which still retains the highest share of fixed-term contracts in the EU-27 (one third of total employment), compared with Romania (less than 2 per cent of total employment). The average share of temporary employment is still higher in the EU-15 than in the EU-12. In this respect, a new trend is the shortening of the duration of temporary contracts, thereby contributing to the further flexibilization of labour.

Figure 3.2. Temporary employees as a percentage of total employees (total working age population for 1995, 2000 and 2006 for selected countries)



Source: Eurostat.

[10] Due to data constraints, temporary employment is identified here as employment on fixed-term contracts.
[11] Neither country is included in figure 3.2, as their data are not fully comparable.

Interestingly, while the incidence of temporary employment is significantly higher among women in 13 of the EU-15 countries, plus Cyprus and Malta, the opposite is true in the EU-10, where it is only in Slovenia (as well as Croatia) that women have more fixed-term contracts than men. The incidence of temporary employment is particularly high among young people (aged 15–24), for whom it exceeds the adult share by between 1.5 and three times. The extreme case is Slovenia, where two-thirds of young people had fixed-term contracts in 2006, over twice as many as in 1995, while the share of adult fixed-term contract holders was only 17.1 per cent in 2006. Young women have higher shares of temporary employment than young men in 19 of the EU-27 countries, with the highest rate again being in Slovenia, where three-quarters of young women have fixed-term contracts. As in the case of part-time employment, the incidence of fixed-term employment declines with higher educational levels and is lowest for workers with tertiary education. Eurostat data also show that over 40 per cent of those concerned in the EU-27 have temporary contracts because they cannot find a permanent job.

Temporary contracts are often considered as a stepping stone to permanent contracts. The available data (which only cover the EU-15 for 1995–2001) give the rather bleak picture that, on average, only one third of those with temporary contracts were able to move to permanent ones, although there are significant national differences: in Lusembourg and Austria, for example, over 50 per cent of temporary contract holders obtained permanent contracts, compared with just 20 per cent in France. This demonstrates the significant labour market segmentation that exists between prime age workers with higher education (often men), who have contracts without limit of time and young people and those with lower educational attainment (often women) who have insecure temporary jobs. The many disadvantages connected with temporary jobs include lower pay, less access to training and services provided by the enterprise (such as enterprise child-care facilities), lower coverage by social security schemes, [12] fewer opportunities for promotion and difficulties in obtaining housing loans from banks.

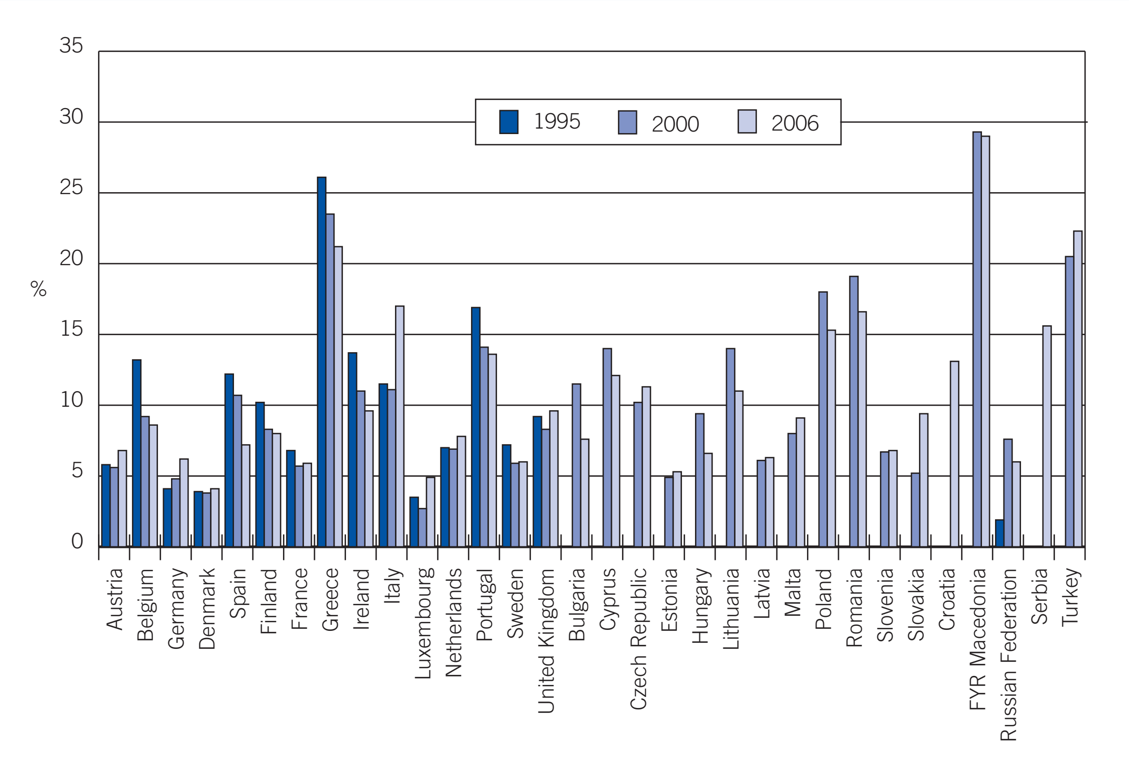
A special type of temporary employment is *agency work*, when workers are employed on a temporary basis by an employment agency, which then hires them out to enterprises or institutions seeking temporary labour. Data on the number of temporary agency workers are incomplete, but show a rapid increase. They were estimated at 8 million in the EU-27 in 2006, accounting for 3.8 per cent of total employment. While in some countries, such as the Netherlands, agency workers enjoy similar access to social security schemes as workers on regular contracts, in many other countries their coverage is limited, their pay is lower and many abuses of contractual rules are reported. The political agreement reached on 10 June 2008 among the EU-27 on the working conditions of temporary agency workers is intended to address these problems.

Self-employment has fallen in the great majority of countries for which comparable data are available, while remaining stable in three others (figure 3.3). It increased modestly, from rather low levels, in only four countries (the Czech Republic, Germany, the Netherlands and Slovakia). This seems to confirm the thesis that interest in engaging in self-employment diminishes as the economic level of a country and demand for labour increases, particularly for those who work on their families' farms. This is also the case in the EU-12 and candidate countries, where the share of self-employment in total employment has declined, with the exception of the Czech Republic and Slovakia. [13] The incidence of self-employment tends to be higher in southern European countries and countries where

[12] The issue of the portability of social security and health-care schemes is also important, as many large companies have private schemes, or enterprises contribute to the occupational pillar of national pension schemes, but only for those with longer term or permanent contracts.

[13] This increase may, however, be hiding de facto employment relationships, as anecdotal evidence appears to show.

Figure 3.3. Self-employment as percentage of total employment (total working age population for 1995, 2000 and 2006 for selected countries)



Source: Eurostat.

the employment share of agriculture is higher, such as Greece, Italy, The former Yugoslav Republic of Macedonia, Poland, Portugal, Romania and Turkey, and is below 10 per cent of total employment in Denmark, Estonia, France, Luxembourg and Sweden. The available data (not fully comparable) for the CIS countries show divergent trends: while the share of self-employment fell from 8 to 7.6 per cent in the Russian Federation between 2001 and 2007, it rose in Ukraine from 6.9 to 17.6 per cent between 1999 and 2006.

There is also an important gender difference in the level and development of self-employment. In all the countries analysed, more men are in self-employment than women, with the most remarkable gender difference (3.5 times) being in Ireland. The share of self-employed workers in total male employment increased in seven of the 28 countries covered and remained stable in four of them between 1995 and 2006, and it rose for women in only one country – Slovakia. In 2006, the self-employment rate remained below 10 per cent of total male employment in three countries (Denmark, Luxembourg and Sweden) and under 10 per cent for women in 13 countries, falling as low as 2.5 per cent in Sweden. The level of self-employment tends to be higher for both men and women in the EU-12 than in the EU-15.

The question remains as to whether the flexibilization of employment has contributed to higher levels of employment in the region. No correlation has been found between the share of temporary employment in total employment and the employment rate either globally or for men or women for 1995, 2000 and 2006. In contrast, the significant positive correlation between the share of part-time employment in total employment and the employment rate for the total population in 1995, 2000 and 2006 indicates that higher part-time employment indeed contributes to higher employment rates. Moreover, the evidence shows that a fall in self-employment coincides with higher total employment, or in other words that those workers engaged in low productive self-employment switch to dependent employment as labour demand increases. [14]

3.2. Labour market dynamics: Stable or stabilizing

Labour mobility and the intensity of labour reallocation are best reflected in labour market flow data. The dynamics of labour markets and their relation to economic and employment developments over recent years are examined below, with particular reference to the new EU Member States, where the transition process led to important job and labour reallocation following the massive restructuring of enterprises in the 1990s. In view of the absence of reliable and comparable data, the following analysis does not cover the CIS countries or the Western Balkans.

Data from labour force surveys and establishment surveys on flows of workers into and out of employment indicate that, following extensive restructuring during transition, there has been a general stabilization in labour turnover since the end of the 1990s, and even a fall in some countries. [15] This corresponds to a phase of enterprise consolidation and development in the EU-12 (figure 3.4). Movements of individuals both into and out of jobs have fallen, suggesting that enterprises have resorted to mass redundancies less often, but have still been unable to create many new employment opportunities until recently. Consequently, employment performance remained poor and has only started picking up in recent years.

In economically advanced countries, labour turnover tends to accelerate in periods of economic growth as enterprise start-ups and expansions create new jobs, attracting newcomers to the labour market and increasing opportunities for the unemployed. At the same time, as dismissals for economic reasons abate, the growing number of job opportunities encourages more people to change jobs voluntarily. In contrast, during economic downturns, enterprises seek to cut costs by reducing new recruitment and resort to redundancies, yet the consequent sharp reduction in voluntary mobility more than counterbalances the rise in dismissals. Largely for supply side reasons, labour turnover therefore tends to behave pro-cyclically (Boeri, 1995). However, this pattern appears to have been reversed in Central and Eastern European countries, where the counter-cyclical behaviour of labour turnover during the 1990s has been identified by ILO research (Cazes and Nešporová, 2003 and 2007). In other words, labour turnover fell when output picked up and increased during recessions. This is confirmed by updated calculations for the period 2000–05. [16] Moreover, while strong economic performance has not been translated into greater employment creation until recently, it has contributed to a fall in unemployment. This counter-cyclical trend may be partly explained by the fact that demand for labour remained constrained for a long time, as well as by the reluctance of workers to leave their jobs and seek new ones, even during an economic upswing, due to their fear of the instability of such jobs and significant income loss in unemployment, as benefits are low and active labour market policies are very limited.[17] The perceived insecurity of workers

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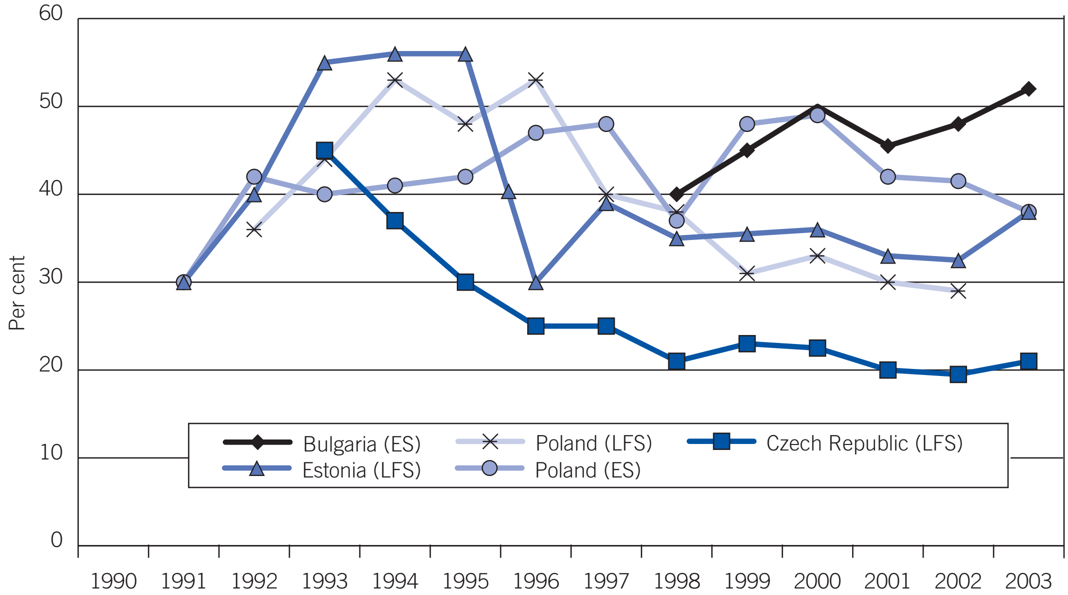
[14] This regression was only statistically significant for the total population, for both men and women, in 2006, while the results were statistically insignificant for 1995 and 2000.

[15] Labour turnover is the sum of recruitments and separations in a given year, divided by the employment level for that year.

[16] The correlation coefficients of labour turnover to GDP and employment are negative, except in the case of Hungary and Bulgaria (Cazes and Nešporová, 2007).

[17] This is supported by the strong correlation between economic cycle and labour market flow data, including moves from employment to unemployment or inactivity in the majority of Central and Eastern European countries studied by Cazes and Nešporová, (2007).

Figure 3.4. Labour turnover



ES: Establishment surveys.
LFS: Labour force surveys.
Source: National statistics (calculations by national statistical offices).

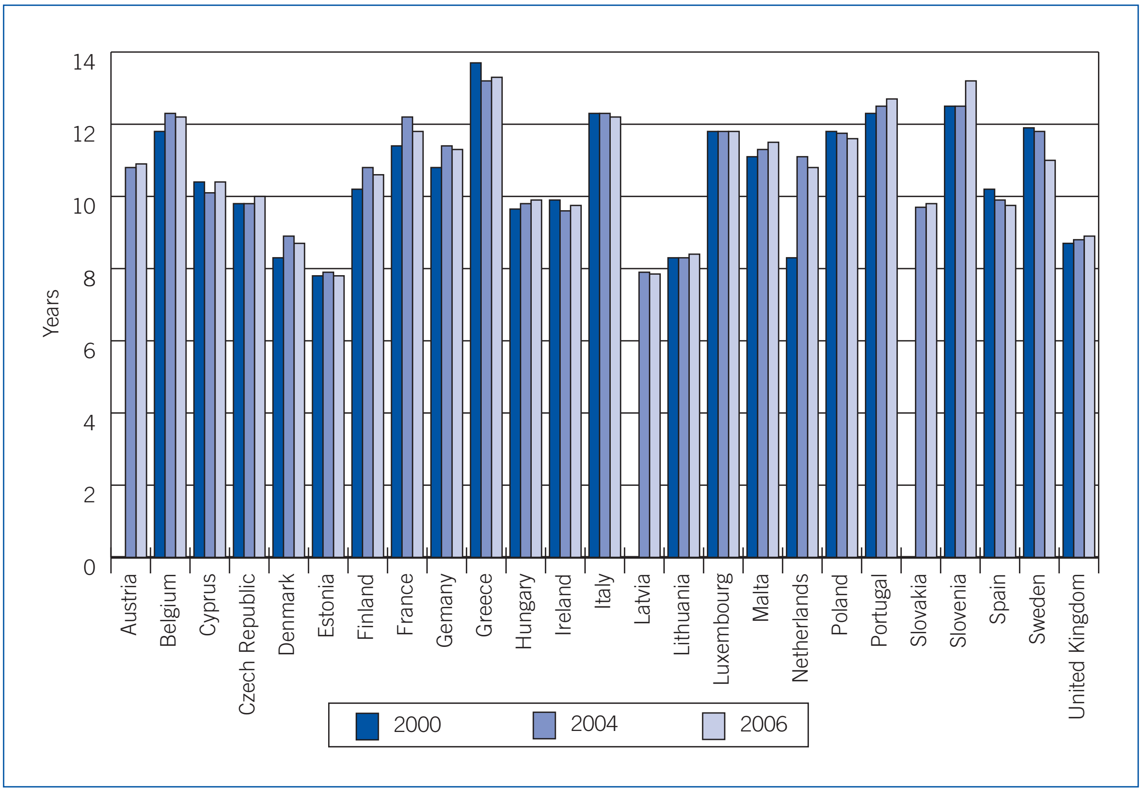
in these countries, as confirmed by several European surveys (Corneließen, 2007), slows down the re-allocation of labour to more productive jobs, which in turn negatively affects labour productivity and economic growth.

In 2006, average job tenure[18] in the EU-15 was 11 years, compared with only 9.8 in the new Central and Eastern European EU Member States (excluding Bulgaria and Romania). There were important differences between the Baltic States (which had the lowest average job tenure, of eight years in 2006) and Slovenia and Greece (13.1 years in 2006). Data on the distribution of employment across job tenure categories, and particularly the ratio of workers with long tenure (over ten years) to those with short tenure (below one year) confirm the existence of significant variations within the EU-27: there are major differences in Poland and Slovenia, as well as in Belgium, France and Italy, where the ratio between long and short tenure ranges between 3 and 4 (in the case of Greece it is 5.5), but labour markets are not so segmented in Denmark or the Netherlands, where the ratios are 1.38 and 1.25, respectively.

Between 2000 and 2006, average job tenure fell in Poland, Spain and Sweden, but increased or remained unchanged in all the other countries. This evidence of job stability (with a slightly increasing trend) over recent years does not, therefore, paint an alarmist picture, nor does it confirm the idea of a general rise in job instability in the EU-27. While average tenure is tending to increase, there have been changes, with a fall in tenure for

[18] Defined as the length of time currently employed individuals have spent with their present employer.

Figure 3.5. Average job tenure



Source: Eurostat.

men and a rise for women. Nevertheless, these patterns have to be interpreted carefully because aggregate trends in job tenure may also reflect changes in labour market participation and in the demographic composition of the labour force, as well as cyclical economic variations. For example, there appear to be changes at both ends of the age distribution, with average tenure falling for young and older workers, but rising for core workers (aged 25–49) (Auer and Cazes, 2003).

3.3. Employment protection legislation: A general trend towards liberalization

It is now necessary to examine whether recent changes in EPL have had an impact on the labour market performance of the countries concerned, with particular reference to reform of the rules governing unfair dismissal, termination of employment for economic reasons, severance pay, notice periods and other administrative procedures. Much empirical evidence on the potential adverse effects of strict EPL for Western Europe countries has been provided by the OECD and the European Commission using EPL indicators based on an OECD methodology (OECD, 2004; and European Commission, 2006a). Various aspects of EPL (regarding both regular and temporary contracts, as well as collective dismissals) are examined below as they affect EU-10, CIS and Western Balkan countries.

Indices for the EU-15 in 2003 reveal significant variations between countries with regard to the strictness of their EPL, with the legislation in Denmark, Ireland and the United Kingdom being very liberal, and that of Portugal and Spain being of medium strictness. There was a slight tendency towards liberalization in the EU-15 countries between the late 1990s and 2003, although this was mainly influenced by significant legislative reforms in Greece and Italy. There is similar heterogeneity regarding the regulation of contracts without limit of time, temporary contracts and collective dismissals.

Table 3.1. EPL index* for the EU-15

Country	Late 1990s	2003				Country	Late 1990s	2003			
	EPL	Regular contract	Temporary contract	Collective dismissal	EPL		EPL	Regular contract	Temporary contract	Collective dismissal	EPL
Austria	2.4	2.4	1.5	3.3	2.2	Italy	3.1	1.8	2.1	4.9	2.4
Belgium	2.5	1.7	2.6	4.1	2.5	Netherlands	2.3	3.1	1.2	3.0	2.3
Denmark	1.8	1.5	1.4	3.9	1.8	Portugal	3.7	4.3	2.8	3.6	3.5
Finland	2.2	2.2	1.9	2.6	2.1	Spain	3.0	2.6	3.5	3.1	3.1
France	2.8	2.5	3.6	2.1	2.9	Sweden	2.6	2.9	1.6	4.5	2.6
Germany	2.6	2.7	1.8	3.8	2.5	United Kingdom	1.0	1.1	0.4	2.9	1.1
Greece	3.5	2.4	3.3	3.3	2.9	EU-15**	2.5	2.3	2.0	3.4	2.4
Ireland	1.2	1.6	0.6	2.4	1.3						

* The EPL strictness index moves from 0 for fully liberal EPL to 6 for completely restrictive EPL. This applies to summary EPL indices, as well as indices measuring the strictness of regulation of regular contracts (contracts without limit of time), temporary contracts and collective dismissals.

** Without Luxembourg.

Source: OECD, 2004.

Changes to the labour legislation in the EU-10 were clearly inspired by those of economically advanced countries, and primarily the EU-15. By the late 1990s, practically all the Central and Eastern European countries had amended their labour codes in response to complaints from employers that labour regulation was too strict. This trend towards the liberalization of EPL has continued since 2000. A detailed analysis of EPL in 2003 revealed that the EU-10 had more liberal EPL than the EU-15 (compare tables 3.1 and 3.2). In comparison with the EU-15, the EU-10 still has slightly stricter regulation of regular contracts, but significantly more liberal regulation of temporary contracts.

Table 3.2. EPL index for the EU-10

Country	Late 1990s	2003				Country	Late 1990s	2003			
	EPL	Regular contract	Temporary contract	Collective dismissal	EPL		EPL	Regular contract	Temporary contract	Collective dismissal	EPL
Bulgaria	2.8	2.1	0.9	4.1	2.0	Poland	2.0	2.0	1.8	3.3	2.1
Czech Republic	2.2	3.0	0.3	2.6	2.2	Slovakia	2.3	2.9	0.3	3.0	1.8
Estonia	2.4	2.7	1.3	4.0	2.3	Slovenia	3.3	2.7	1.8	3.3	2.4
Hungary	1.8	2.1	0.4	3.4	1.6	EU-10*	2.4	2.6	1.2	3.4	2.1
Lithuania	na	2.9	2.4	3.6	2.8						

* Without Romania and Latvia.

Source: ILO calculations based on an OECD methodology.

The trend towards the further liberalization of EPL was even stronger in non-EU countries (table 3.3). Although there are significant national differences, EPL in these countries tends to be slightly more restrictive than in the EU-10, but less so than in the EU-15. In overall terms, EPL tends to be more restrictive in the Western Balkan countries and the Republic of Moldova, while in the CIS countries it is now similar to or more liberal than in the EU-15.

Table 3.3. EPL index for selected non-EU countries

Country	Late 1990s	2007				Country	Late 1990s	2007			
	EPL	Regular contract	Temporary contract	Collective dismissal	EPL		EPL	Regular contract	Temporary contract	Collective dismissal	EPL
Albania	2.6	1.8	1.9	3.4	2.1	Republic of Moldova	na	4.5	1.3	0.4	2.5
Azerbaijan	na	3.2	1.8	0.6	2.2	Montenegro	2.9	2.6	1.1	3.8	2.2
Bosnia and Herzegovina	3.2	2.0	2.9	3.3	2.6	Russian Federation	3.2	3.2	0.8	1.9	1.9
Croatia	3.6	2.7	2.8	2.5	2.7	Serbia	2.9	2.0	1.9	3.6	2.2
Kazakhstan	na	2.7	0.9	0.0	1.5	Ukraine	2.3	3.8	1.8	0.0	2.3
FYR Macedonia	2.8	2.1	3.8	3.8	3.1	Average non-EU	2.9	2.8	1.9	2.1	2.3

* Data for certain countries, even though they follow the same OECD methodology, were calculated by different experts and may give slightly different results for the two periods.

Source: ILO calculations and Micevska (2004) based on an OECD methodology.

Analysis of the specific elements of the aggregate EPL index shows that higher protection of core workers engaged under contracts without limit of time is a general characteristic of CIS countries, while South-Eastern European countries tend to protect permanent workers less than those in the EU-10. In contrast, the regulation of temporary contracts is generally more restrictive in the Western Balkans and in CIS countries where the labour legislation has not yet undergone major reform (such as Azerbaijan and Ukraine), while it is fairly liberal in the EU-10, Kazakhstan, Republic of Moldova, Montenegro and the Russian Federation. [19] Labour legislation reforms since 2000 have mainly focused on liberalizing temporary contracts. However, there are major differences between countries in terms of the regulation of collective dismissals, as the legislation in the CIS countries either tends not to address the concept of collective dismissals, or the rules in this respect have been significantly weakened.

A major problem in most South-Eastern European and CIS countries, and to some extent, despite recent improvements, in the EU-10, is the poor enforcement of labour legislation. As acknowledged by a World Bank study (Rutkowski et al., 2005), labour market flexibility in the CIS (and in South-Eastern Europe) basically has its origins in the "flexible" enforcement of EPL rules, especially in small firms. Even large firms, where the likelihood of compliance is slightly higher, often use small firms as flexible suppliers of labour, thereby avoiding the cost of termination of employment.

[19] While the new Labour Code in the Russian Federation contains more liberal regulation of temporary contracts, widening the possibilities for their use, the Supreme Court issued a special ruling in 2004 against a more liberal interpretation of this section of the Labour Code and calling for more restrictive use of temporary contracts. Fixed-term contracts, if they are not lawfully concluded, must be treated as open-ended and Russian courts usually rule in favour of the employee in labour contract cases. For this reason, a special survey of managers of 900 industrial firms on the changes introduced by the new Labour Code did not find any significant impact on their labour market behaviour (Gimpelson, 2007).

Two other means of adjusting labour costs in response to economic changes are also employed in CIS countries: flexible working time, in the form of administrative leave without pay (or with partial pay), and shorter working hours combined with flexible wages. Remarkable downward wage flexibility is achieved through the non-payment of wages in periods of economic recession, and through peculiarities in the wage-fixing mechanism, which is anchored by the very low national minimum wage, with wages being closely linked to enterprise financial performance. This explains why employment levels remained remarkably high during economic transition and the more recent economic recession, while employment growth, although recovering fairly rapidly with economic revival, remained relatively low compared with rapid GDP growth. While this model of adjustment helps avoid mass unemployment and helps workers maintain their links to the formal labour market and social security schemes, it leads to delays in enterprise restructuring, thereby contributing to the lower productivity and poor competitiveness of enterprises and low average wages, which act as an incentive for workers to seek additional income in the informal economy (Gimpelson, 2007).

Comparisons between EPL indices, labour market participation, employment and unemployment appear to suggest that participation and employment rates rose and unemployment rates fell when EPL became more liberal throughout the EU, both in the late 1990s and in 2003. However, the correlations are not statistically significant. Similarly, a decrease in temporary employment and self-employment seems to be associated with more liberal EPL, and a rise in part-time employment with a lower EPL index. But, once again, none of these correlations are statistically significant. In other words, the impact of labour legislation reforms on labour market performance, and on the incidence of atypical forms of employment, is far lower than liberal economists tend to claim; other factors have a more important effect on labour market developments.

3.4. Do labour market institutions matter?

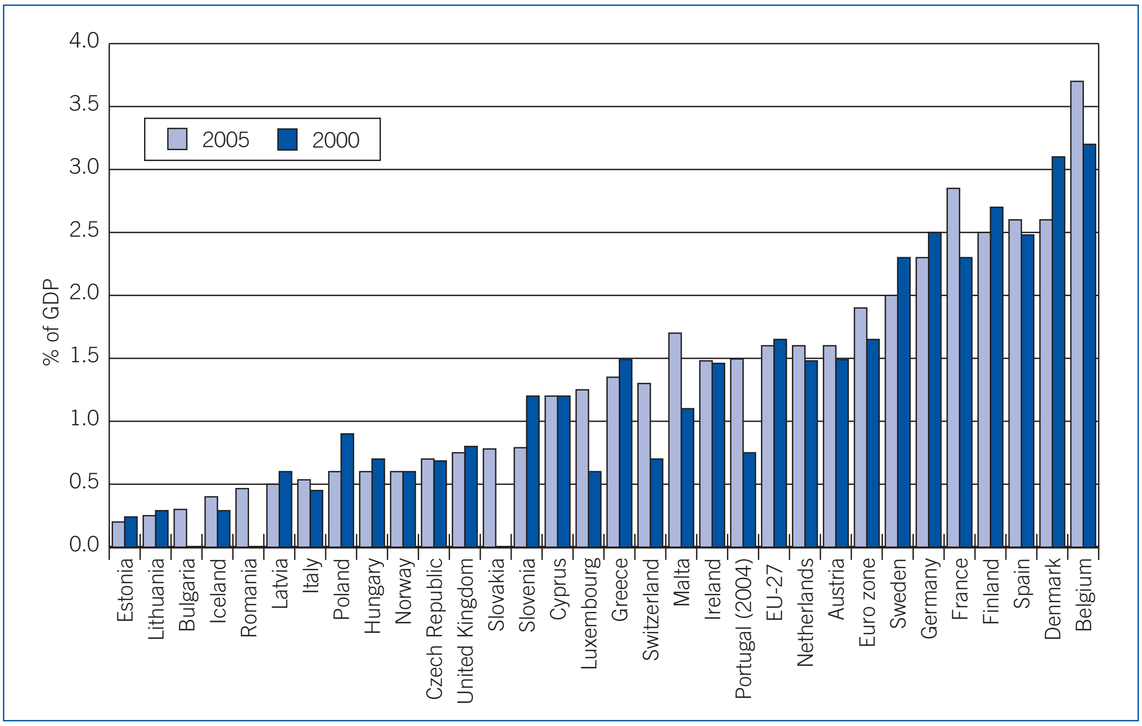
There has been a wealth of research on the impact of labour market institutions on labour market performance, mostly focused on OECD and EU-15 countries. Various studies have explored both cross-country and longitudinal dimensions, without obtaining clear results. Analysis by the European Commission (2006a) and the OECD (2004) suggests that the impact of strict EPL on aggregate unemployment cannot be confirmed, but that certain groups facing labour market problems, such as young people, women, older workers and the long-term unemployed, may indeed be adversely affected. Recourse to temporary contracts with low levels of protection, taken by women and young people, with limited prospects of obtaining more stable jobs, may be stimulated by stricter EPL. However, ILO research on the EU-15 and the EU-12 does not confirm a statistically significant correlation between the strictness of EPL and unemployment or temporary employment rates.

A comparison of institutional and policy settings in the EU-15 shows that countries with balanced systems in terms of flexibility and security, such as Denmark and the Netherlands, have also achieved remarkable economic, labour market and social outcomes. This tends to support the European Commission's belief in flexicurity solutions for the labour market and means that flexicurity is an interesting tool for achieving decent work. Further investigation is nevertheless needed into the extent to which these performances are due to specific institutional flexicurity packages and country specificities.

There have been important developments in labour market institutions and policies in the EU-12. Protection at the workplace has decreased, not only because termination of employment is subject to more liberal rules, but also due to the falling levels of unionization and of coverage by collective agreements. However, employment security outside the workplace has slowly been strengthened in most of the EU-12, even though expenditure on labour market policies is still well below that of the EU-15 (figure 3.6). This is due to more effective public employment services and improvements in the design of and access to passive and active labour market policies, particularly for vulnerable groups. Although expenditure on labour market policies fell slightly throughout the EU between 2000 and 2005, the fall in unemployment rates meant that labour market policy spending actually increased proportionately for each 1 per cent of the unemployment rate.

Evidence for the late 1990s shows that active labour market policies and collective bargaining both contributed significantly to the rise in employment and the fall in aggregate long-term and youth unemployment (Cazes and Nešporová, 2003). In contrast, unemployment rates tended to increase with higher payroll taxes. Moreover, while employment and participation rates increased in OECD countries as EPL became more liberal, the opposite seems to have happened in Central and Eastern European countries. The reasons for this may include frequent failure to comply with labour legislation and the large informal sector in the latter countries. If EPL were stricter or better enforced in these countries, employers would have to comply and offer workers regular labour contracts, rather than irregular or no contracts, resulting in higher formal employment and participation rates and a fall in informal employment.

Figure 3.6. Expenditure on passive and active labour market policies



Note: EU-27: in 2000 without Bulgaria and Romania. Euro zone: all 15 countries.
Source: Eurostat.

The findings for 2003 show a different picture. First, no difference was found between the new EU Member States and OECD countries in terms of the factors explaining labour market participation, employment and unemployment. The negative correlation found in the 1990s between EPL and employment and labour market participation in the two subregions becomes statistically insignificant. This would tend to indicate a general convergence in the new EU countries as their labour market institutions mature as a result of, among other reasons, the near completion of the legislative changes required for accession and improved enforcement of the legislation. They have also been increasingly influenced by the EES and its role in coordinating national employment action plans. The significant impact of collective bargaining coverage on the level of labour market participation, employment and unemployment identified in the 1990s for the OECD and the Central and Eastern European countries disappeared in 2003. However, higher trade union density was correlated with an increase in youth unemployment and long-term unemployment. In comparison with the late 1990s, the positive effect of active labour market policies was further strengthened, promoting economic activity and employment and reducing overall, youth and long-term unemployment. In contrast, high payroll taxes seem to have contributed to higher unemployment and to lower labour market participation and employment rates. Analysis tends to indicate that receiving unemployment benefit for a longer period has a negative impact: it reduces economic activity and employment and increases youth and long-term unemployment. This reflects the considerable difficulties in finding employment experienced by young people without work experience and by low-skilled workers, who are forced to stay on unemployment benefit as long as possible, even though many of them may be passive jobseekers, and are therefore inactive.

3.5. Policy conclusions

In the EU-15, increased emphasis has been placed on seeking a better combination of flexibility and security as an indispensable means of improving competitiveness, while maintaining the European social model. However, ILO analysis has also confirmed the relevance of the flexicurity approach for the new EU Member States and non-EU countries, where high levels of flexibility are currently combined with low employment security.

The appropriate combination of flexibility and security is unique to each country, depending on the national legal and collective bargaining tradition, the strength and experience of the social partners, the development of labour market institutions and the political will to allocate funds for policy measures. Moreover, it should be determined through social dialogue involving all the parties concerned. Nevertheless, even taking into account these national differences, certain clear policy conclusions appear to emerge.

Specification and regulation of the employment relationship remains central to the flexicurity debate. The recent Employment Relationship Recommendation, 2006 (No. 198), calls on member States to adopt a national policy of protection for workers in an employment relationship. In so doing, countries should review and if necessary adapt relevant laws and regulations to guarantee effective protection for all workers who perform work in the context of an employment relationship through measures applicable to all forms of contractual arrangements, including those involving multiple parties, and to combat disguised employment relationships. The Recommendation also provides guidance on rules for determining the existence of an employment relationship, as well as on monitoring and implementation. Another very important international norm is the Private Employment Agencies Convention, 1997 (No. 181), which requests member States, in accordance with national law and practice, to take the necessary measures to ensure adequate protection for the workers employed by private employment agencies, in relation to freedom of association and collective bargaining, minimum wages, working conditions, social benefits and access to training.

Analysis of the principal labour market institutions and policies and their impact on labour market outcomes shows that in general labour legislation has already become fairly liberal, although the question remains as to whether certain provisions may lead to increased labour market segmentation, to the detriment of less competitive categories of workers. Proper enforcement of the legislation, particularly in the countries of the EU-12, South-Eastern Europe and the CIS remains an important challenge. In these countries, several employment protection and promotion issues, over and above the basic matters covered by legislation, could be addressed effectively by collective bargaining, as they are in the EU-15, although this would require the strengthening of social dialogue, especially at the sectoral and regional levels. High payroll taxes, despite their recent slight reduction in many countries, are an important factor in unfavourable labour market performance and the informality of employment. Consideration should therefore be given to their further reduction, while shifting some social expenditure to general taxation, improving tax collection and ensuring that the tax system remains progressive.

Another factor that negatively affects labour market performance is the duration of unemployment benefit. While this might appear to invite stricter rules for unemployment insurance schemes, particularly for vulnerable groups, the main problem in most countries lies less in the generosity of unemployment benefit (which is low in Central and Eastern Europe compared to that in the EU-15), than in the lack of employment opportunities for less competitive workers. The solution should therefore be sought in an activation strategy, with public employment services paying much more attention to persons facing problems, understanding their specific difficulties and addressing them through individual employment plans and effective labour market policies. In non-EU countries, it is necessary to re-establish and reinforce the capacity of labour ministries and public employment services to provide accessible and effective job mediation services and labour market programmes.

As mentioned above, the acceleration of product and process innovation at the enterprise level and frequent internal reorganization, with a view to maintaining enterprise competitiveness, require an adaptable workforce willing to engage in and with access to workplace learning. The challenge is to develop coordinated formal training and workplace learning systems that adequately serve the needs of enterprises, including small enterprises, and workers. At the same time, the readiness of workers to participate actively in workplace learning and to help their enterprise become more competitive is influenced not only by their satisfaction with the quality of employment, but also their living standards in the broader community. Especially for small enterprises, competitiveness is also influenced by relations with other enterprises and institutions in the local area. The particular problem faced by small enterprises of lack of scale can be addressed at the local level through the promotion of collective institutions, inter-firm learning networks and collaborative cost-sharing arrangements. Economic and social inputs can be integrated through public-private partnerships to enhance competitiveness and flexicurity and can be applied either outside or within the enterprise so as to address directly issues of productivity, competitiveness and job quality.

A human development and employment activation strategy, combined with decent income support for active jobseekers and those temporarily unable to work, may be costly. Even if currently available funds were to be used in the most effective manner, they would not suffice. Resources will have to be increased, particularly in countries with a high unemployment rate, where the most important employment policy objective is to address the challenge of the low employment intensity of growth. Every effort has to be made to translate economic growth into the creation of sufficient numbers of good quality jobs. This calls for a sound and balanced macroeconomic policy that stimulates sustainable economic development through interventions on the supply and demand sides of the economy. Macroeconomic policy should therefore include employment targets and privilege the promotion of more and better jobs and good employment opportunities for all, for example, through supporting investment in education and training, and effective labour market policies.

The determination of national employment and social policies is a matter of common concern for both governments and the social partners. Governments, together with employers and unions, should agree on the pursuit of a broad, inclusive strategy of social and economic development along the lines of the EU Lisbon Strategy and the ILO Decent Work Agenda. This is particularly important at a time of increasing uncertainty in the financial markets, which brings the fears of economic recession to the shop-floor. As in the financial sector, loosening employment regulations is good only up to a point. Beyond this point, increasing flexibility has detrimental effects not only for people but for the whole economy. This shows that a sound balance between flexibility and security may be required not only in the labour market, but also beyond.

Participants may wish to consider the following questions:

- The set of common principles of flexicurity developed by the European Commission covers a large set of policy areas that forms the basis of an agreement between the European social partners. The common principles are in line with the principles of decent work: ideally, they should therefore provide the framework for a discussion on required policy changes in the EU member countries and also in the countries concerned by EU policies. Another set of proposals are known as the “flexicurity pathways”, which take country variations into account. But are these two sets of principles specific enough to build a credible and reliable framework for labour market security? This should be considered in the context of the concerns of some stakeholders that flexicurity policies are the pursuit “by other means” of increasing labour market flexibility.
- How can social dialogue and negotiations between the social partners enable enterprises to adapt better to the emerging economic environment and at the same time address the mounting objective and subjective insecurity of employment associated with new (or no) employment contracts, which may have adverse effects on labour productivity? How can investment in education and training and labour market policies be strengthened within limited public budgets?

4. Quality of working life

Wages and working hours are key dimensions of job quality, as illustrated by the recent lively and often emotional debates on wage policies (see Chapter 6) and working time in the context of the proposed amendments to the EU Working Time Directive (Council Directive 93/104/EC).[20] However, more recently the reconciliation of paid work with family life and care responsibilities has also increasingly been recognized as essential for the quality of working life. The growing (and politically encouraged) participation of women in the labour market, the intensification of work, ageing and changing family structures have generated serious work–family tensions in countries throughout the region, which require effective work–family reconciliation policies.[21] Failure to adopt such measures would have a negative impact on labour markets, income and poverty levels, competitiveness and gender equality, as women continue to shoulder the bulk of family responsibilities.

Wages, working time, maternity protection, health and safety and the work–family balance are interlinked dimensions of the quality of working life: for example, certain wage levels or systems can contribute to long working hours, low productivity and work-related injuries and accidents. These problems may, in turn, have implications for the protection of pregnant workers and reduce the time available to workers to devote to their family and community responsibilities. These interlinkages therefore need to be borne in mind and an integrated and coherent policy approach should be developed, while at the same time addressing the specificities of all aspects of productive and quality jobs.

4.1. Work and families

Workers throughout the region face similar challenges in reconciling work and family life. There is growing recognition of the importance of work–family policies for the quality of employment, and of certain basic policy standards, such as maternity protection. The social partners are also paying more attention to work–family issues.[22] In certain sectors, family-friendly workplaces are a factor in enterprise competitiveness and human resource strategies. The receptiveness of employers to family-friendly working arrangements has therefore increased in recent years, while trade unions are also devoting growing attention to these issues in response to labour-market trends and the demands of workers.

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[20] Since 2003, the EU has been involved in a lengthy and torturous process of amending the Directive, which has been marked by tension between the need for flexibility in organizing working time and the need to protect the health and safety of workers. In June 2008, the Employment, Social Policy, Health and Consumer Affairs Council reached political agreement on a number of amendments to the Directive, which has subsequently been adopted by the Council and sent to the European Parliament for a second reading by the end of 2008.

[21] Family-friendly policies may be defined as those policies that facilitate the reconciliation of work and family life, ensure the adequacy of family resources, enhance child development, facilitate parental choice about work and care, and promote gender equity in employment opportunities.

[22] For a summary of action by the social partners, see the follow-up reports to the *Framework of Actions on Gender Equality* agreed by ETUC and partners at: www.etuc.org/a/4318. See also the positions of the social partners in the consultation on measures to improve work–life balance: while employers' organizations regard EU legislation in this field as adequate and sufficient, the trade unions have called for more comprehensive action to improve the reconciliation of professional, private and family life: www.eurofound.europa.eu/eiro/2007/01/articles/eu0701079i.htm.

Although work–family reconciliation has moved up the policy agenda in many countries, particularly in the EU, there is nevertheless still a lack of coherent policy and practical action. In the former planned economies, despite growing pressure for work–family reconciliation and the ratification by many of them of the Workers with Family Responsibilities Convention, 1981 (No. 156),[23] reconciliation policies are not yet widely debated.

4.1.1. The gender dimensions of work–family tensions

Difficulties in reconciling family responsibilities with employment are a persistent and clearly gender-related problem. Despite the massive entry of women into the labour market in recent decades in Western European countries and the high activity rates of women inherited from planned economies, gender gaps in employment remain pervasive. Mothers are less likely than fathers to be employed, and the employment rates of women are lower when they have more than one child (see figure 4.1). The employment rate of women with young children is on average 12.7 per cent lower than that of women without children. In contrast, the employment rate of men with children is 9.5 per cent higher than for men without children. Women who are employed work fewer hours than men and are more likely to take paid leave or career breaks for caring purposes. Labour market losses associated with single parenting overwhelmingly concern women. Career breaks or working-time reductions are particularly frequent for women after the birth of a child and have consequences throughout their working lives and on their pensions.

Patterns of withdrawal from the labour market by mothers following the birth of children differ significantly throughout the region. In some countries, such as Portugal, employed mothers typically take a break of a few months before returning to work; in others, such as Norway and Sweden, mothers often withdraw from employment during the first one, two or even three years of parenthood, through paid leave schemes, career breaks, or both, and then return to paid work. In other countries, mothers may never return to work after having children or, if they do, are likely to be confined to jobs with reduced wages and career prospects (for example, in Germany). In many Central and Eastern European countries, women are unable to return to their jobs following lengthy maternity/ parental leave (up to three or even four years) because of unstable labour markets and volatile enterprises.

Because women continue to do the majority of unpaid work in the home or family, they rely to a greater extent than men on work–family reconciliation measures, or need to develop individual reconciliation strategies. This double burden on working mothers places pressure on family life, affects the amount of care that children receive and hampers career prospects. While mothers in paid work (especially those working full time) devote less time to childcare and other unpaid family chores than those who are not in paid work, this still largely exceeds the time devoted by fathers to such tasks.

Gender patterns in the division of unpaid work appear not to have changed much in recent years in Western Europe. The ILO *Country Reviews of Employment Policy* for South-Eastern Europe show that the amount of unpaid work done by women has increased since 1990. In the Russian Federation, the double workload of women is considered to be the main source of their discrimination on the labour market. While the working hours of Russian women are almost the same as those of men, women spend twice as much time on activities related to the home and family.

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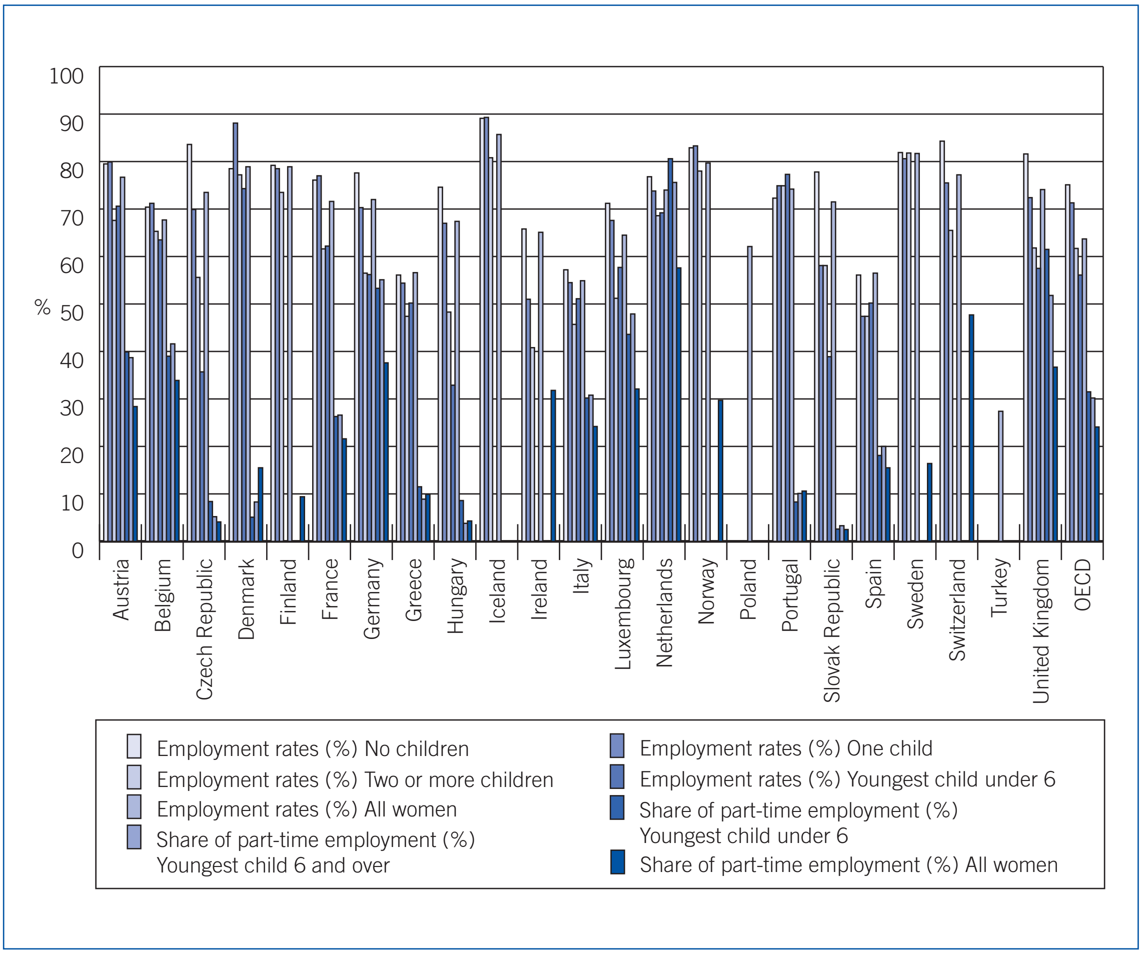
[23] Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Lithuania, Montenegro, Russian Federation, Serbia, Slovakia, Slovenia, The former Yugoslav Republic of Macedonia and Ukraine.

Figure 4.1. Employment and part-time work among women in 2003, by presence and age of children



Note: Women aged 25–54. Data for all women in France, Iceland and Luxembourg refer to 2002; data by the presence of children refer to 2001 for Iceland, Ireland, Sweden and Switzerland. Apart from figures on overall employment of women and part-time employment for all women, which refer to 2003, figures for Denmark refer to 1998, and to 1997 for Finland.

Source: OECD (2004) and European Union Labour Force Surveys.

4.1.2. Different work–family models

Reconciliation policies encompass many elements: care services, leave entitlement, working time, taxation systems, social security benefits and allowances, active labour market policies and workplace measures. The combination of these components and their relative weight and outcomes differ significantly throughout the region.

In the EU, women often use part-time work as a work–family reconciliation strategy, even though this option is often associated with low-quality jobs and more limited career and training opportunities. Decisions about working in two-earner households also depend on interactions between tax and benefit systems and the cost of childcare. At low levels of family income (for example, when one partner works part time), the additional net income is often offset by child-care costs and taxes. A number of EU countries operate "joint" tax-benefit systems that have the effect of discouraging the labour market participation of a second earner. Some EU-12 countries (such as Bulgaria), which have individualized tax systems, are debating the introduction of family-based taxation, which may have the effect of discouraging the labour force participation of women.

Current public spending priorities do not reflect the increased awareness of the importance of work–life reconciliation. Gross public spending on families tends to be low compared to other types of social spending. On average, for 24 OECD countries, spending on families accounted for 2.4 per cent of GDP in 2003, and was above 3 per cent only in Austria, Denmark, France, Hungary, Iceland, Luxembourg, Norway, Sweden and the United Kingdom. [24] Spending on families in 2002 was only marginally higher than in the 1980s. Moreover, it is difficult to distinguish spending on work–family reconciliation measures from general family support. Most family-related spending (around 70 per cent) consists of cash transfers. Only a few countries, such as Denmark, Iceland and Sweden, allocate over half of family-related public spending to services. Spending by educational institutions (both private and public) on education and care in early childhood represents an average of 0.7 per cent of GDP in OECD countries. It is significantly higher than average in Denmark, Finland, France, Hungary, Iceland, Luxembourg, Norway and Sweden, and significantly below average in Ireland. [25] In many Central and Eastern European countries, family spending is often considered a poverty reduction or a labour supply reduction measure, rather than a component of active employment policy.

4.1.3. Differing policy reforms on reconciliation measures

Just as the work–family models differ, so do the policy reforms conducted in recent decades: These include:

- *Measures leading to an increase or decline in child-care services:* available and affordable child-care services are central to parents combining paid work with family responsibilities. The EU targets for child-care services have resulted in an improvement, although coverage remains low in most of the EU-27. In Central and Eastern European and CIS countries, child-care services have declined since 1990, while their cost has risen.
- *Reforms of entitlement to care leave:* maternity leave and benefits exist in all the countries in the region, normally based on social insurance.[26] Leave often exceeds the requirements of the Maternity Protection Convention, 2000 (No. 183), particularly in Central and Eastern European and CIS countries.[27] In practice, many women continue to face discrimination on grounds of maternity. Since June 1996, the EU Parental Leave Directive (96/34/EC) has made it compulsory in the EU to introduce three months' parental leave. Although parental leave exists in most countries, the levels of financial support differ widely. Short-term paternity leave is available for fathers in some EU countries. Leave to care for other family members or short-term leave to care for sick children exists in certain countries, such as Central and Eastern European and CIS countries. In view of the low take-up of parental leave by fathers, some countries have set aside periods of non-transferable *"daddy leave"* (Denmark, France, Germany, Iceland, Norway, Slovenia and Sweden), which has proven effective in raising take-up levels (although they still remain low).

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[24] OECD Family Database: http://www.oecd.org/dataoecd/45/46/37864391.pdf.

[25] ibid.

[26] This means that, depending on the respective regulations, inactive women are not normally covered. Coverage varies for the self-employed, contributing family workers and agricultural workers.

[27] Several Central and Eastern European and CIS countries have made maternity/parental leave more generous since 1989 and have made it available for fathers (although it is still rarely taken by them, mainly for fear of employer reprisals) by increasing the number of days of paid leave, partly to compensate for the closure of many pre-schools and nurseries, partly as a labour supply reduction measure to release tensions on the labour market (although this has in turn led to further closures of pre-schools and nurseries, due to low attendance) and also as part of an openly pro-natalist drive aimed at reversing the decline in the birth rate (for example in Croatia and Poland). In most Central and Eastern European and CIS countries, the level of take-up of paid parental leave has fallen sharply since 1990 due to a fast decline in the number of births.

Box 4.1
Differing approaches to work–family issues

Policy approaches to work–family issues vary considerably throughout the region: various work–family policy models can be distinguished, with the situation in individual countries often reflecting elements of more than one model (Bovenberg, 2005):

Nordic model: Nordic countries, and to some extent France, rely heavily on the public sector to help young parents reconcile family and work. The Nordic countries pioneered extensive national legislation on maternity/paternity/parental leave, the right to part-time work and publicly funded child-care arrangements.

Anglo-Saxon model: Countries such as those with very flexible labour markets (such as the United Kingdom) often only have a small public sector and rely on the flexibility of their labour markets and on firms to provide family-friendly workplaces. Women can leave the labour market temporarily to bring up children, following which they can re-enter the labour market, but are often penalized in their careers and income for doing so. Families in a weak labour market position and on low incomes do not receive much support for the cost of care services.

Corporatist model: Countries such as the Netherlands, and to some extent Germany, rely on the social partners to negotiate work–family reconciliation policies.

Familialist model: Germany, Poland and southern European countries, among others, have traditionally relied heavily on families to resolve the challenge of work–family reconciliation. Parents are partly supported through state-regulated arrangements for leave and part-time work. In recent years, there has been considerable internal social and economic pressure for work–family policy reforms in corporatist and familialist countries.

The former planned economies: These States have undergone the most drastic changes in work–family reconciliation policies since 1990: from a heavily state-centred system, many have cut benefits and subsidies and the number of public and enterprise-based child-care facilities has sometimes been radically reduced. At the same time, protective legislation for women is undergoing reform in many countries. While justified from the viewpoint of equality of opportunity and treatment of women and men, these reforms may in practice increase the challenges of work–family reconciliation, particularly for women. A process of re-familialization appears to be under way, with responsibilities for unpaid care work shifting back from the State to the family.* The majority of Central and Eastern European and CIS countries have so far remained at the margins of international debates on work–family policies and, whatever reconciliation support measures may exist in the form of lengthy maternity/parental leave, they appear to be left over from the former system rather than a result of recent policy action and they have an adverse effect on women's careers.

* See *Social Politics: International Studies in Gender, State and Society* (Cary, NC, Oxford University Press, 2007), Vol. 14, No. 3, Fall 2007.

- *Reduced working hours:* a number of EU countries have introduced working time legislation to support work–family reconciliation.[28] In addition, collective agreements have also established various individual working time arrangements, such as flexitime, time banking and compressed working weeks, which can be (but are not always) supportive of work–family reconciliation.
- *Long-term care insurance:* as caring is overwhelmingly carried out by women, the care needs of ageing populations tend to clash with women's employment opportunities. Growing long-term care needs boost demand for care services for the

[28] Since 1999, Belgium, Finland, Germany, Italy, the Netherlands, Portugal and Spain have all improved existing parental or sabbatical leave legislation, or have given employees new rights to limit or reduce their working hours. France introduced the 35-hour week.

elderly and place increasing funding pressure on governments, resulting in calls for insurance coverage.[29] All countries are increasingly looking to private insurance to provide solutions, but few have developed schemes as part of statutory social insurance systems (examples include France, Germany and Spain).

- *Promotion of a family-friendly culture and workplace:* the increasing prevalence of voluntary solutions (Evans and Callan, 2003) may be a reflection of the low political priority given to work–family legislation, and of well-established collective bargaining mechanisms that address workplace issues.
- *Development of international legal standards:* work–family reconciliation has gained increasing attention in the EU, where the EES initially focused on working time, work organization, parental leave, child-care and maternity protection, although the notion of work–family reconciliation later became part of the EU social policy agenda and indicators on reconciliation were developed. Since 2002, the European social partners have also included support for work–life balance among their priorities.[30] The candidate and potential candidate countries in South-Eastern Europe, and governments and social partners in neighbouring countries, have been guided by these policy concepts.

4.1.4. Policy considerations

Experience points to several broader issues:

- *The challenges of achieving gender equality in work–family policy approaches:* policies to support work–family balance may simultaneously reinforce gender inequality in the domestic division of labour and undermine gender equality in employment (Moss and Deven, 1999). For example, long periods of leave may have lasting effects on women's skills, earnings and pensions. Measures aimed at or taken up primarily by women may also foster gender discrimination because of their perceived cost. Publicly financed child-care schemes offer a means of combining work–family reconciliation with gender equity. When childcare is assured, women and men are free to compete in the labour market on more equal terms.
- *Child-care allowances have differing effects on employment:* some countries require beneficiaries of child-care allowances to provide care in the home and not use child-care institutions (for example, Finland and Norway) (Leira, 2002), while others support continued economic activity by both parents, for example by allowing beneficiaries to engage in part-time work Czech Republic and Germany). Under the French system, benefits are available either for parental care at home (when one parent withdraws partly or completely from the labour market) or to purchase child-care services. Cash benefits may offer a range of options for parents, or steer them towards a specific option, sometimes depending on household income, which may have the effect of reducing demand for child-care services. For example, the introduction of cash benefits in Norway has reduced demand for child-care places for the under-threes, particularly among low-income and migrant families, whose children tend to benefit the most from attending child-care centres.
- *The cost of work–family reconciliation measures:* the cost of measures such as large-scale high quality child-care schemes is considerable; opponents of such measures often argue that many women prefer to look after their children themselves, and propose cash allowances instead. Where the cost is borne by industry, implementation

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[29] ETUC has called for a new Lisbon target on care services for the elderly.

[30] See www.etuc.org/a/4318.

depends on the willingness of employers, as well as enforcement measures. The promotion of family-friendly measures may be left to collective bargaining in countries with a strong tradition of social dialogue. Unions have traditionally been reticent in demanding family-friendly provisions, but in many countries they are now more responsive to the needs of their members in this respect (ETUC, 2006a). However, the benefits of family-friendly workplaces to employers and employees remain under debate, possibly due to the lack of data and agreed indicators.

- *Demographic developments:* the ageing of the population, the decline in fertility and changes in family structures are occurring differently throughout the region. Awareness of the relevance of elderly care as a matter of reconciliation policy is now growing slowly. In some countries, debates have commenced about the need for improved institutional care, while the introduction of care-leave schemes are under discussion in others. With the growth of the elderly population in need of care, workplace problems such as absenteeism are likely to arise, thereby increasing the pressure for appropriate policy solutions.
- *Coverage of work–family policies:* this needs to be expanded to reach more workers and their families. Existing practice comes mostly from the industrial sector, with services and voluntary arrangements being more common in large than in medium-sized and smaller enterprises. Policy measures need to reach out to, for example, agricultural and SMEs, and work–family reconciliation in the informal economy and in the context of growing labour migration needs to be understood and addressed. Links between work–family policy and informal work need to be explored: for example, consideration needs to be given to whether informal workers suffer greater pressures than other workers in reconciling their work and family responsibilities and the extent to which informal work is a strategy for dealing with the challenges of work–family reconciliation. Where formal childcare and elderly care is inaccessible or unavailable, families may employ informal carers who are often women migrant workers who may be undocumented and may experience difficulties in meeting their own family responsibilities, whether their family is at their place of residence or has remained in their country of origin.

4.2. Working time trends and issues

Working hours and working time arrangements have important implications for the reconciliation of paid work with family and private life, as well as for health and safety, productivity and enterprise performance.

There is a broad trend towards a reduction in average weekly hours of work in most countries in the region. This was the case in the EU-15 between 1995 and 2006, except for in Austria, which experienced a small increase, and in France where there was no change. It is even true in Greece, which has the longest average weekly hours in the EU-15 (42.7 hours), and the United Kingdom, where working hours are relatively long. The overall trend also holds for both men and women, once again except in Austria, where a substantial increase in average hours for men was partially masked by a substantial decline in women's average hours, due to increased part-time work, and to a lesser extent in the United Kingdom, where the average hours of women rose slightly.

The pattern was similar in the EU-12 for both women and men over the 2000–06 period, although from a somewhat higher baseline, with the exception of Bulgaria, where average weekly hours increased slightly, and Poland and Romania, where they were unchanged.

Outside the EU-27, comparable data on hours of work are extremely limited or non-existent. The available data show a slight downward trend in average actual weekly hours in Croatia; a modest upward trend in the Republic of Moldova, from a very low baseline; no change in Kyrgyzstan; and, although no longitudinal data are available, a very high number of actual weekly hours in Turkey (an average of 51.3 hours in 2006). In the Russian Federation, usual weekly hours remained essentially unchanged between 1995 and 2004. In Ukraine, average annual working hours increased substantially between 1997 and 2006, although this represented a recovery following a substantial drop in the early 1990s.

The proportion of the workforce usually working excessive hours is relatively low, and is falling in most countries in the Europe region.[31] In the EU-15, long hours are common in a few countries, particularly Greece (32.5 per cent of workers) and the United Kingdom (17.7 per cent). There is also a broad trend towards a reduction in usual long hours of work, with a few interesting exceptions, such as Austria, where excessive hours nearly doubled between 1995 and 2006 (from 9.7 to 17.7 per cent of workers) and, surprisingly, France (probably due to longer hours among the self-employed). Excessively long hours of paid work are highly gender-biased, disproportionately affecting men.

In the EU-12 plus Croatia and Turkey, the pattern is more mixed, with a substantial decline in excessive hours in most countries (particularly the Czech Republic, Slovenia and the Baltic States, and especially Lithuania, where the figure fell from 16.7 to 2.9 per cent of workers between 1998 and 2006), but increases in others (Bulgaria and Poland registered increases between 2000 and 2006). In countries beyond the EU-27, the overall pattern of excessive working hours differs significantly for the public and private sectors, increasing regularly in the latter and also among employers and the self-employed. Excessive hours in the main job hardly exist in the Russian Federation. The most dramatic figure is the one for Turkey, where 65 per cent of the workforce worked 48 or more hours per week in 2006 (45.9 per cent of women and 71.7 per cent of men), probably reflecting both the longer statutory working week (45 hours) and the traditional link between low wages and long working hours, which continues to be typical in developing countries.

4.2.1. Developments in part-time work

The definition of part-time work varies from country to country, but it most commonly refers to paid work of less than 30 hours a week.[32] Part-time work can be organized in different ways, but under the most common model a shorter fixed number of hours are worked on each working day (Anxo et al., 2007).

Several aspects of part-time work are broadly similar in all countries. In the first place, it is heavily gender biased. In 2004, almost one third (29 per cent) of women in the EU-27 worked part time, compared with just 7 per cent of men (European Foundation, 2007). Women hold approximately three-quarters of all part-time positions, and 43 per cent of the jobs created between 2000 and 2005 were part-time jobs for women. Moreover, part-time jobs are frequently of lower quality than similar full-time jobs in terms of hourly wages, non-wage benefits, social protection and opportunities for training and career development.

There are substantial differences in the incidence of part-time work between countries, with a generally increasing trend, especially in the EU-15, although from very different

[31] Excessive hours of work are defined as usual weekly hours in excess of 48 hours.

[32] The definition of part-time work in most countries is based on the number of hours worked, although in some survey instruments (notably the EU Labour Force Survey) participants are asked directly if they work part time.

baselines (see Chapter 3). However, the picture is different in the EU-12,[33] where the incidence of part-time employment is extremely low (Latvia, Poland and Romania are the exceptions, probably due to their large agricultural sectors) and does not appear to be increasing (except in Slovenia, and possibly Estonia) (ILO, 2007). In many cases, this is probably a legacy of the former planned economies, with their focus on full-time employment for both men and women, although low average wages may also play a role, implying that much part-time work in these countries is involuntary.

Outside the EU-27, despite the data limitations, several country studies from Eastern Europe and Central Asia shed light on a phenomenon that can best be described as reduced working hours determined by enterprise needs. However, unlike part-time work based on enterprise needs in the EU Member States, which is often designed to respond to short-term fluctuations in market demand, these reduced working hours often take the form of administrative leaves, compulsory in nature although often illegal and frequently without pay, and respond to longer-term declines in labour demand due to financial difficulties facing individual enterprises. In Ukraine, for example, long-term administrative leaves affected nearly 20 per cent of the workforce in 1999 and, although levels have declined since then, substantial proportions of workers in certain industries, such as transport and communications (23.3 per cent of employees in 2004), construction (21.9 per cent) and manufacturing (17.5 per cent) are still affected.

4.2.2. Organization of working time

In addition to the number of hours actually worked over a given period, it is important to examine how hours of work are organized, as the same number of hours can be organized differently with different impacts on both workers and enterprises.

Night work is relatively rare in the EU-27, where only around 10 per cent of establishments require at least 20 per cent of their employees to perform night work regularly (Kümmerling and Lehndorff, 2007). In contrast, weekend work and, in particular, regular Saturday work affects employees in approximately 25 per cent of all establishments in the EU-27, while workers in about 15 per cent of establishments are engaged in regular Sunday work. Women are more likely than men to be engaged in weekend work, although the reverse seems to be the case in manufacturing (Presser et al., 2008).

Shift work, the incidence of which is closely linked to the sectoral composition of national economies, is prevalent in health and social work, hotels and restaurants, manufacturing and transport, storage, and communications. The use of shift work arrangements is common in most EU countries: some 16 per cent of employees in the EU-15 and 23 per cent in the EU-12 are shiftworkers (European Foundation, 2007).

In recent decades, there has been a marked trend away from the standard working week towards greater flexibility in the organization of working time through a more diverse array of options for arranging working hours. However, the key issue is who benefits from working time flexibility and whether temporal flexibility is orientated towards the needs of workers or enterprises, or both.[34]

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[33] No data are available for Cyprus and Malta.

[34] There is considerable confusion regarding the concept of working time or temporal flexibility, particularly in the context of the current EU debate on flexicurity. In this section, the focus is on temporal flexibility, which is defined as flexibility in the ways in which working hours are arranged over a specified reference period. This type of flexibility assumes a fixed number of workers with variable working hours, and should not be confused with “numerical” or “contractual” flexibility, which by definition focuses on obtaining flexibility through a variable number of workers.

Box 4.2
Categories of working time flexibility

Six categories of working time flexibility may be distinguished:

- Worker-orientated high flexibility, with emphasis on employees' needs and preferences, such as control over work schedules – most prominent in Finland and Sweden, and also in public administration and the commercial services sector;
- Company-orientated high flexibility, with emphasis on the operational needs of enterprises and/or the preferences of the customers, consisting mainly of overtime and non-standard work schedules – most common in Belgium, the Czech Republic, France, the United Kingdom and the health and transport sectors;
- Intermediate flexibility (use of leave), consisting of offering workers various types of leave at different points in their lives (for example, for family illness), including part-time work and early retirement – predominant in Denmark, Latvia, Netherlands, Poland and the education sector;
- Intermediate day-to-day flexibility, designed to accommodate variations in workload within the working day and consisting, for example, of irregular working hours, part-time work and flexible working hours – not predominant in any European country, but much more common in Germany and the United Kingdom than elsewhere, and also typical in hotels and restaurants;
- Intermediate flexibility (use of overtime), based primarily on the use of overtime with a low use of other arrangements; and
- Low flexibility, whereby enterprises use low levels of all of the various types of working time flexibility practices – typical in the southern European countries, Hungary, Slovenia and, to a lesser extent, Belgium and Luxembourg.

Source: Chung et al., 2007.

4.2.3. Policy suggestions

The ILO has identified five dimensions of decent work in the area of working time, or decent working time. Working time arrangements should promote health and safety; be family friendly; promote gender equality; advance enterprise productivity and competitiveness; and facilitate worker choice and influence over their hours of work. Decent working time benefits not only workers, but also enterprises in several ways, for example through increased productivity, reduced absenteeism and staff turnover, and improved employee attitudes and morale, which can translate into better profits.

Advancing these five dimensions requires a broad range of policies at the national, sectoral and enterprise levels. The precise policy mix varies between countries, but key issues that need to be addressed include: excessively long regular hours; the generally poor quality of part-time work; and the question of how to achieve working time flexibility that balances the needs of workers and enterprises.

Appropriate government policies to limit excessively long working hours are an important feature of any legal framework on working time. They exist in most countries in the region and at the supranational level in the form of the EU Working Time Directive. As the proportion of the labour force working excessively long hours is generally relatively low by global standards, policies probably need to be targeted at sectors and occupational groups in which excessive hours are most prevalent, which may entail reviewing pay systems and raising average wage levels in the sectors concerned.

Another policy issue for advancing both decent working time and gender equality is the need for equal treatment for part-time workers, as envisaged in the Part-Time Work Convention, 1994 (No. 175). This principle has already been given effect through the EU directive concerning part-time work (Council Directive 97/81/EC), although considerable inequalities persist between part- and full-time workers. The path to equality for part-time workers involves a process of the normalization of part-time work, including granting part-time workers similar rights and benefits (pro-rata earnings, non-wage benefits, etc.) to full-time workers in similar positions, and extending part-time work to a broader range of occupations and positions.

For the effective promotion of gender equality in working time, policies need to go beyond part-time work and be combined with other support measures (Messenger, 2004). The gender gap in the working hours of men and women needs to be narrowed. Limiting excessively long hours for full-time workers and encouraging longer hours for part-timers, the vast majority of whom are women, would help to attain this goal. Work–family reconciliation policies that facilitate the labour market access of women on equal terms with men are therefore crucial.

The achievement of decent working time also entails the development of work schedules that both accommodate the needs of individual workers, including their family responsibilities, and meet the business requirements of enterprises. This win–win approach requires consideration of the preferences of both workers and employers, as suggested in the Reduction of Hours of Work Recommendation, 1962 (No. 116). Incentives should be offered to enterprises to adopt flexible working time arrangements, such as flexitime and workingtime or “time-banking” accounts.

Finally, with a view to overcoming the lack of data on working time in many countries in the region outside the EU-27, it is necessary to establish appropriate mechanisms for the collection of working time statistics in line with international definitions established by the International Conference of Labour Statisticians.

4.3. Concluding remarks

The increasing labour force participation of women, changing family structures and demographic pressures have placed the reconciliation of work and family on the agenda in debates on the quality of employment alongside more traditional issues such as wages, working time, and health and safety. A variety of reforms have been adopted, ranging from legislative and financial measures to voluntary workplace-based provisions. While the intensity, scope and outcomes of the various reforms differ between countries, there is generally a lack of coherence and practical action.

The overall trend towards a fall in weekly hours of work does not appear to have had a positive impact on family reconciliation measures, and the division of unpaid work between women and men has remained unchanged. On a positive note, the proportion of workers usually working excessive hours appears to be relatively low and is declining in most countries, although the amendments finally adopted to the Working Time Directive may serve to reverse this trend. It is still a big challenge to devise the appropriate combination of measures to safeguard workers’ health and productivity, meet their family and other needs and allow businesses to adjust to market demand and volatility.

Participants may wish to consider the following questions:

- What combination of public policies and workplace measures is likely to result in a better balance of the needs of workers, families, enterprises and communities?
- Although the proportion of workers usually working excessive hours is relatively low and declining in most countries, there are sectors and occupational groups in which excessive hours are prevalent. What type and mix of policy measures, including wage policies, could help address this situation?

5. Social protection

This chapter covers several aspects of social protection: the provision of income security to replace lost income, supplement inadequate income or provide income where there is none; ensuring a safe and healthy workplace; and providing affordable access to health care. Social security measures are part of broader income policies, and as such necessarily complement labour market policies. Access to social security [35] and to a safe and healthy workplace are important factors in determining the quality of employment and have a major impact on the achievement of decent work.

5.1. Social protection in Europe and Central Asia: An overview

Expenditure levels on social security systems (measured as a proportion of GDP) differ throughout the region (see figure 5.1). In the EU-27, social security systems redistributed slightly over 27 per cent of GDP in 2005, including administration costs. But even within the EU-27 the differences are quite significant. Countries such as Estonia, Latvia, Lithuania and Romania spend less than 15 per cent of GDP on social security, while the level in others, such as Denmark, France and Sweden, is over 30 per cent. Levels of expenditure are similar to or higher than in the EU-27 in the three Western European countries that are not EU members but are covered by Eurostat statistical inquiries, namely Iceland, Norway and Switzerland (hereinafter collectively referred to as the EU-27+3). In the other countries in the region, the average level of social security expenditure was only 13 per cent of GDP in 2005, once again with broad differences, ranging from levels not much lower than the EU-27 average (and over 20 per cent of GDP) in Croatia, Montenegro, Serbia, The former Yugoslav Republic of Macedonia, and Ukraine, to under 10 per cent of GDP in certain Central Asian countries.

While average expenditure on social security for all the 47 countries covered by this analysis is 25.6 per cent of GDP (only slightly lower than for the EU-27), [36] this hides differences, not only in social security legislation, implementation and governance, but also and in particular in attitudes to redistribution and the capacity to collect the taxes and contributions required to finance social policies. Differences in social security spending (figure 5.1) are to a large extent reflected in social security coverage and benefit levels. While countries that spend well above 10 per cent of GDP on social security usually meet the minimum requirements set out in Convention No. 102 and the European Code of Social Security and cover the large majority of the population, the gap in coverage in other countries is substantial. For example, estimates by the Asian Development Bank (ADB) for all Asian countries show that population coverage (beneficiaries as a percentage of

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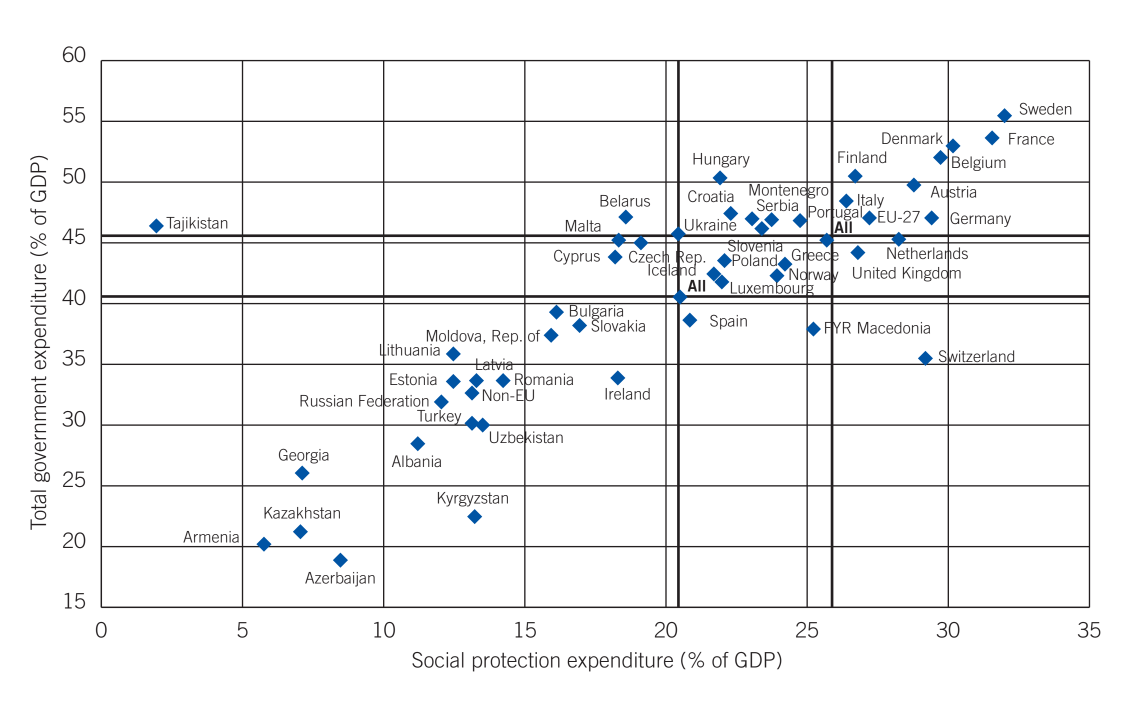
[35] ILO definitions of social security are set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102), as well as in Recommendations Nos 67 and 69. Social security provision is traditionally divided into branches: sickness/health care, disability, old age, survivors, family/children, unemployment, housing and social exclusion that is not classified elsewhere.

[36] For the non-EU-27 countries covered by this analysis, the available information on social spending is not fully comparable with the Eurostat estimates for the EU-27+3. Data for the 17 other countries covered are based on information from various sources.

Figure 5.1. Social security expenditure and total government expenditure (2005)



Note: Two figures are given for “All” (all countries). The higher figure is the average for all countries weighted by GDP and the lower figure is weighted by population.

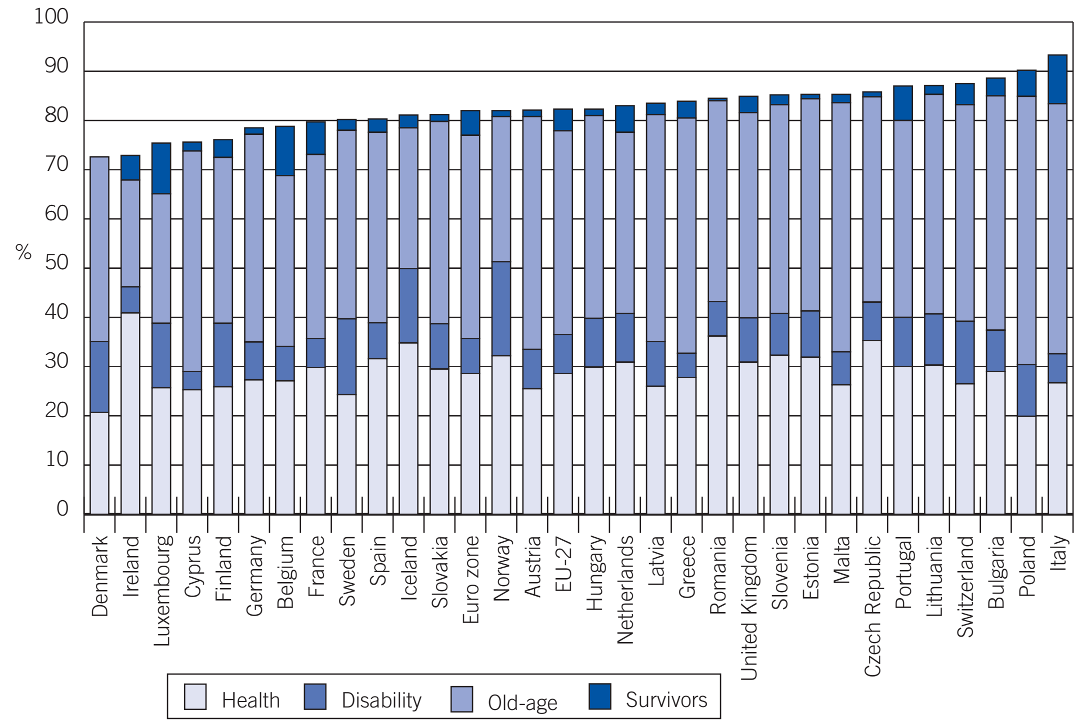
Source: ILO calculations based on ILO Social Security Inquiry database and OECD, ADB and IMF data.

(target groups) is 67 per cent in Kyrgyzstan, 55 per cent in Azerbaijan, 44 per cent in Kazakhstan, 40 per cent in Uzbekistan, 38 per cent in Tajikistan and 36 per cent in Armenia (Baulch et al., 2008).

Figure 5.2 shows that social security expenditure is heavily dominated by spending on pensions and health care. There is evidence that this is also the case in non-EU countries. There is accordingly a risk that expenditure on other important programmes, such as unemployment benefit, family programmes, housing and social exclusion, is being crowded out. This is especially critical for flexicurity policies, which require a substantial investment in labour market programmes to achieve the appropriate balance between cash benefits and high-quality labour market assistance and services. The implementation of such policies may be particularly problematical in countries that spend most of their overall social budget on health and pensions (for example, Italy). An increase in overall social security spending may be unlikely as countries are facing tax competition and pressure to squeeze their budgets, of which social security expenditure usually consumes at least half.

At the EU-27+3 level, over the period from 1995 to 2005, between 13 (Lithuania) and 32 (Sweden) per cent of GDP (representing over half of the overall public budget) was earmarked for social protection (figure 5.3). While in most countries social security revenue tallies with expenditure, in a few revenue significantly and increasingly exceeds expenditure, pointing to partial pre-funding of future pension expenditure. Certain countries, including Denmark, the Netherlands and Switzerland, have long since embarked on a pre-funding strategy, while others, such as Belgium, Iceland and Sweden, did so in the 1990s. They are likely to be followed by other countries, such as Germany, many of

Figure 5.2. Share of expenditure on health services and pensions as a percentage of total expenditure on social protection (EU-27+3)



Note: "Health" comprises health services and sickness benefits, as well as disability measures; "pensions" comprises old-age (retirement) pensions, pensions paid to survivors (widows, widowers, orphans) and disability pensions.

Source: Eurostat and ILO.

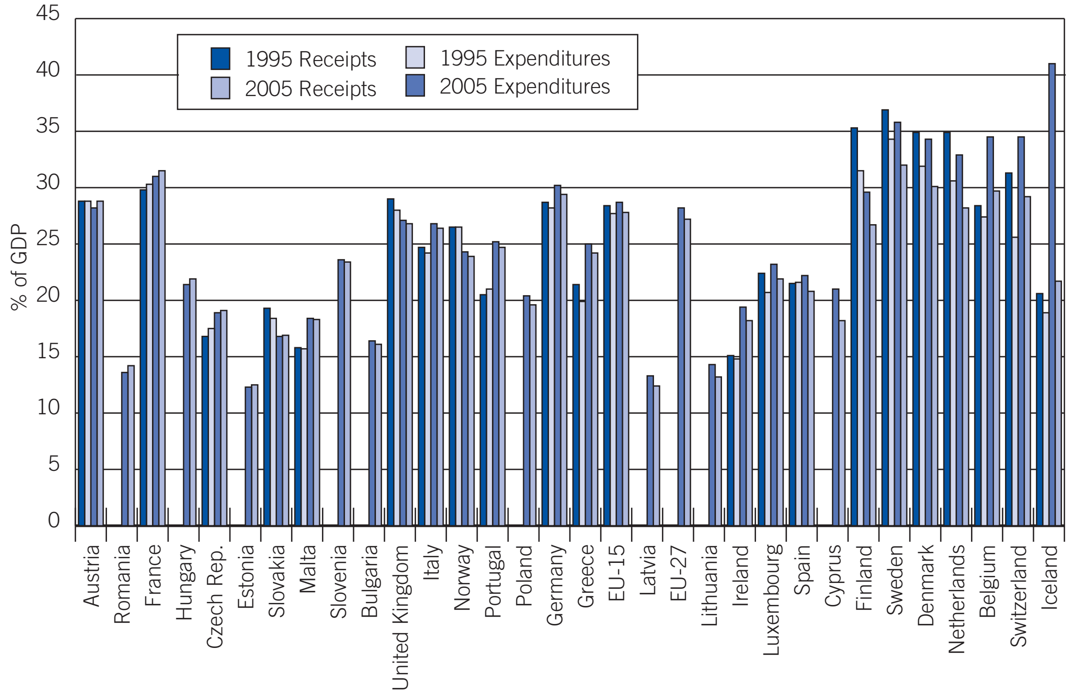
the EU-12 and certain non-EU countries, which have taken steps to foster individual savings, although their effects are not yet statistically visible.

With regard to sources of social security financing, many countries (although at different speeds) have pursued a policy of reducing the social contributions of protected persons in relative terms, while maintaining the relative share of employers and increasing that of transfers from general taxation. This is the combined result of policy measures and structural shifts in the composition of the labour force.

Box 5.1
Overview of social protection financing arrangements (EU-27+3) (as percentage of GDP)

- Employer contributions range between 3.5 per cent (Denmark) and 17.7 per cent (Belgium);
- Contributions by protected persons range between 0.1 per cent (Estonia) and 11.3 per cent (Netherlands);
- Government transfers range between 1.6 per cent (Romania) and 21.7 per cent (Denmark); and
- Other receipts range between 0 per cent (Estonia) and 14.4 per cent (Iceland).

Figure 5.3. Receipts and expenditure of social protection systems (percentage of GDP) (EU-27+3, 1995 and 2005)

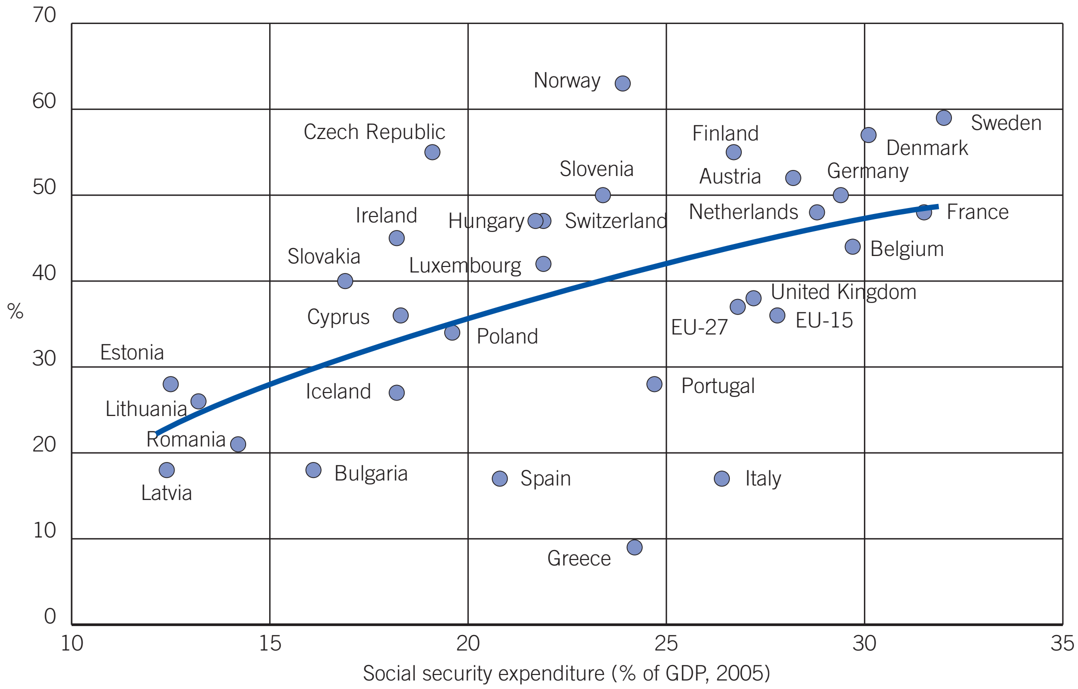


Note: Countries sorted by balance in 2005.
Source: Eurostat.

It should be borne in mind that the only source of financing for pensions, health care and other benefits is ultimately the current income generated by the domestic economy (Fultz and Stanovnik, 2004), which forms the basis for taxation and contributions. The volume of tax and social contributions collected depends on the country's performance in terms of governance, including the willingness and capacity of all stakeholders to cooperate in the financing of social protection. Tripartite governance of the social sector, with its in-built system of checks and balances, has played a major role in ensuring the availability of resources for social policy measures and benefits.

One means of measuring the effectiveness of a social security system is to compare the percentage of the population that is at risk of poverty before and after social transfers. Figure 5.4 shows that social protection systems are effective in reducing exposure to poverty. In general, the greater the investment in social security (in terms of GDP), the stronger the poverty reduction (and prevention) effect, even though some social security systems are more redistributive and focus more on those with lower incomes. While the social protection systems of the EU-27 reduce exposure to poverty by almost 40 per cent, this figure varies considerably between countries, pointing to broad variations in the nature and effectiveness of social protection regulations. However, the capacity of social protection systems to reduce poverty has declined in certain countries in the region.

Figure 5.4. Percentage reduction of pre-transfer poverty by social security transfers (EU-27, 2005)



Note: Poverty before social transfers: The percentage of persons living with a disposable income before social transfers that is lower than the poverty threshold. Poverty after social transfers: The percentage of persons living with a disposable income after social transfers that is lower than the poverty threshold. The poverty threshold is set at 60 per cent of the national median disposable income (after social transfers).

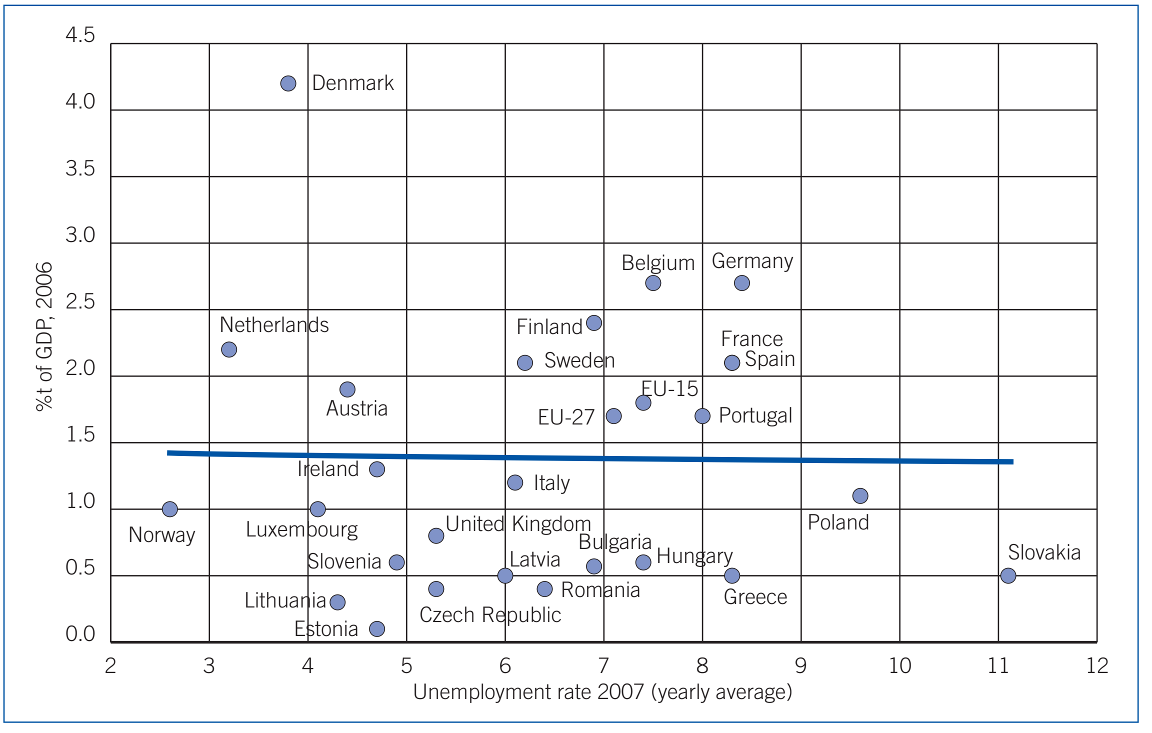
Source: Eurostat and ILO.

5.2. Income security in unemployment

EU-27 countries on average spend slightly above 1.7 per cent of GDP on all labour market policies (including income support and so-called "active measures"), although spending levels are not necessarily correlated to the respective unemployment rates (figure 5.5). There is a weak negative correlation between the proportion of total labour market policy expenditure allocated to so-called "active measures" and unemployment rates: countries with lower unemployment rates tend to devote a larger proportion of their overall expenditure to measures other than income support. Equally, there is also a weak negative correlation between the generosity of labour market programmes and unemployment rates: countries with lower unemployment rates tend to spend more on labour market policies per unemployed person than countries with high unemployment. In general, the unemployed in the lower income EU-12 tend to receive less than 20 per cent of the national average income per capita in labour market benefits and services, while the level in the EU-15 is around 50 per cent (figure 5.6).

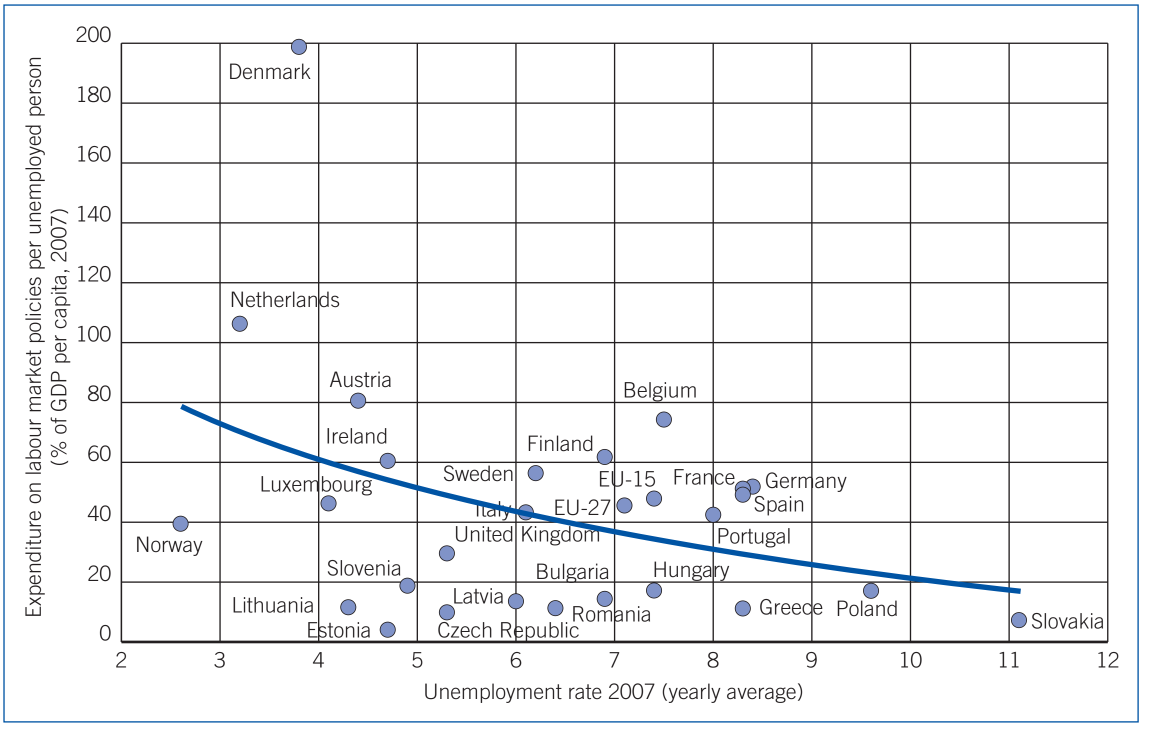
In comparison with 2000, the slight tendency towards a reduction in expenditure on unemployment in 2005 is due to the fall in unemployment rates and the fact that the number of unemployed beneficiaries tends to fall more rapidly than overall unemployment during economic recovery. Entitlement conditions for unemployment benefit have also

Figure 5.5. Expenditure on labour market policies (per cent of GDP) and unemployment rates percentage (EU-27, 2006–07)



Source: Eurostat and ILO.

Figure 5.6. Generosity of labour market policies and unemployment rates (EU-27, 2007)



Source: Eurostat and ILO.

been tightened in certain countries with a view to enhancing employability. In many cases, these policy measures have proven successful in improving the match between labour productivity and wages.

With certain exceptions, unemployment insurance benefits in most of the EU-15 and some of the EU-12 adopt a common approach, which takes into account:

- a national reference wage (earnings);
- individual earnings over a specific period prior to unemployment;
- the age of the person at the commencement of unemployment;
- the number of contributions or years of insurance; and
- family status and dependants.

Most countries apply a ceiling to the reference wage from which contributions are deducted (in the case of contributory schemes, which are predominant). This ceiling not only limits contribution levels, but also implicitly determines maximum benefit levels. Benefits tend to be higher when the unemployed person has dependent family members, and also in some cases after a long period of contribution (uninterrupted employment). The maximum duration of benefit is often extended after long periods of contribution, which can lead to the release of older employees from the labour market.

In most cases, unemployment benefit is reduced after a certain period (often six months) as an incentive to engage in active job search. All unemployment benefit systems have limited payment periods, following which long-term beneficiaries are transferred to general income support systems (social assistance).

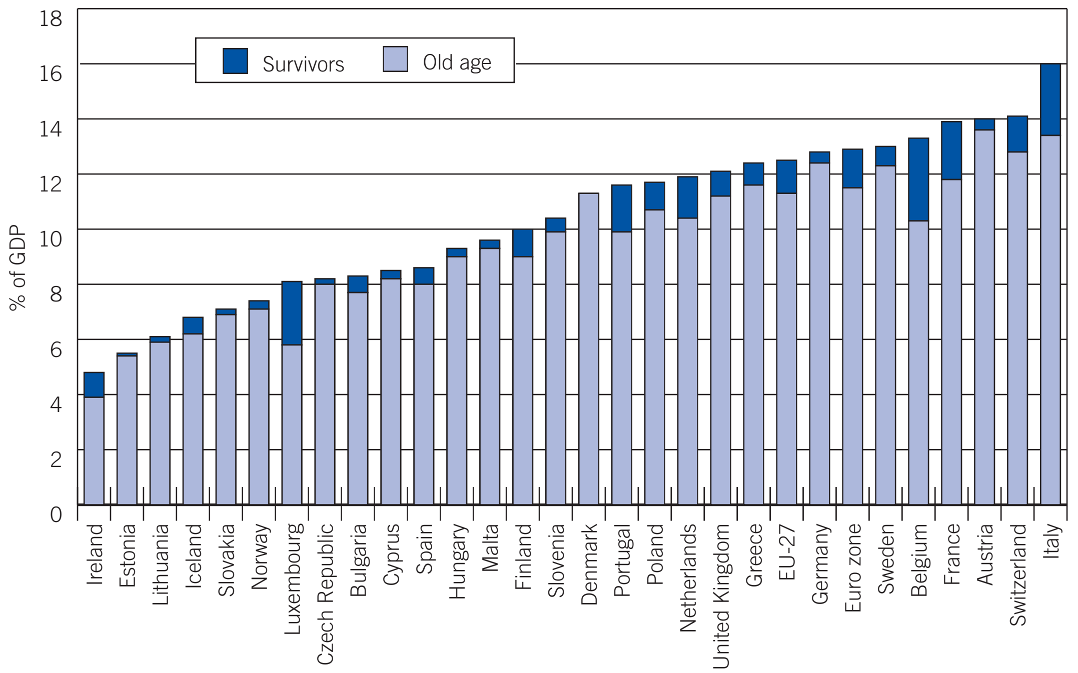
In some of the EU-12 and non-EU countries, particularly in the CIS, much less financing is allocated to unemployment benefit and other labour market policies, with benefits being lower and often not earnings-related. The complete abolition of regular unemployment benefit has taken place or is planned in certain countries (Kazakhstan and Kyrgyzstan). In others, the level of benefit is so low that potential beneficiaries do not even bother to collect it. As unemployment in these countries is largely structural and long-term, most of the unemployed and their families fall under social assistance programmes, which are under-funded and do not reach all those in need. Moreover, the absence of assistance to improve employability, combined with the weakness of public employment services and employment promotion measures, means that those concerned are liable to be trapped in unemployment and poverty, which gives them an added incentive to turn to the widespread informal economy.

5.3. Income security in retirement and in the event of the loss of the breadwinner

Expenditure on old-age and survivors' (widows/widowers and orphans) benefits in the EU-27+3 varies between 5 (Ireland) and 16 per cent of GDP (Italy), with the average being around 13 per cent (figure 5.7).

While pension expenditure in relation to GDP is an indicator of the relative importance of pension policies, it is not necessarily a reliable indicator of the pension levels available upon retirement. Differences in per capita spending reflect differing preferences in relation to the provision of public retirement incomes. Pension reforms have been heavily influenced by expected demographic developments. These reforms have basically been aimed at raising the effective retirement age by discouraging early retirement, raising the

Figure 5.7. Expenditure on old-age and survivors' benefits (EU-27+3, 2005)



Source: Eurostat.

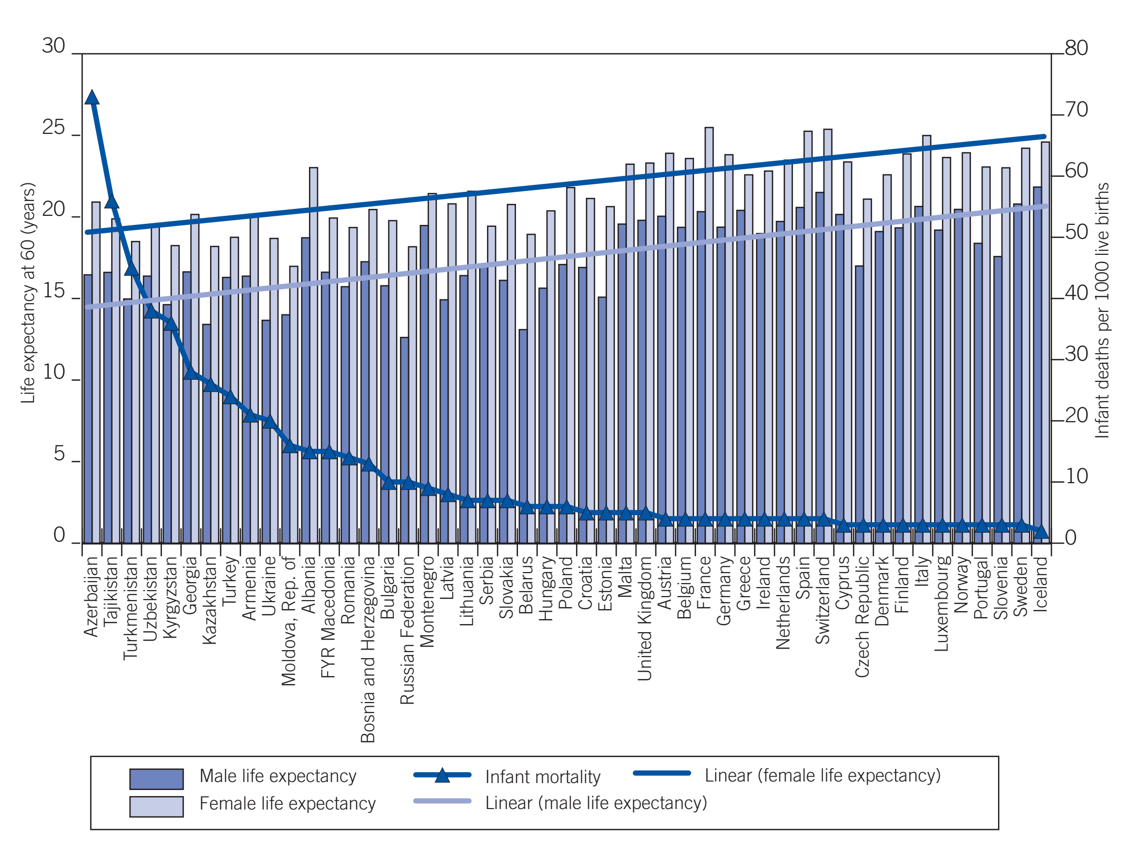
statutory retirement age and making pension benefits more closely dependent on the amount and number of contributions (thereby reducing overall replacement rates for those with lower incomes and shorter careers).

5.4. Access to health services

On average, the countries covered by Eurostat allocate 8 per cent of GDP to health protection. The highest rate in relative terms is in France, with just over 9 per cent of GDP, and the lowest is Latvia at just over 3 per cent. According to World Health Organization estimates, among the non-EU countries in the region, the highest levels of public spending on health are between 4 and 6 per cent of GDP, mainly in the Balkan countries, and the lowest is in Central Asia (between 1 and 2.5 per cent of GDP).

While there are broad variations between countries in the number of hospital beds available per 100,000 inhabitants (the highest is 850 in the Czech Republic and the lowest 339 in Spain), differences in the number of practising physicians and dentists are much lower (between 482 doctors per 100,000 inhabitants in Belgium and 243 in Switzerland). Between 1995 and 2005, the number of practising physicians increased in almost all countries for which data are available, sometimes significantly, contributing to the growing financial pressure on health systems. The number of practising physicians and dentists across countries varies within acceptable limits, and most countries cannot be considered "physician-poor". The broad variations in the number of hospital beds appear to reflect differences in the organization of national health sectors rather than the principle of their availability. There are nevertheless problems in the availability of health services in certain

Figure 5.8. Life expectancy at age 60 (male and female) and infant mortality (2005)



Source: UN estimates; World Population Prospects (rev. 2006).

countries (particularly in Central Asia) due to the unequal distribution of infrastructure and human resources. In Central Asia, the problem of a lack of affordable access to health care has arisen as a result of the collapse of the former mechanisms and the absence of new ones to ensure universal access to health care.

Many Central and Eastern European countries have replaced the former system of public tax-financed health care by social insurance systems. Reforms are still pending to improve the efficiency of the supply side (which is low, as reflected by the relatively high numbers of hospital beds and health personnel, compared to the relatively low health outcomes and health status indicators).

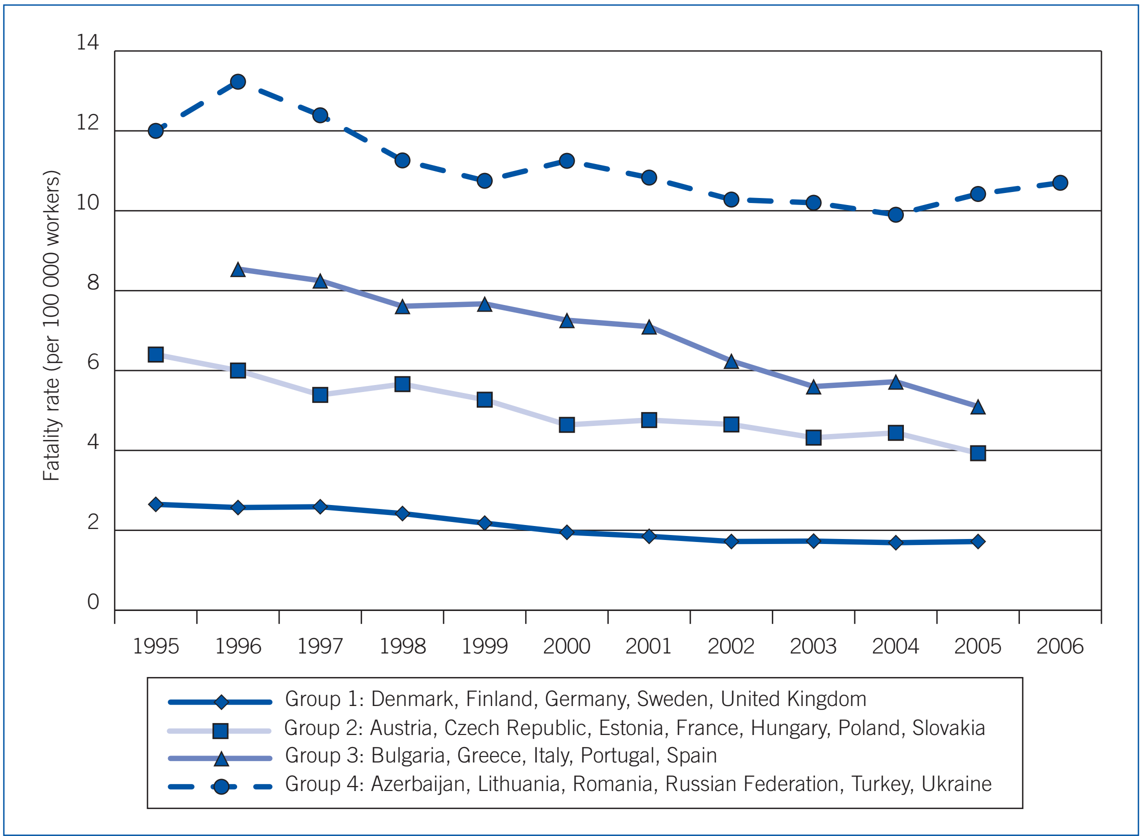
Three core variables are accepted as robust measures of the health status of a population: male and female life expectancy and infant mortality. Figure 5.8 shows that life expectancy, even when measured at age 60, and particularly child mortality, vary with general income levels and the level of investment in health care. Countries with the highest child mortality rates, which tend to be in Eastern Europe and Central Asia, also have the lowest level of health spending.

5.5. Occupational safety and health

There is perhaps no better indicator of a country's commitment to decent work than its occupational accident and disease statistics. There can be little argument that decent work is safe work. But while occupational accidents and diseases are matters of health and well-being, they are also important aspects of economics and of employment policy.

Although in general terms the occupational safety and health (OSH) situation in the region is improving, with certain exceptions (figure 5.9), occupational accidents and diseases still force millions of people out of work, sometimes permanently. According to the European Agency for Safety and Health at Work, one worker dies every 3.5 minutes in the EU-27 as a result of work-related injury or disease. Although injury rates vary between countries, the high-risk sectors tend to be agriculture and forestry, construction, transport and manufacturing. Moreover, as shown in figure 5.9, there are pronounced differences between groups of countries. In northern European countries (group 1), following legislative reform in the 1970s and the development of a long-standing preventive safety and health culture, the average fatality rate, starting from a low base, fell to 1.72 fatalities per 100,000 workers in 2005. The figure is higher but declining (reaching 3.93 fatalities per 100,000 workers in 2005) in the group of continental and Central European countries (group 2), where legislative reform started later. The same falling trend is seen in southern European countries (group 3) (5.1 fatalities per 100,000 workers in 2005), although starting from a much higher base, reflecting a general lack of safety culture in 1996 and the improvement in recent years. Finally, in the most Eastern countries in the region (group 4), the fatality rate is much higher and has tended to fluctuate, increasing in 2005 and 2006, showing a lack of consistent improvement.

Figure 5.9. Occupational fatalities (1995–2006)

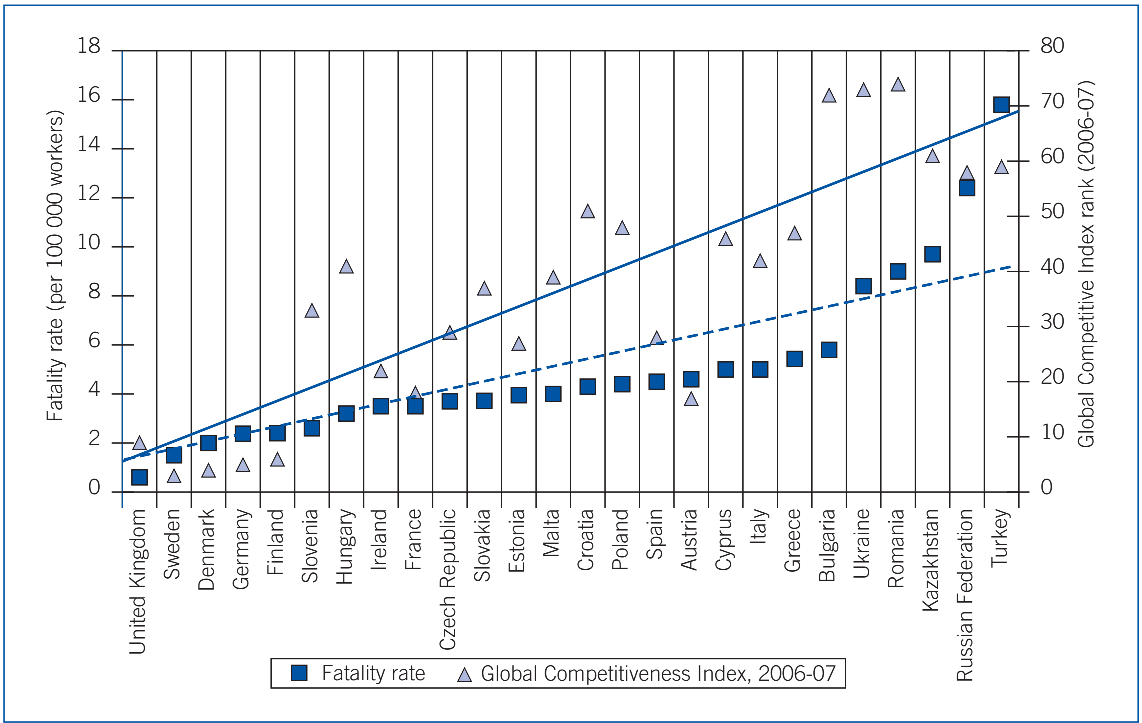


Many factors may be behind the general decline in occupational accidents and diseases in most countries in the region, including: increased awareness and prevention; a shift from employment in high-risk sectors to services; increased unemployment; and decreased working hours in many countries. However, working life throughout the region is changing rapidly in many ways, with the increasing flexibilization of employment (see Chapter 3), which can affect the type and nature of the risks involved in work, with an increase in sickness absenteeism, injury, musculoskeletal disorders and psychosocial disorders being reported among the victims of downsizing and workers on precarious contracts.

The changing nature of organizations requires a change in the traditional role of labour inspection, occupational health services and safety managers so that better coverage of fragmented groups of workers can be achieved. In particular, any attempt to marginalize labour inspection needs to be resisted. It is no coincidence that countries with low fatality rates are also those with a better ratio of inspectors to employed workers. Research also shows that unionized workplaces have lower accident rates, reflecting the importance of worker consultation on OSH.

Investing in OSH is sound economics. The losses incurred as a result of occupational accidents and diseases can be huge and the economic gain that can be achieved through risk prevention is clear. The ILO estimates that the direct costs of work time lost due to reported occupational accidents and diseases is equivalent to 4 per cent of GDP globally, with a figure of about 2.6 per cent for the EU in 2002. The creation of a safe and healthy working environment is an important aspect of preventing exclusion from the labour market and of maintaining the employability and productivity of the workforce, with particular reference to older workers, who need to remain fit and healthy if they are to continue working. High rates of occupational accidents and diseases have a significant impact on social cohesion and economic productivity. Indeed, no country has been able to achieve a high level of productivity and competitiveness without ensuring that the work environment is safe (figure 5.10).

Figure 5.10. Competitiveness and safety



5.6. Challenges for social protection policies

In any thorough and adequate interpretation of the statistical indicators, it is necessary to bear in mind that over the past one to two decades social protection systems in most of the countries in the region have been subject to reform policies in response to projected fundamental changes in the population structure, and significant changes in domestic economic developments triggered by the international division of labour and internal and external trade relations. In a significant part of the region, social protection systems have faced enormous systemic change with the collapse of planned economies, while at the same time having to face the often dramatic social consequences of transition and the opening up of economies.

Internationalization and labour market insecurity

As indicated in Chapter 2, countries that have participated in the globalization process have experienced rapid social and economic change. While the potential benefits of these changes are large, not all population categories have benefited, thereby generating social tension. In the countries that have been industrialized for longer, and especially in the former centrally planned economies, there is a sense that employment and social security, and with them general confidence in the future, are under threat. International competition has therefore often been perceived as a race to the bottom. This has been compounded by the development of dual labour markets, in which the upper segment is characterized by well-paid jobs with, at least in theory, sound social protection against a wide range of contingencies and legal protection in the area of working hours and dismissal. However, many people, often the less skilled, but also women and members of ethnic minorities, fall into a lower segment where pay is lower and jobs are insecure and sometimes hazardous, without much legal protection against dismissal, and with variable and often long working hours. In the informal economy, in particular, working conditions tend to be precarious, unsafe and unhealthy, incomes are low and irregular, working hours are long and access to social protection and training facilities is non-existent. Informal enterprises often provide products and services through subcontracting arrangements with formal enterprises, not only for the domestic market but also for export. Workers are often hired as own-account workers, further undermining levels of protection and security.

Demographic transition: Ageing and migration

Social policies in Europe have been overshadowed for the past 20 years by the so-called demographic challenge caused by the continued increase in life expectancy and the fall in the number of births in most European countries to significantly below the population replacement level.

As a result, the proportion of older (retired) persons in Europe will rise significantly, implying that those who are active will have to pay more (out of their individual earnings) for those who are inactive.

Europe's population will fall by almost 70 million between 2005 and 2050, which clearly leaves room for increased demand for migrant workers. As a result of social policies that have led to persistently high levels of unemployment and rising insecurity over the past two decades, it may now seem difficult for both the Western and Eastern parts of the region to accept significantly increased immigration (World Bank, 2006). But these attitudes may change in future with the growing pressure of labour shortages. Moreover, globalization will necessarily stimulate the cross-border movement of both capital and labour. Enhanced coordination of social security systems will be required throughout the region to ensure the right to social security of all persons, including the increased numbers of migrant workers. Both ILO standards [37] and EU regulations provide a framework for bilateral and possibly also multilateral agreements on the social security entitlements of migrant workers.

However, migration can only provide temporary relief for ageing populations. The creation of suitable jobs for older workers remains a real challenge, while the achievement of increased labour force participation rates for men and women of all ages (not just for older workers) is imperative to maintain standards of living in ageing societies.

Ageing societies, high unemployment and the challenges of globalization have created similar problems for all European countries, albeit of varying intensity. These have led to similar policy approaches, often consisting of introducing privately managed second pillars to existing pension systems (Fultz, 2002), cost-cutting measures in health systems and activation measures in labour placement policies and as a condition for entitlement to unemployment benefit.

Ageing will undoubtedly drive up expenditure on pensions and health care in the decades to come. However, contrary to the old myth, they may not pose a deadly threat to the financial equilibrium of national social protection systems. Even if, in the worst of all scenarios, the management of the demographic challenge were to fail generally, the effects on the sustainability of national social transfer systems, even in countries with highly developed systems, may be less dramatic than is commonly assumed. The latest available forecast by the EU Economic Policy Committee on the combined cost of the most important social security benefits as a result of ageing populations is reproduced in table 5.1.

Table 5.1. Projected changes in age-related public expenditure (EU-27,* 2004–50)

	Level in 2004 (per cent of GDP)	2030	2050
		(Change from 2004 in percentage points)	
Pensions	10.6	+1.3	+2.2
Health care	6.4	+1.0	+1.6
Long-term care	0.9	+0.2	+0.6
Unemployment benefits	0.9	-0.3	-0.3
Education	4.6	-0.7	-0.6
Total	23.4	+1.6	+3.4

* Excluding Bulgaria and Romania.
Source: European Commission, 2006b, p. 11.

An average increase in national social expenditure of 3.4 per cent of GDP is substantial, but not unmanageable. However, there are significant differences between individual countries, which have less to do with the ageing process itself than with the specific characteristics of programmes, including their financing, eligibility requirements and benefit generosity (European Commission, 2006b).

[37] The Equality of Treatment (Social Security) Convention, 1962 (No. 118), and the Maintenance of Social Security Rights Convention, 1982 (No. 157), and Recommendation (No. 167).

A distinction needs to be made in this respect between the *demographic dependency ratio* and the *system dependency ratio*. The system dependency ratio measures the number of beneficiaries of and contributors to pension systems. Most countries have experienced a faster increase in their system dependency ratio than the demographic dependency ratio. The demographic dependency ratio is not the only determinant of the cost of pensions, which (measured as a percentage of GDP) is the product of the system dependency ratio and the *financial ratio* (the ratio between the average pension and average output per worker, or GDP per worker). Countries can influence the system dependency ratio by either reducing the number of beneficiaries or increasing the number of workers. They can influence the financial ratio through measures to increase productivity (output per worker), or at least allow benefits to increase at a lower pace than productivity. The number of instruments available is therefore limited. Countries are likely to resort to a policy mix that may include increasing the actual retirement age, reducing the average age of entry into the labour market, increasing productivity (inter alia, through new technologies or increased working hours) and reducing pension levels (for example by linking them to the expected duration of retirement). With very few exceptions (such as Luxembourg), all European countries have adopted a combination of such measures in recent years.

Countries can also lower the visible cost of pensions through contribution rate reductions by shifting resources from other public budgets to the pensions system; increasing taxes and contributions; or offloading some of the cost from the public budget through privatization. However, these measures do not reduce the real societal cost of pensions.

One instrument, namely lowering replacement rates in the public tier, may be an option for countries with substantial earnings-related public schemes, but far less so for countries with a flat-rate public tier, which already tend to have a larger private pension pillar. Increasing the contribution rate means that current workers face a higher net burden in all countries. The same applies to tax increases. Consideration could also be given to the reallocation of the public budget, although any potential reduction of expenditure, for example, on education in view of the falling numbers of young persons has to be offset by the requirement for a workforce with high and continuously upgraded skill levels based on lifelong learning.

A large number of countries in the region operate a public pension pillar supplemented by private schemes, although the relative size of the two pillars differs. During the 1990s, certain scholars advocated a shift away from public to private schemes, from defined benefit to defined contribution schemes and from pay-as-you-go to funded schemes. The debate focused on the impact of the various funding mechanisms on the tax base. There was a strong conviction that private pre-funded defined contribution schemes would be more sustainable, public expenditure could be contained and non-compliance would be reduced (due to a stronger link between contributions and accrued benefit entitlements). Private management of the funds would lead to higher rates of return. Last, but not least, it was believed that overall coverage, including the self-employed, would be increased. The impact of ageing on the tax base is obvious in a pay-as-you-go system. However, purchasing power is also transferred from working generations to older retired generations in funded systems through the buying and selling of assets. Accumulated pension wealth is gradually sold to the working generations, who themselves accumulate pension wealth, but are also shrinking in numbers. In funded schemes, contributors therefore face the risk that their accumulated pension wealth will have less value than anticipated upon retirement.

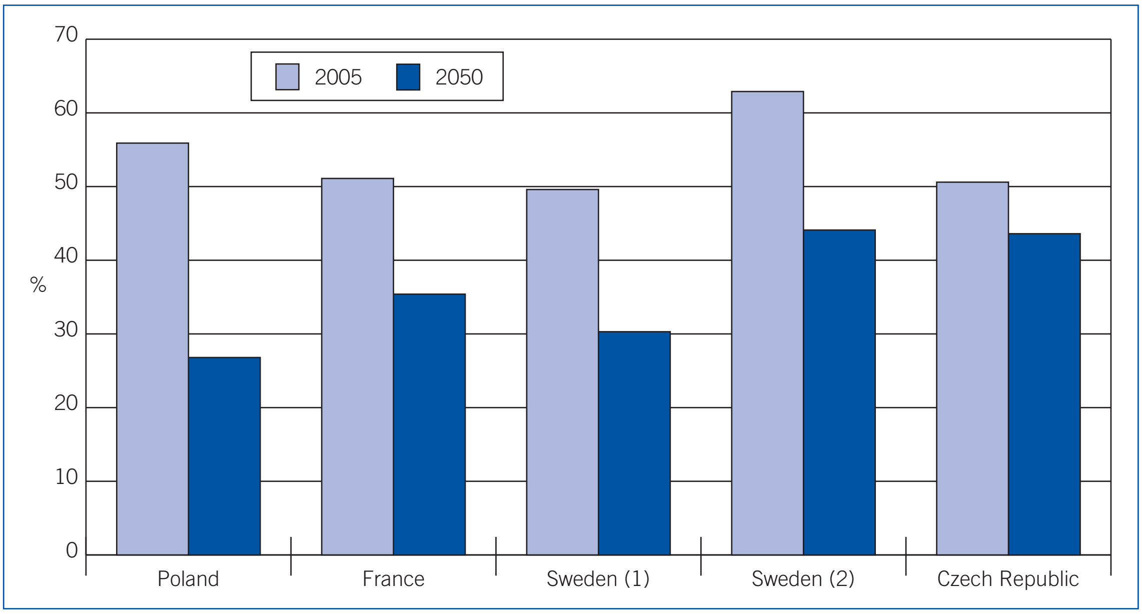
In recent years, the ILO has carried out several studies of reformed pension systems, including in Central and Eastern European transition economies (Fultz, 2004; Fultz et al., 2003; Fultz, 2002; Hagemejer and Scholz, 2004). These studies reveal that reformed pension schemes may in practice: (i) reduce the income security of beneficiaries in old age; (ii) reduce effective coverage; and (iii) fail to meet expectations concerning increased coverage and increased national savings rates. ILO concerns have recently received support from the Independent Evaluation Group of the World Bank, which concluded in its evaluation of World Bank assistance for pension reforms that “there is little evidence that privately funded pillars have succeeded in increasing national savings or in developing capital markets”, and that “… the Bank’s preoccupation with fiscal sustainability tended to obscure the broader goal of pension policy, that is, to reduce poverty and improve retirement income adequacy within a fiscal constraint” (World Bank, 2005a).

The ILO’s studies also point to high and long-lasting transitional costs, high administrative costs and expected low replacement rates, especially for women and persons with short or broken careers and lower incomes (and those who, such as the self-employed, are only required to pay minimum contributions). Another feature of reformed pension systems is the high unpredictability of benefit levels due to their dependency on volatile financial markets.

Figure 5.11 shows the expected theoretical replacement rates for selected EU countries, as reported in their national pension strategy reports. It is clear that, unless people contribute significantly longer and retire much later, replacement rates may not fall only in countries that embarked on so-called paradigmatic reforms. The examples of France and the Czech Republic show that even so-called parametric reforms may reduce future replacement rates quite considerably.

The expected turbulence in national labour markets, coupled with global adjustment processes, may result in many more broken careers, dotted with spells of unemployment or periods of retraining to meet new labour market conditions. It must be expected that the replacement rates for those with broken careers will in future most likely fail to meet the requirements of ILO Conventions.

Figure 5.11. Theoretical gross replacement rates (selected EU countries) (average earnings, 40 years of contributions, retirement at 65)



Note: Sweden (1): national pension system only; Sweden (2): including occupational pensions.

Source: ILO comparative analysis of data in national pension strategy reports: http://europa.eu.int/comm/employment_social/social_protection/pensions_en.htm.

5.7. The nature of the policy response

The common goal of social protection reform efforts has been to safeguard existing schemes and programmes against external impacts that may jeopardize their functioning. Reforms of social protection systems have also been intended to foster economic and labour market developments. Public spending policies have substituted for the loss of national discretion in exchange rate policies, in reaction to the monetary policies of practically all European central banks.

The reform process has been rooted in two fundamentally different starting points. One is the post-war tradition of the welfare state and the other the very specific model of social protection developed under the centrally planned economic system. Both systems provided security to the population relative to their (widely differing) economic levels and by means specific to their (widely differing) political systems.

All the governments concerned endeavoured to adjust their respective social protection systems to the new situation. In the countries of Central and Eastern Europe and the CIS, which were suddenly exposed to competitive and rapidly changing domestic and external production and labour market structures, it was necessary to ensure that social protection systems operated effectively (and more efficiently) under open market economy conditions, while in Western European countries the systems had to adjust to an unexpected new economic situation characterized, among other factors, by sudden low-price and low-cost competition, not only from within the region, but especially from Asia and other developing regions.

Social protection reforms in Western Europe were subject to further challenges resulting from ground-breaking changes in the long-standing welfare state paradigm, with the development of consensus around the need for greater individual responsibility. While this was congruent with the underlying reasons behind the 1989 revolutions in Central and Eastern Europe, in many countries the changing philosophical base implied significant changes in income protection in the event of unemployment and the introduction of individual savings to compensate for cuts in pension provision.

While for many years the European social model could rightly be characterized by its relatively high minimum social standards, high levels of collective insurance against social risks and intense dialogue between the social partners, diversity in social matters is now so broad that it is difficult to identify the characteristics of a common model.

However, the magnitude of intra-European disparity in spending on social protection shows that policies to stimulate growth by cutting social spending have no rational basis (figure 5.1). Only eight countries (Austria, Belgium, Denmark, France, Germany, Netherlands, Switzerland and Sweden), representing 201 million persons, or two-fifths of the population of the EU-27, have above average social spending. Total social spending is over 20 per cent of GDP in 18 of the EU-27, while the figure is under 15 per cent in around a dozen countries throughout the region. Both high and low spending groups include countries with good and others with less convincing economic performance. The often cited trade-off between economic performance and social expenditure does not therefore hold. The huge differences in the region in social expenditure in GDP terms cannot be attributed exclusively to economic performance, but tend to indicate that countries have substantial policy space to shape their social protection schemes.

Figure 5.1 shows a strong correlation between total government expenditure and the level of social security spending, and it also shows the scale of differentiation across the region. On average, countries spend half of their public budgets on social protection, including health care. In the EU-27, around 58 per cent of national budgets are allocated to social protection, while the figure is 40 per cent in non-EU countries. Moreover, public budgets are much higher in the EU-27, where they average 47 per cent of GDP (ranging from 33 per cent in Ireland and Estonia to over 50 per cent in Belgium, Denmark, France and Sweden), than in non-EU countries (32.5 per cent of GDP on average).

5.8. Benchmarks for social and economic policy reform and ILO action

The main policy challenge is that it is now necessary to seek a new balance, or policy paradigm, consisting of a new combination of labour market, economic and social policies that simultaneously pursue and facilitate full and productive employment, while providing protection against existing and emerging risks and meeting modern preferences for social arrangements, such as the combination of work and leisure, lifelong learning and caring for parents or children. The ILO's decent work approach epitomizes the concept of complementary labour market and social protection policies. It is a strategic concept that seeks to achieve social and economic goals simultaneously and coherently, rather than focusing on a single policy objective.

Labour market policies and social protection arrangements are not separate entities. The interaction between the welfare state and economic performance takes place first and foremost through the labour market. Social and labour market policies and institutions can be designed to serve both social and economic objectives. Moreover, welfare state arrangements (including activating labour market policies) and competitive markets are in many ways complementary.

Adjustment strategies that resort exclusively to lowering labour standards and cutting social protection levels are unlikely to bring economic and social progress. Research clearly shows that economic development goes hand-in-hand with rising social standards, wealth and social inclusion. Instead of governments pushing for low labour costs by reducing labour and social protection, a "high road" approach to high quality work would appear to be more promising: high labour and social standards and good economic performance are complementary. Social security transfers are effective in their prime aim of reducing the numbers of the poor and are therefore crucial in building societal stability, which is a prerequisite for all long-term investment. There is no automatic trade-off between equity and efficiency in terms of social protection and economic performance: provided that social transfer systems are well designed and managed, social protection and economic performance can be reconciled and social protection programmes can be affordable. Proactive social security benefits, which avoid negative incentive effects, can foster long-term economic growth by investing in the productive capacities of people and facilitating the necessary labour market adjustment.

5.9. Policy conclusions: Means and objectives

There is obviously no single social model, even within the EU. Countries choose their own paths when adapting social security systems to the new social and economic realities. However, the following reform elements may provide generic benchmarks for shaping social and labour market policies:

- Investing in human capital.
  - *This starts with ensuring that all children enjoy the best possible education and includes facilities throughout careers to maintain and upgrade skills.*
- Introducing institutional arrangements on the labour market that reduce inefficiencies and the underutilization of productive resources.
  - *This could include investing more in active labour market policies for the unemployed and in-work benefits for low-wage workers, in addition to the provision of income support to the unemployed.*
- Securing labour market transitions through "flexicurity".
  - *For example through modernized labour contracts that allow for adjustments when needed but where enhanced proactive social protection provides effective income security along with measures enhancing employability and facilitating job search, vocational reorientation and rapid labour market integration for those adversely affected by structural change.*
- Activating groups that do not currently participate in the labour market.
  - *This leads to social inclusion and provides opportunities for skill acquisition and economic advancement.*
- Providing income transfers for those who are unable to participate on a temporary or permanent basis.
  - *This is a human right and fosters societal coherence and social stability, which are themselves productive factors.*
- Establishing a framework for sound governance with appropriate checks and balances and a platform for social dialogue.
  - *This guarantees that the interests of all societal groups are reflected in discussions on social security.*

The ILO's experience and mandate strongly suggest that, in order to achieve the twin and highly complementary objectives of social development and economic efficiency, national social and labour market reform processes aimed at achieving a new social security policy paradigm should be based on the following basic principles:

1. *Universal coverage of income security and health systems:* all (permanent and temporary) residents should have gender-fair access to benefits ensuring income security and comprehensive medical care.
2. *Benefits and poverty protection as a right:* entitlement to benefits should be specified precisely as predictable rights of residents and/or contributors; benefits should provide effective protection against poverty; if they are based on contributions or earmarked taxes, minimum benefit levels should be in line with the Social Security (Minimum Standards) Convention, 1952 (No. 102), or Conventions establishing higher levels of protection and the European Code of Social Security.
3. *Actuarial equivalence of contributions and benefit levels:* a minimum replacement rate for benefits and rates of return by savings schemes that adequately reflect the level of the contributions paid should be guaranteed by the State or regulatory mechanisms.
4. *Sound financing:* schemes should be financed so as to maintain adequate fiscal space for the social security system as a whole, and individual schemes in particular, in order to avoid uncertainty about their long-term financial viability.

5. *Responsibility for governance:* the State should remain the ultimate guarantor of social security rights, while financiers and beneficiaries should participate in their governance.

What is ultimately important is to provide people in a rapidly changing world with the social security that they need to face change with dignity.

Participants may wish to consider the following questions:

- The analysis in Chapter 2 reveals signs of economic catching-up emerging across subregions, but unfortunately there are no comparable indicators of social policy convergence. What can be done to boost investment in social protection in the lower income countries in the region so as to ensure higher levels and better quality coverage so that all those in need of social protection measures are reached?
- Attention has so far focused on the implications of demographic change for funding social protection in the future. The above analysis has indicated that increased employment rates, longer working lives and longer contribution periods which give entitlement to full benefits can significantly reduce the expected economic costs involved in this process. The same analysis has clearly shown that there is a need to ensure at least a socially acceptable basic level of benefits to all, and in particular to those with shorter or broken working careers. Do you agree with these conclusions and how do you see their policy implications in the specific demographic, economic and social context of your country?

6. New wage challenges

Wages have undoubtedly been one of the most widely discussed issues throughout the region in recent years. In the context of a possible economic slowdown and new inflationary pressures, mainly brought about by the surging prices of oil and basic food commodities, there has been much public discussion of purchasing power and real wage trends. At the same time, the trade unions have clearly indicated their desire to bring an end to a decade of wage moderation. Wage issues were placed at the top of the agenda in the European Trade Union Confederation (ETUC) Congress in Seville in 2007, leading to a general campaign for fairer wages across the EU, with productivity increases being reflected more fully in real wage growth, thereby awarding workers their fair share of economic growth. A number of demonstrations have also been held in individual EU-27 countries on the issues of real wages and purchasing power. These claims are supported by figures that illustrate the declining wage share in the EU (European Commission, 2007a). At the same time, continuing wage differences between the rich and the poor, men and women, and between countries, are seen as problems that are prejudicial to both society and the economy. Increased attention has accordingly been paid to the minimum wage, with a growing number of EU-27 countries deciding upon, or discussing the introduction of a statutory minimum wage.

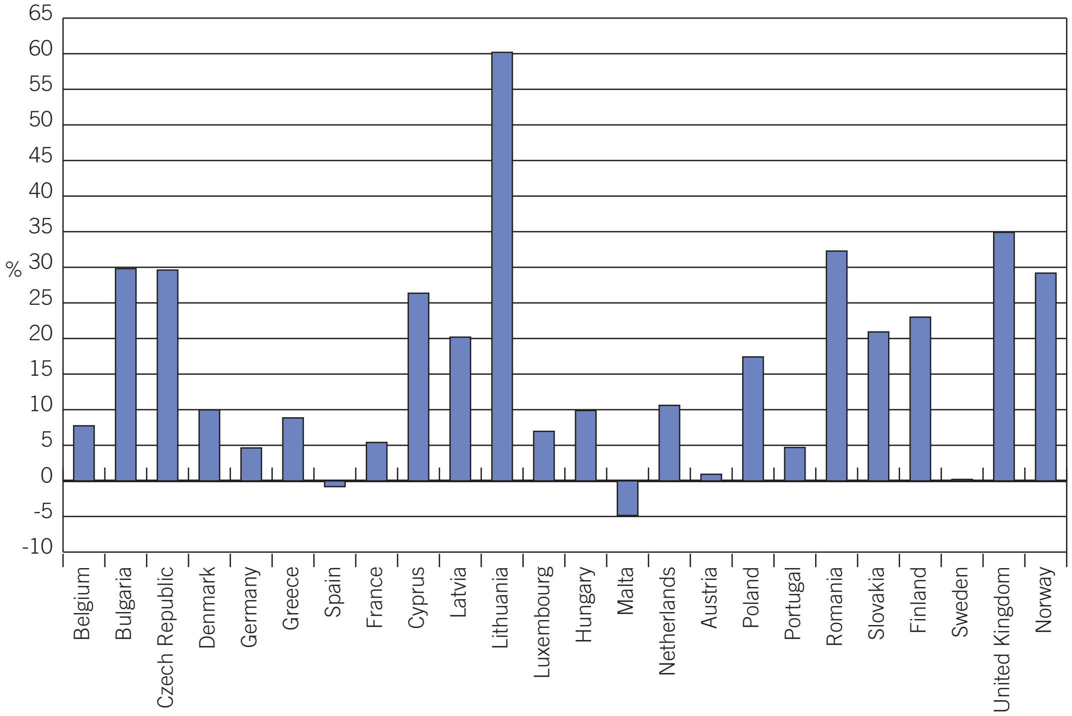
6.1. Major wage trends

Real wages

Real wages over time reflect the evolution of the purchasing power of nominal wages, taking inflation into account. Real wages have grown on average to a limited extent (a little over 5 per cent), although with different trends, which may be grouped into country categories, as follows:

- *Wage moderation in the EU-15*, where wage levels are higher, but have generally been subject to a certain wage moderation over the period 1996–2006. Real wage figures confirm a slow rise in real wages, for example, in Austria, France, Germany and Portugal, although they fell in Spain. Of the EU-15, there has only been substantial real wage growth over this period in the United Kingdom and Ireland (although the latter is not included in figure 6.1).
- *Wage decline and recovery in Central and Eastern Europe:* during the early years of the transition, Central and Eastern European countries generally experienced a sharp fall in real wages, along with a serious economic contraction of output. From the mid-1990s, wages benefited from rapid GDP growth, which was much higher than the EU-15 average and increased rapidly in real terms so that they started to recover their pre-transition levels. In those countries that acceded to the EU, this process further contributed to boosting economic growth, with real wages continuing to increase. In the Baltic countries and Romania, over the past seven years the increase in real wages has been over 50 per cent, while it exceeded 30 per cent in the Czech

Figure 6.1. Real wage growth (selected EU countries, 1996–2006)



Note: 1996 is taken as the index, except for the Czech Republic (2002), Latvia (2004), Sweden (2000), United Kingdom and Norway (1998)
Source: Eurostat.

Republic and Hungary. Consequently, while absolute wage differences in the EU-27 remain high, there has been a certain catching up, although the increase in real wages appears to have slowed down over the past few years.

- *Non-EU countries, such as Albania and The former Yugoslav Republic of Macedonia*, have continued to experience very moderate real wage growth, despite their rapid GDP growth. There was a significant fall in real wages in Turkey following the 2001 crisis, although they have recovered more recently.
- *Real wage growth and low pay in the CIS countries:* increases in the real wage were more difficult to achieve in many CIS countries because of their lower rate of economic growth before 2000. Countries such as the Russian Federation and Ukraine faced a serious fall in production during the first years of transition, with a fall in real wages of over 60 per cent, resulting in a low wage problem. The CIS countries were also affected by the Russian crisis of 1997–98, with the devaluation of the rouble and the sharp increase in inflation. However, real wages have started to rise more steadily in recent years, with impressive annual growth rates being achieved between 2001 and 2006 in the Russian Federation and other CIS countries (table 6.1), leading to a progressive reduction in the proportion of the Russian population whose income is lower than the subsistence minimum (14.7 per cent in 2007, compared to 33.5 per cent in 1992).

Despite a certain catching up, low wages remain a major problem in these countries, where they affect a large proportion of the population. Moreover, the rapid increase in real wages conceals dramatic differences between the top and bottom of the wage scale.

Table 6.1. Average annual real wage growth in selected CIS countries (per cent, 1995–2000 and 2001–06)

	1995–2000	2001–2006	Whole period: 1995–2006
Rep. of Moldova	-0.24	14.62	8.43
Belarus	13.32	10.72	11.89
Russian Federation	-0.62	13.90	7.06
Ukraine	-2.90	18.89	8.44

Source: ILO.

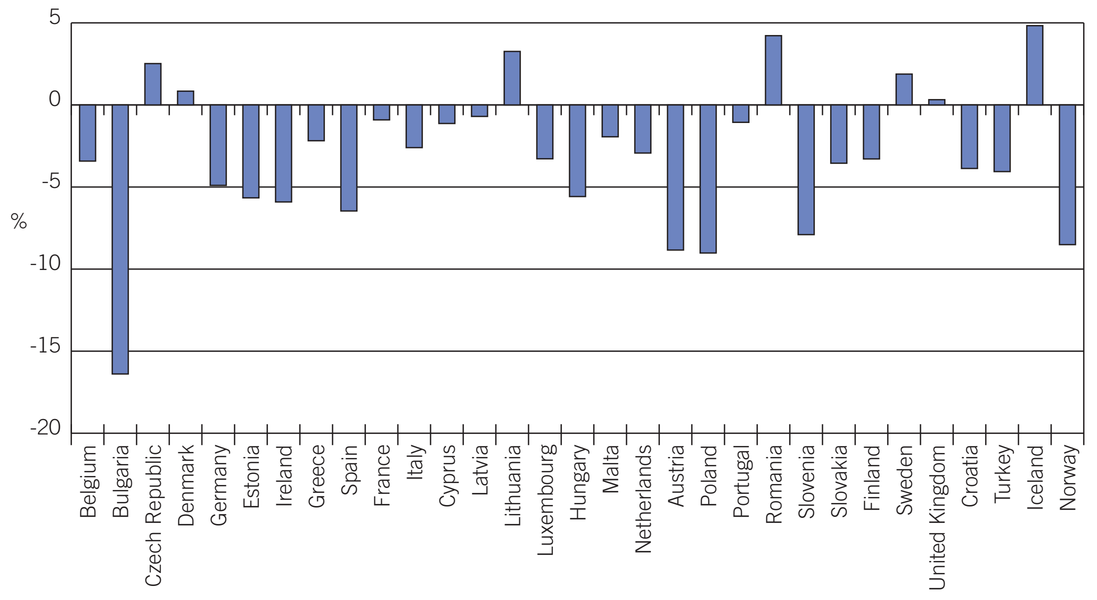
It should be recalled in this respect that real wage trends may have direct social and economic implications. In Central and Eastern European countries, controls of wage growth combined with price liberalization led to a serious slowdown in consumption, which in turn prolonged the fall in production for over ten years. More recently, wage moderation in Germany, together with an increase in value added tax, affected consumption, which stagnated between 2002 and 2006, and even fell in 2005 and 2007. Similarly, the persistence for almost 15 years of a basic stagnation in real wages has led to what is now considered to be a veritable wage emergency in Italy. Indeed, the Governor of the Banca d'Italia has openly declared that salaries are too low to support growth in demand and consumer spending (Draghi, 2007).

The wage share

Despite differences in wage growth rates, a common characteristic of most of the EU-27 countries is the prevalence of wage moderation and the fact that the rate of growth of real wages remains lower than the labour productivity rate. The wage share of GDP declined in the EU-27 between 1995 and 2007 from 59.6 to 57.1 per cent. In 24 of the 31 countries for which figures are available, the wage share of GDP has fallen since 1995, and has only risen in seven countries. It has fallen by over 15 per cent in Bulgaria, nearly 10 per cent in Austria, Norway, Poland and Slovenia, and over 5 per cent in Estonia, Hungary, Ireland and Spain, closely followed by Germany. The wage share only increased in the Czech Republic, Denmark, Iceland, Lithuania, Romania and Sweden, and remained stable in the United Kingdom. Outside the EU, the wage share also declined in The former Yugoslav Republic of Macedonia (by 14 per cent between 1997 and 2005 in a context of rapid GDP growth, averaging 5.3 per cent annually) and in Turkey (despite rapid economic growth following the 2001 crisis and an increase in the share of wage-earners in total employment).

In terms of the level of the wage share of GDP, rather than its rate of change, it is clear that it is particularly low in countries such as Bulgaria (where total employee compensation represented between 32 and 42 per cent in GDP between 1995 and 2006) and the Czech Republic (32.3 per cent in 2006). The wage share appears to have increased in the Czech Republic, Lithuania and Romania, which benefited from real wage growth (see figure 6.2), meaning that the stabilization of the wage share has been influenced by real wage growth in some Central and Eastern European countries. In contrast, wage moderation with only slow real wage growth in the EU-15 may have contributed to the fall in the wage share. In the Russian Federation, the wage share fell from 53.6 per cent in 1998 to 43.8 per cent in 2005, but has tended to increase since 2006, probably due to

Figure 6.2. Changes in the wage share of GDP (1996–2007)



Source: Annual macroeconomic database of the European Commission's Directorate General for Economic and Financial Affairs (Ameco).

real wage growth. This trend, which has also been observed in other countries, is important in indicating that the wage share is not totally independent of real wage trends, and therefore of wage policy and institutions. This contrasts with the main theoretical explanation of the fall in the wage share proposed by certain international organizations according to which this trend is caused mainly by a shift in technological and capital intensity (European Commission, 2007a).

Wages and productivity

The fall in the wage share of GDP raises the obvious question of whether it is necessary to fix real wages more closely to labour productivity rates. Analysis of the relationship between wages and productivity shows that they have clearly been disconnected in many countries in the region, although in widely differing directions. For example, productivity increased at a much higher rate than real wages for over ten years in Greece and Spain, and to a certain extent also in France and Luxembourg. Real wages seem to have progressed more in line with productivity in Finland and to a lesser extent in Sweden. However, former transition countries, such as Bulgaria and Romania, have experienced continuous productivity growth since the mid-1990s, but a very irregular growth in real wages, which fell during certain periods and recovered in others. Wage growth has started to be more closely related to productivity over the past few years. The second half of the 1990s was dominated by the need to compensate for the serious fall in real wages during the first half of that decade, which in some cases led to real wage increases that were above the productivity growth rate (for example in Estonia between 1996 and 1999, although the trend reversed after 1999). However, the situation has changed in recent years, as shown by the case of Croatia, where real wages rose by 16.6 per cent between 2001 and 2006, compared with an increase in productivity of 20.9 per cent.

Wages and employment

There is clearly a direct relationship between wages and employment. Wage trends often reflect developments on the labour market, particularly unemployment and the growth of so-called "atypical forms" of employment (see Chapter 3). Another reason for the broadening wage inequality lies in the changing structure of the labour market, with the emphasis on skills, resulting in sectors with improved skills levels also experiencing increased wage levels. These divergences, consisting of a move towards atypical forms of work in certain sectors and a higher skilled labour force in others, are leading to polarization of the labour market and of wage conditions.

The presence of a large informal economy, for instance in Turkey, also directly influences wage levels. As workers in the informal economy are likely to receive low pay, work long hours and have lower working conditions, the existence of a large informal economy creates downward pressure on the wages of employees in the formal economy.

6.2. Low pay and minimum wages

The phenomenon of the working poor has also emerged over the past decade in the countries of the region as a major issue which requires appropriate policy responses, particularly in the form of a minimum wage.

The extent of low pay

A variable that can be used to measure low pay, and which is recognized as a sort of risk-of-poverty threshold in the region, is the ratio of workers paid less than two-thirds of the national median wage, or alternatively below 60 per cent of the median wage or even the average wage. However, the fact of being on low pay does not necessarily mean that the person concerned lives in a poor household. This measurement shows a relatively high incidence of low pay in the EU-27, affecting 10 per cent or more of employed persons in countries such as Austria, Czech Republic, Greece, Hungary, Lithuania, Poland, Portugal and Spain. There is also a high incidence of low paid jobs in Croatia (24 per cent) and in The former Yugoslav Republic of Macedonia (29 per cent of employees in 2006). In contrast, the rate is particularly low (below 5 per cent) in Belgium and Finland.

Migrants and persons in single-parent households are at the greatest risk of poverty. There is also a high risk of poverty among those in precarious employment. For example, in France 28 per cent of temporary agency workers and persons on fixed-term contracts and 30 per cent of part-time workers are at risk of poverty, compared with an overall average of 12 per cent. In the Netherlands, the self-employed are 2.7 times more likely to be among the working poor than the average for the workforce in general. In Austria, 19 per cent of part-time workers and 16 per cent of temporary workers who have been in employment for less than one year are at risk of poverty, compared with an average of 11 per cent for all employees.

In Turkey, 20 per cent of the population are reported to be living below the poverty line, with the rate increasing according to the status of workers: 6 per cent of regular employees were considered to be poor in 2006, compared with 13.6 per cent in 2002, while the figure was 22.1 per cent for the self-employed in 2006 and 28.6 per cent for casual employees. As noted in Chapter 4, around half of all employed persons in Turkey work over 50 hours a week because of low wages, thereby demonstrating the link between low wages and long hours of work.

Low pay is also undoubtedly a major policy issue in most CIS countries. For example, in the Russian Federation, where low pay is measured by comparing the average wage to the subsistence minimum, the ratio fell from 4.1 in 1990 to 3 in 2007, with dramatic falls during the early transition (1.45 in 1995) and the financial crisis (1.38 in 1999). There are considerable variations in the ratio by region, ranging from 7.2 in Moscow and St Petersburg to 1.9 in the republics of the North Caucasus and some regions of Central Russia. In 2006, wages below the subsistence level were still being paid to 22 per cent of workers, although this represented progress compared with 1995 and 1999, when the ratio of workers with wages below the subsistence minimum was 43 and 42 per cent respectively. This progress is attributed by experts to the increase in the statutory minimum wage.

The minimum wage as a policy response

The minimum wage is an instrument that can help to avoid low pay. A majority of the EU-27 have established a minimum wage system. Interestingly, the proportion is highest among the EU-12, of which 11 have a minimum wage (the exception is Cyprus, where the minimum wage is fixed by sectoral agreement). In the EU-15, only seven countries have a statutory minimum wage system, including two where it has been introduced recently, namely Ireland and the United Kingdom. Countries such as Austria, Denmark, Finland, Germany, Italy and Sweden, where there is a strong tradition of collective bargaining, have opted for a minimum wage fixed by sectoral collective agreements. However, the introduction of a statutory minimum wage system is under discussion in Germany and Sweden, and such a system is due to be introduced in early 2009 in Austria.

There are major differences in minimum wage levels throughout the region, ranging from 4.3 euros (€) in Tajikistan, €92 in Bulgaria and €114 in Romania to €1,403 in Ireland and €1,570 in Luxembourg (table 6.3). Although these differences are reduced somewhat when corrected for purchasing power, they nonetheless remain high.

Moreover, the minimum wage levels have been growing at very different rates since 2003. This increase has been greater in the EU-12, where minimum wages were low, thereby demonstrating a type of catching-up process. Minimum wages have also increased

Table 6.2. Minimum wage as a percentage of the subsistence minimum and the average wage (CIS countries), 2007

	Minimum wage/subsistence minimum	Minimum wage/average wage
Armenia	63	32
Azerbaijan	62	29
Georgia	17	7.8
Kazakhstan	97	19.5
Kyrgyzstan	12	11
Russian Federation	60.3	16.4
Tajikistan	41.3	18
Turkmenistan	–	–
Ukraine	93 (2006)	–
Uzbekistan	–	14.2

Sources: ILO Subregional Office for Eastern Europe and Central Asia and national statistics.

Table 6.3. Minimum wage levels in countries with a statutory national minimum wage (2007 – € unless otherwise indicated)

Austria	1 000 (from January 2009)
Belgium	1 259
Bulgaria	92
Czech Republic	288
Estonia	230
France	1 254
Greece	658
Hungary	258
Ireland	1 403
Latvia	172
Lithuania	174
Luxembourg	1 570
Malta	585
Netherlands	1 301
Poland	246
Portugal	470
Romania	114
Slovakia	217
Slovenia	522
Spain	666
United Kingdom	1 361
Albania	114.7 (14 000 Albanian Leks)
Croatia	299 (2 169 Croatian kunas in 2006)
The former Yugoslav Republic of Macedonia (no statutory minimum wage, but a collective national agreement)	90 (public sector)
Turkey	297.6
Armenia	71.7 (30 000 Armenian drams, from January 2009
Azerbaijan	67.4 (75 Azeri manats, from September 2008)
Belarus	72.2 (208,800 Belarusian roubles)
Georgia	10.3 (20 Georgian lari)
Kazakhstan	64 (10 515 Kazakh tenges, from January 2008
Kyrgyzstan	6.7 (340 Kyrgyz soms)
Moldova	28 (400 Moldovan lei)
Russian Federation	62.3 (2 300 Russian roubles)
Tajikistan	4.3 (20 Tajik somanis)
Ukraine	80.9 (605 Ukrainian hryvnias, from December 2008)
Uzbekistan	10.1 (18,630 Uzbek soms)

Source: European Foundation, 2007.

significantly in Ireland and Spain, as well as in the United Kingdom, where the introduction of the minimum wage in 1999 has led to reduced wage inequality. In France, the minimum wage has been the driving force for wage increases at the bottom of the wage distribution, although this has given rise to discussion of its negative effects on the creation of unskilled jobs and the high level of unemployment. Exemption from social contributions has been the main instrument used to reduce labour costs at the bottom of the wage scale, while maintaining the national minimum wage level. The minimum wage policy pursued in France has also contributed to reducing wage inequalities.

In Turkey, increases in the minimum wage, which is negotiated by the tripartite partners in a minimum wage commission, played a role in reducing the poverty rate of workers over the period 2004–06. Nevertheless, casual workers and own-account workers remain unprotected.

If the minimum wage is to fulfil its function of covering the basic needs of workers and their families, it should clearly be fixed at a rate that is higher than the poverty line or the subsistence minimum. Where this is not yet possible, the ILO always advises the implementation of a strategic plan of progressive increases in the minimum wage so as to reach the subsistence minimum. This approach has been adopted, for instance, in the Russian Federation, where it is set out in the Constitution, although the minimum wage was still only 60 per cent of the subsistence minimum in 2007. The low level of the minimum wage explains why the proportion of workers at or below the minimum wage was only 1 per cent in 2007, as enterprises have to pay wages above this rate if they want to keep and motivate their workers.

The minimum wage is also below 70 per cent of the subsistence minimum in many CIS countries, such as Armenia, Azerbaijan and Tajikistan, although Kazakhstan (97 per cent) and Ukraine (93 per cent) are exceptions. In contrast, the minimum wage has been allowed to fall below 20 per cent of the subsistence minimum in Georgia and Kyrgyzstan. In Turkey, the minimum wage is also below the poverty line (69 per cent, as calculated for a family of four).

6.3. Wage inequality and wage discrimination

Wage disparity has not grown uniformly in the various countries in the region in recent years. It has increased particularly quickly in the CIS countries, and especially in the Russian Federation, where it has occurred not only between sectors, but also between regions and forms of ownership (World Bank, 2005b). However, the situation appears to have improved over the past few years.

All the Central and Eastern European countries have also experienced increased wage differentiation, particularly Estonia and Hungary. The ratio of the last to the first wage decile increased from 3.3 in 1996 to 4.3 in 2006 in Poland, while the figures in the Czech Republic increased from 2.4 in 1989 to 3.1 in 2006. This is mainly due to the growing wage gap between manual and non-manual occupations, as well as structural changes in employment, with particular reference to higher and growing wages in the tertiary sector, a decline in the wage position of manufacturing, with public sector wages lagging behind. In Bulgaria, wage differentials between the highest and lowest paid sectors increased from 3 to 4.5 between 1995 and 2005, while wage disparity has also increased rapidly in The former Yugoslav Republic of Macedonia.

Wage dispersion can also be explained by enterprise size. For example, in Italy, the average wages in enterprises with fewer than ten employees are around half of those in enterprises with over 250 employees. The same patterns are found in Turkey and other countries.

Education also continues to be important. In Italy, over 50 per cent of those with only primary or secondary education are represented in the three lowest wage deciles, while the presence of those with diplomas or university degrees increases progressively in the highest deciles. The skill premium is becoming increasingly significant in the Russian Federation, except in the public sector, where wages are lower despite the higher educational level.

The gap between low and high earners has also widened in several EU-15 countries in the past decade. This is the case for Austria, as well as Germany, where the gap between the last and first wage deciles increased from 3.2 in 1996 to 3.7 in 2005, with the increase being particularly striking in eastern Germany (from 2.4 to 3.2), where it may be attributed to the rising wages of high earners, in contrast with western Germany, where it is driven more by declining wages in the low-wage sector.

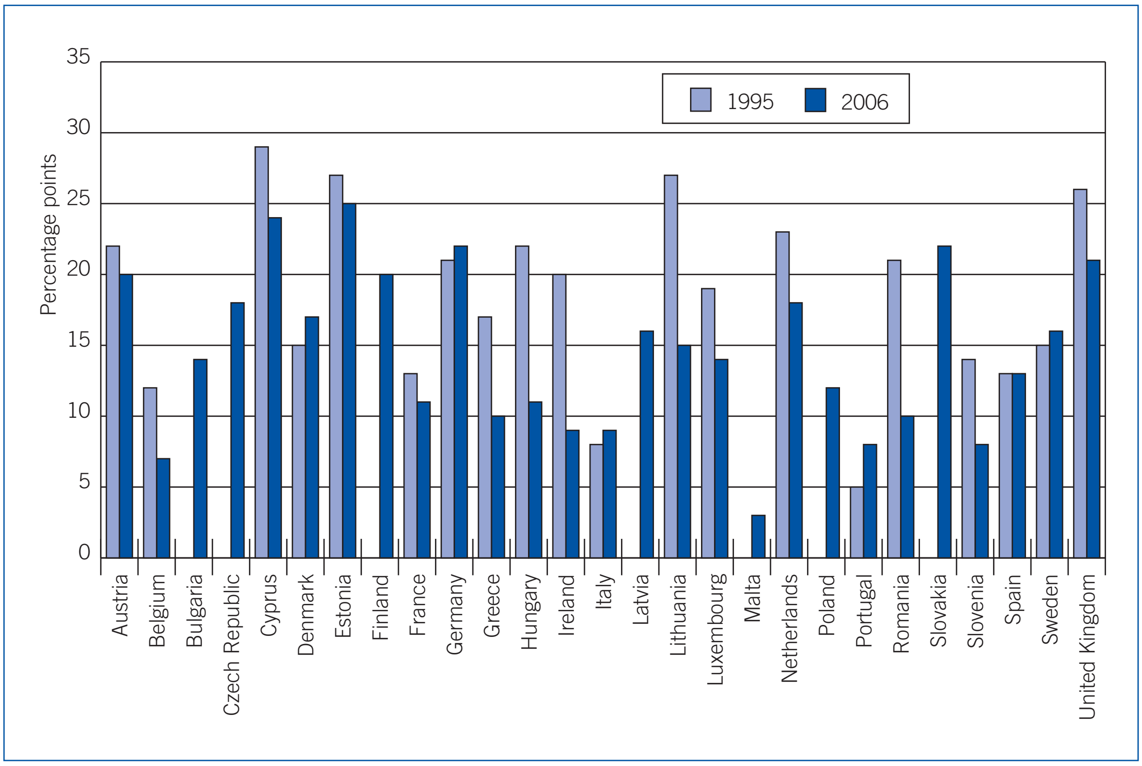
Incomes at the higher end of the income distribution have been the focus of debate in recent years following various scandals. In December 2006, German Chancellor Angela Merkel declared that the dramatic rise in the earnings of top managers could jeopardize social cohesion. For example, the earnings of chief executive officers of the 30 enterprises on the blue chip index of the German stock exchange (DAX) amounted to around €130 million in aggregate in 2006. In France, the earnings of CAC-40 top executives leapt by 58 per cent in 2007, inflated by stock options, while similar pay increases for top executives have occurred in the Netherlands, again due to stock options. The explosion of the remuneration of executive managers points to a market failure in this segment of the labour market which has shocked public opinion and led governments to react (Thorhill et al., 2008). In the Netherlands, new legislation is currently being considered by Parliament under which a company would pay a 30 per cent tax rate on any "golden handshakes" worth more than the annual salary of top executives. A law was adopted in France in 2007 requiring greater transparency concerning golden handshakes. Germany is envisaging a new law to curb excessive corporate pay. Such measures are often presented as a means of reducing wage differentials and improving income distribution.

The increasing income gap within countries has also become topical, especially in large countries, and is undoubtedly a major concern in the CIS countries. In the Russian Federation, location is the main factor of wage differentials, with a difference of over seven between the most and least developed regions in 2006 (although the figure was ten in 1995). Regional wage differences have also increased in smaller countries such as the Czech Republic, Hungary and even Croatia.

On average, the gap between men's and women's wages narrowed in the EU between 1995 and 2006. It narrowed by over 10 percentage points in Hungary, Ireland, Lithuania and Romania. However, it widened in five of the EU-27 countries: Denmark, Germany, Italy, Portugal and Sweden. In 2006, the gender wage gap ranged between approximately 4 per cent in Malta and 25 per cent in Estonia. In Turkey, men employed in manufacturing earn twice as much as women. The gender wage gap is also a cause for concern in the Russian Federation and Ukraine, at 39 and 28 per cent respectively (Gimpelson and Kapelyushnikov, 2007).

In brief, although the reduction of the gender pay gap is a major political objective for both governments and trade unions, progress remains slow, and the situation has even deteriorated in certain countries.

Figure 6.3. The gender pay gap in the EU (1995 and 2006)



Source: Eurostat.

Migrant workers continue to suffer wage discrimination in the region. For example, in Italy, non-EU workers are paid 43 per cent less than other workers. Similarly, the income gap between locals and migrants was nearly 20 per cent in Sweden in 2005.

The growth of atypical forms of employment has also contributed to the polarization of the labour market. Those working for temporary employment agencies are particularly vulnerable in terms of wages and working conditions. The risk of falling into poverty is much higher for temporary and part-time workers (3.5 and 3 times higher, respectively) than for permanent workers. Workers with fixed-term contracts in Italy work more hours for hourly wages that are 10 per cent lower than those of employees with contracts without limit of time. The average hourly wage in flexible jobs is also lower in several EU countries, while workers with less than one year's experience are paid 32 per cent less than other employees in the Russian Federation. However, the opposite appears to have occurred in Bulgaria since 2005, where legislation has successfully encouraged the growth of open-ended contracts.

6.4. Pay systems

Despite the low volume of data on the various components of total pay, there are a number of trends, such as a reduction of payment on a piece-rate basis, except for certain traditional industries such as garments. In the EU-27, only 12 per cent of employees are paid on a piece-rate basis (European Foundation, 2007). The rate is higher in certain countries, such as Turkey, where many suppliers of brands, especially in the garment industry, continue to pay employees on a piece-rate basis. A Russian study in 2007 of

167 companies found that in 56 per cent of them the base wage was calculated on a time basis, and the rest on a piece-rate basis.

The basic wage is often supplemented by various bonuses, many of which tend to be fixed and are intended to reward seniority or compensate for arduous working conditions. This has led to policy debates in Central and Eastern Europe, with the IMF recommending the removal of seniority bonuses in Bulgaria, for example, to make wages more responsive to economic conditions, although this recommendation was contested by the trade unions, which considered seniority bonuses to be an important right of workers. In accordance with ILO advice, and in agreement with the social partners, the Government decided to retain seniority bonuses, but to remove their portability in order to help older workers return to the labour market after a period of inactivity.

There has also been a tradition in Central and Eastern Europe of the payment of bonuses for bad working conditions. During the EU enlargement process, the European Commission called for the removal of these bonuses, especially those paid for bad health and safety conditions, on the understanding that the purpose was to improve both wages and working conditions, and not one to the detriment of the other.

Profit-sharing developed rapidly in the EU in the 1980s and 1990s, promoted by legal provisions and fiscal incentives, especially in France and the United Kingdom, and in the late 1990s in Finland, Greece, Ireland, the Netherlands and Spain. Slovenia has recently introduced legislation encouraging the development of profit-sharing. Such schemes are also encouraged in the public sector in Turkey, where they represent 9 per cent of wages, although they have remained fairly limited in other Central and Eastern European and CIS countries. European institutions have produced recommendations encouraging governments and the social partners to develop such schemes in view of their positive effects on productivity, worker motivation and the general social climate in enterprises (European Commission, 2006c). However, such profit-sharing schemes should not be used as a substitute for collective bargaining but rather as a complementary annual bonus.

6.5. Non-payment of wages and hidden wage payments

Despite the definite improvement in comparison with the 1990s, the *non-payment of wages* remains a problem in many CIS and certain Central and Eastern European countries. The problem of wage arrears in the Russian Federation was most widespread during the early transition years, as well as in the 1998 crisis. The sectors most concerned were manufacturing, agriculture, housing and public utilities, and the problem was also widespread in the public sector and in education. A broad range of policy measures finally succeeded in reducing the problem, notably through special action in the public sector and sanctions on employers. However, the problem persists in certain underperforming manufacturing and agricultural companies facing a shortage of funds. Further public action is therefore needed in the private sector, particularly in terms of labour inspection. Wage arrears also continue to be reported in Croatia and The former Yugoslav Republic of Macedonia.

The practice of the payment of *informal wages*, sometimes described as “hidden payments”, “shadow wages”, “cash payments”, “under the table” or “envelope wages”, also remains a problem. Many enterprises tend to declare workers at the minimum wage level and pay the difference informally in cash so as to minimize their social contributions, which clearly reduces funding for pensions and other social benefits, as well as state tax

Box 6.1
Protection of wages

Over recent years, practically all the observations made by the Committee of Experts in respect of the application of the Protection of Wages Convention, 1949 (No. 95), in the region have referred to the problems of wage arrears and the failure of governments to ensure the regular payment of wages. Similarly, in the same period, the ILC Committee on the Application of Standards has frequently examined individual cases relating to grave situations of wage arrears. The Governing Body has also dealt with 12 representations made under article 24 of the ILO Constitution alleging non-observance of Convention No. 95, mostly in respect of delayed payment or non-payment of wages.

The Committee of Experts has emphasized on numerous occasions that the "quintessence of wage protection is the assurance of a periodic payment allowing the worker to organize his everyday life with a reasonable degree of certainty and security. Inversely, the delayed payment of wages or the accumulation of wage debts clearly contravenes the letter and the spirit of the Convention and render the application of most of its other provisions simply meaningless". It has also expressed concern "at the emergence of a trend which consists of tending to consider the payment of workers' wages as an option rather than an obligation, or as a duty which is only to be honoured if and when other conditions so permit. The practices of barter and payment in kind often amplify this distortion of the concept of labour remuneration by seeming to imply that, where workers are denied their contractually agreed dues, they should content themselves with whatever form and means of payment is available". (ILO, 2003)

The Committee of Experts continues to monitor the situation, calling for reinforced labour inspection services, stricter sanctions, legislative amendments, continued social dialogue and sustained efforts to put an end to and prevent any recurrence of such phenomena.

revenues. In the Russian Federation, it has been reported that informal wages represented 12 per cent of GDP in 2007, compared with 7.7 per cent in 1995. Another issue in the Russian Federation is the denomination of wages by employers in foreign currency (US$ or €), which generally implies a considerable risk of exchange rate fluctuations for employees. Informal cash payments are also found in the Baltic States, and particularly in Estonia, where they concern some 10 per cent of workers. This type of payment is also used in the Czech Republic, Poland and in Croatia – in the latter country one third of pay is "black". In Turkey, there is also widespread under-reporting of wages to avoid the payment of high social security contributions.

6.6. Wages and social dialogue

Wage levels are clearly influenced by collective bargaining and the presence of trade unions. However, the increasing weakness of the bargaining actors, and particularly the decline in unionization and in the scope of collective bargaining, may mean that this lever for improving the situation of wage-earners is losing its strength.

Higher wage rates in the public sector are often explained by the presence of stronger unions and collective bargaining. For example, in Turkey, the average wage in the private sector is only 56 per cent of the rate in the public sector, although this rises to 70.5 per cent in private enterprises covered by collective bargaining. But only 10 per cent of all wage-earners in Turkey are covered by collective agreements, with this figure continuing to decline. Moreover, although wages also tend to be higher in unionized enterprises, this may also be due in part to the size of enterprises, as trade unions are most common in large enterprises.

Wage bargaining has proven effective in improving the situation of vulnerable groups on the labour market, such as women. For example, the development of collective bargaining in Bulgaria in sectors such as health and education, which employ a majority of women, helped to increase the average wage in those sectors by 72 and 63 per cent, respectively, between 2001 and 2006, thereby contributing to reducing the average wage gap between men and women (from 22 to 14 per cent).

However, wage bargaining may not always lead to better wage outcomes. Certain recent studies suggest that collective bargaining may have led to greater wage restraint in certain countries, such as Germany, Italy, Netherlands and Spain, because of the emphasis placed on employment promotion.

Wage bargaining is not highly developed in many countries in the region. Even though it is well developed in the EU-15, especially in Nordic countries, there is a lack of collective agreements in the EU-27, particularly at the sectoral level. Social dialogue tends not to exist in new private enterprises, and especially not in SMEs. There is a strong contrast between collective bargaining coverage in the EU-15 and the EU-12. According to Eurostat, coverage is approximately 58 per cent in the EU-12, compared with 78 per cent in the EU-15 (the exceptions include Slovenia, with nearly 100 per cent, and the United Kingdom with under 50 per cent).

Moreover, wage bargaining has become decentralized in Central and Eastern European and CIS countries and now mainly takes place at the enterprise level, where employers are often in a dominant position for the fixing of wage levels. This has sometimes resulted in extremely different wage levels for the same work based on the bargaining strength of employers, while the absence of bargaining in wage fixing can lead more easily to wage discrimination, for example against women and migrant workers, as well as social dumping.

Several of the EU-27 countries have a more centralized system of collective bargaining (Austria, Belgium, Denmark, Finland, Greece, Ireland, the Netherlands and Sweden), while decentralized collective bargaining is prevalent in others, such as France and the United Kingdom. Collective bargaining has been progressively decentralized towards the enterprise level in Germany.

One important element of social dialogue with regard to wage fixing is the existence of extension mechanisms, under which the content of a collective agreement signed at the sectoral level can be extended to all enterprises in the sector. Such mechanisms exist, for example, in Belgium, France, Germany and Greece.

National social dialogue also influences wage outcomes. The system of tripartism developed in many of the EU-12, such as Slovenia, allows wage policies to be defined and planned at the national level in discussion between the three sides. In Hungary, wage policy is traditionally discussed in the national council that fixes the minimum wages and the range of wage increases to be implemented at the decentralized level through collective bargaining. A tripartite pact including a strong incomes component was signed in Bulgaria in 2007.

There have also been numerous cases of national tripartite incomes policies being adopted through economic and social pacts in the EU-15 over the past decade. A fairly comprehensive model is Ireland, although other countries such as Italy and Spain have combined economic and social pacts with collective bargaining. In contrast, both collective bargaining and tripartism remain poorly developed in central Asian countries and the non-EU Eastern European countries. Nevertheless, in recent years social dialogue has started to progress in some of these countries. In the Russian Federation, for instance, between 1993 and 2004, the number of branch and inter-branch professional tariff agreements increased by a factor of 14.5.

If social dialogue is to contribute more fully to wage-fixing mechanisms and trends, a number of issues need to be addressed. First, it is necessary to promote collective bargaining and set clear targets in relation to a number of aspects of wages, such as ensuring that they are more in line with price increases and productivity. The second issue, as recently advocated by the ETUC, is greater coordination of collective bargaining between countries, for example based on common guidelines and demands, as well as minimum standards, as shown by the current debate on the minimum wage in the EU. This could also take the form of transnational collective bargaining or more intense cross-border cooperation. The ETUC has also proposed the exploration of united campaigns at the European level to achieve common standards on minimum pay and incomes and in support of minimum wage campaigns at the national level.

6.7. Policy conclusions

A series of conclusions may be drawn from the above:

- The first is that major income and wage differences remain prevalent in the region. A lot of ground has undoubtedly been covered over time, particularly in the countries of Central and Eastern Europe, many of which are now in the EU. The CIS countries are also characterized by very low wages, but rapid real wage increases. In contrast, wage moderation is a major feature of wage fixing in many EU-15 countries. Nevertheless, existing wage gaps continue to represent a serious obstacle to social cohesion, as well as a potentially important driver of relocation processes and of wage moderation in high-wage economies. Although capital and labour movements may progressively help low-wage countries to improve wage levels, appropriate policy responses are also needed.
- Second, there has been a general fall in the wage share of GDP, a trend that has also been confirmed in other regions. This should be a worry for all concerned: for workers because it may mean that labour does not obtain an appropriate share of economic growth, with a shift of income from labour to capital; for employers, because it may also mean that wages are disconnected from productivity; and for policy-makers in view of the imbalances that may result in the economy and in society at large. The necessary institutional responses therefore need to be identified and implemented.
- Third, there is substantial working poverty in the region, for example in certain Mediterranean countries, new EU member countries and in the CIS countries. One reason for this is that the minimum wage remains low in many countries, notwithstanding substantial increases in recent years. The situation regarding low wages is particularly acute in the CIS countries, where wage differentials have also widened over the years.

This analysis shows that several wage policy issues need to be addressed, including the question of the minimum wage, the linkage between wages and productivity and, in more general terms, redistribution policy.

Most countries in the region have adopted or are planning a series of measures to raise the purchasing power of workers, either through wage policy or fiscal incentives. Certain countries, such as France and Italy, have decided to offer incentives for the use of overtime, by reducing taxes on additional working hours in an approach described as "working more to earn more".

More recently, policy-makers have turned their attention to the minimum wage in countries such as Germany, Italy and Sweden, which have traditionally relied on minimum wages negotiated at the sectoral level. There is also increased interest in a minimum wage at the level of the EU, or at least a number of common principles relating to the minimum wage. The renewed interest in the minimum wage reveals the need to adapt wage policy more effectively to recent changes in the labour market, such as the inflow of migrant labour, the rise in new forms of employment and systematic recourse to outsourcing.

Many CIS countries face a different problem in relation to the minimum wage, as it is well below the poverty line and therefore fails to protect the most vulnerable workers. In these countries, it will be necessary to increase progressively the value of the minimum wage so that it covers at least the minimum living standard. Care should also be taken to ensure that the minimum wage progresses more in line with the average wage, so that it acts as a real base for the whole wage system.

Collective bargaining is an important tool in wage fixing. Significantly, France has decided to promote collective bargaining in 2009 by removing tax deductions for enterprises that do not engage in wage bargaining. Other reforms could be envisaged to encourage wage bargaining in countries where it remains weak. Similarly, many countries in the region operate profit-sharing schemes promoted by tax concessions. This is a means of linking wages more closely to company results, although a distinction should continue to be made between annual profit-sharing and wage negotiations.

Consideration will undoubtedly be given to other wage policy tools in the current context. [38]As in the 1980s, when a number of European countries concluded tripartite pacts to control wages more effectively during a period of inflation, renewed attempts will most probably be made to master inflationary pressures through negotiated incomes policies with a view to achieving a certain national consensus on wages and labour costs, helping employers to maintain competitiveness in a context of inflation and economic slowdown and ensuring the indexation of wages and a better share of economic growth for workers. The anticipated difficulties will require the right wage policy mix combined with a consensual approach to ensure the harmonious development of potentially divergent variables such as wages, productivity, consumption and employment.

Participants may wish to consider the following questions:

- Across much of the region real wages have increased more slowly than labour productivity over the past decade, thus contributing to a reduction in real unit labour costs and the wage share of output. Has this resulted in pressure for wage increases in the region?
- What wage policies may become more appropriate to accompany increasing capital, labour and trade movements, especially in a context of declining economic growth?
- What has been the development of low pay in European countries and what role could wage policies such as the minimum wage play in this respect?

[38] Proposals have already been made in Italy to address wages and incomes policy in the current context of growing inflation and food crisis; see R. Mania: *Confindustria: L'Italia è ferma ma i salari reali sono saliti* [Confindustria: Italy is at a standstill but real wages have risen], *La Repubblica*, 27 June 2008.

7. Social dialogue

Over the past ten to 15 years, the industrial relations map of the region has changed significantly. While in the early 1990s, social dialogue was practised in less than half the region, in 2008 the large majority of countries at least formally adhere to the concept, despite numerous obstacles and weaknesses.

Social dialogue has a special place in the region. Based on long-standing traditions and the commitment of the actors, numerous forms of social dialogue have become deeply embedded in the governance culture of many European countries. ILO standards in this field are underpinned by regional standards, such as the Treaty establishing the European Community and the European Social Charter. Social dialogue is also practised increasingly widely at the EU level as an important aspect of policy formulation, in some cases resulting in legally binding regional laws that are unique in the world.

Social dialogue is inextricably linked to the right of employers and workers to establish independent organizations. Despite certain exceptions, respect for freedom of association is generally higher in Europe and Central Asia than in other regions. However, this generally positive picture cannot be interpreted as a firm and stable commitment by all governments to the principles of freedom of association and the right to collective bargaining and social dialogue. The problems identified by the ILO supervisory bodies in this respect are summarized in Chapter 1. Moreover, electoral cycles in all parts of the region, including countries with the most stable industrial relations systems, have often resulted in ambivalent attitudes to the social partners. Amid adverse economic conditions and under the pressure of globalization, social dialogue has not always been seen as part of the solution and opportunities have been missed to use it to address current economic and social challenges.

7.1. Convergence and diversity in industrial relations practices

Despite their importance, it cannot be said that there is a specific model of industrial relations in the region in terms of institutions, processes or outcomes, even within the EU. National situations continue to differ greatly and the industrial relations identity in the region is built on both convergence and diversity.

The accession of ten countries from Central and Eastern Europe to the EU in 2004 and 2007, as well as Cyprus and Malta, has led to even greater diversity than that previously existing within the EU-15. Moreover, developments over the past decade have blurred still further the traditional clustering of countries in the region according to the prevailing bargaining level (company/sectoral/national). Diversity throughout the region is also increasing because of the influx of foreign investors, especially multinational enterprises, from regions with different cultural backgrounds, or due to policies that those investors have chosen to implement in the recipient countries that diverge from those of their country of origin. Other distinguishing features of national industrial relations systems in the region include the balance between protection provided by laws and by collective bargaining, which varies hugely even between neighbouring countries, and traditional quantitative indicators, such as the unionization rate and collective bargaining coverage, in which the highest scores are traditionally achieved in the northern countries.

The question therefore arises as to why, despite signs of convergence, there are still important differences in the efficiency and quality of social dialogue. Over and above weaknesses in legislation and the technical capacities or commitment of the social partners, the explanation would appear to lie in the lack of political will and steady commitment by certain governments to promote collective bargaining through the methods and measures envisaged in ILO instruments.

For several decades, it was argued that EU countries suffered from rigid labour legislation and inefficient labour market institutions, which affected their performance in terms of employment and competitiveness. The question is therefore to what extent labour institutions have adapted and contributed to the improved performance of labour markets in the EU-27, and whether social dialogue has become part of EU policy-making processes.

Although the EU legislative framework for industrial relations has evolved over time, systematic changes in national industrial relations systems in the EU-15 have been relatively rare, and have mainly been linked to the implementation of the 2002 Information and Consultation Directive, which has resulted in significant change only in Ireland and the United Kingdom. Naturally, the situation differs in the EU-10, where many countries have now adopted new labour codes, sometimes significantly extending the scope of collective bargaining,[39] and laws dealing with collective bargaining procedures in the context of the transposition of EU legislation into national law. A specific feature of developments in the EU-12 has been the involvement of constitutional courts, which have been called upon to intervene in industrial relations legislation in several cases.

Social dialogue institutions have remained largely stable in the EU-15, with sectoral bargaining remaining predominant in most countries. National dialogue has also retained its importance, mainly as a tool for addressing macroeconomic challenges. Most national industrial relations systems have also preserved their centralized and coordinated nature, with higher level agreements being obligatory for lower level bargaining[40] and individual employment contracts. In most of the EU-12, where enterprise bargaining had remained dominant since the early 1990s, the sectoral level has gained in importance. Nevertheless, the content of sectoral agreements in these countries has remained fairly weak, with limited impact on wage formation, while their coverage depends largely on the political will of governments in terms of their extension. Since the early 1990s, national social dialogue, embodied in a variety of national tripartite councils, has developed into a distinguishing feature of industrial relations systems in most of the EU-12 countries.

The content of social dialogue has broadened substantially over the past decade to include such issues as training and life-long learning, competitiveness and innovation, social inclusion and cohesion, new forms of employment and work organization, the promotion of youth employment and HIV/AIDS. Three major issues have been at the heart of the industrial relations agenda in the region: maintaining macroeconomic stability, revitalizing labour markets and developing social dialogue at the European level.

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[39] For example, the new or amended labour codes in Bulgaria (2004), the Czech Republic (2006) and Romania (2003).

[40] An important breakthrough in relation to this principle led to the new French collective bargaining legislation in 2004 (the *loi Fillon*).

The social partners have contributed to macroeconomic stability in the region and the feasibility of economic and social measures. An important example is the EMU, covering not only the adoption of a common currency, but also a set of agreed stabilization policies on public finances, inflation, exchange rates and interest rates. Compliance with the EMU criteria would not have been possible without the cooperation, or at least the understanding, of the social partners. In many cases, this was achieved through the conclusion of formal bipartite or tripartite agreements, known as social pacts. Although not innovative in themselves, the new generation of agreements have brought much broader focus, covering more general strategies and taking into account such elements as globalization, ageing, the information society, the combination of security and flexibility, competitiveness and public finance reforms. In the EU-12, economic policy issues have often been discussed at the national level, especially in national tripartite bodies with very broad mandates, even though national agreements, especially on wage developments, would appear to have had only a limited impact in these countries.

As required by the EES, many of the EU-27 countries have addressed a very broad range of employment and labour market problems through a system of organized consultations. A large number of bipartite or tripartite actions have been undertaken in such areas as employability, older workers and the issue of equal pay and equal opportunities, not only between men and women, but also for specific groups of workers, such as immigrants and ethnic minorities. A large number of agreements, mainly at the company level, have sought to find a balance between wage increases, employment security, new forms of work organization and working time arrangements, including part-time work, fixed-term contracts and, more recently, temporary agency work and telework.

It has been argued that globalization is not accompanied by adequate global governance instruments. However, in the context of European integration, which is part of globalization, the EU has managed to go much further than any other region in developing an additional regional bargaining level, involving the European social partners more systematically in the decision-making process and harmonizing at least certain aspects of national labour markets and social policies. Since 1995, five framework agreements have been adopted by the European social partners establishing minimum EU standards on parental leave, part-time work, fixed-term work, telework and work-related stress. Moreover, since 2003, tripartite social summits have been convened each year before the Summit of Heads of State and Government, while EU policies, especially the EES, have had some success in promoting social dialogue at the national level.

Over the past ten to 15 years, the Western Balkan countries and the Republic of Moldova have made significant efforts to create the conditions for effective social dialogue and to bring their law and practice into compliance with ILO standards and closer to those of the EU. Many of these countries have signed the European Social Charter and have created a legal framework for labour relations between employers and workers and their organizations through the adoption of new labour codes and other laws dealing with collective labour relations. Independent workers' and employers' organizations have emerged to defend their members' interests through both bipartite and tripartite social dialogue. They have established social dialogue institutions at various levels of the decision-making process, particularly national tripartite councils and, in certain cases, similar institutions at the regional/local levels. Some have also introduced the principle of tripartism into specialized bodies dealing with social welfare funds.

While governments remain the most prominent, if not the dominant actors in tripartite social dialogue, national tripartite councils are generally considered to have played a useful role, particularly at the beginning of the transition process, by making a certain form of tripartite social dialogue and consultations possible between governments and the social partners at a particularly difficult time. They helped the social partners gain national and international legitimacy, significantly improving their access to information and their experience of social dialogue. In many cases, they contributed to the creation of more balanced labour laws and were involved in discussions on national strategies for employment, social protection, occupational safety and health and equal opportunities.

Notwithstanding these achievements, most tripartite bodies are still at the development stage. Some do not meet regularly (for example, those in Albania and Montenegro). In most cases, they have not yet established specialized committees or working groups, or lack the necessary human, financial or technical resources (examples include The former Yugoslav Republic of Macedonia, Republic of Moldova and Serbia). The social partners believe that, despite the existence of national tripartite bodies, they are not consulted effectively before decisions are taken, or that consultations are merely a formality and decisions are not implemented.

While national social dialogue is a common feature of industrial relations in the subregion, collective bargaining also takes place at the national inter-occupational, sectoral and enterprise levels. With collective bargaining tending to be concentrated in the shrinking public sector, the weak presence of trade unions in the private sector and the reluctance of private employers to engage in collective bargaining represent the main obstacles to the development of autonomous bipartite social dialogue in the Western Balkans.

Despite the almost universal ratification by CIS countries of Conventions Nos 87 and 98, the ILO supervisory bodies have identified the continued application in certain countries of undue restrictions on freedom of association and the right to collective bargaining. In particular, these take the form of restrictions on the right of organizations to determine their activities and programmes, to affiliate with international organizations and receive assistance from them and restrictions on the right to strike. However, a legal basis, albeit imperfect, has been established in most countries for the development of independent organizations of employers and workers, which are able to engage voluntarily in social dialogue and collective bargaining. In particular, the new labour codes adopted over the past decade normally contain provisions on collective agreements and procedures for collective bargaining, the settlement of collective labour disputes and, more recently, the principles and institutions of social partnership.[41] However, both trade unions and employers' organizations continue to face multiple challenges in engaging in meaningful social dialogue.

The structure of social dialogue in most CIS countries tends to copy the typical European multi-layered system, with general tripartite agreements being concluded at the national level,[42] sometimes in permanent national tripartite bodies,[43] although they tend to take the form of political commitments, rather than legally binding agreements.

Tripartite agreements at the regional, local and sectoral levels mostly include the government as the third signatory. Bipartite sectoral agreements are concluded in only a few CIS countries, due to the absence or weakness of industrial-level representative organizations, especially of employers. Enterprise-level bargaining mainly exists in larger, formerly State-owned enterprises, but is rare or non-existent in the new private sector, especially in smaller enterprises. The scope of bargaining is also seriously limited by the size of the informal economy.

[41] With the exception of Turkmenistan, all the countries concerned have reformed their labour legislation since the breakdown of the USSR.

[42] National agreements exist in Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Tajikistan and Ukraine.

[43] National tripartite bodies exist in Belarus, Kazakhstan, Kyrgyzstan, Russian Federation and Ukraine.

In general, the role of governments in social dialogue differs in the CIS from other parts of the region. Instead of promoting collective bargaining through appropriate legal and institutional tools, the governments of certain countries tend to be directly involved in negotiations, and even in the internal affairs of employers' and workers' organizations', with the risk of limiting their autonomy and capacity to engage in meaningful social dialogue.

7.2. Employers' organizations

While employers' organizations in the EU-15 and other Western European countries have been firmly established as industrial relations actors for several decades, they nevertheless need to continue to adapt their role and structure to a changing environment. The main drivers of this change are the ongoing process of economic globalization that brings with it rising competition and cost pressures for companies, and the internationalization of production, involving outsourcing and increasingly complex supply chains.

The traditional focus of employers' organizations on negotiating sectoral collective agreements has weakened to varying extents, depending on the country. Collective bargaining at the company level has increased in importance vis-à-vis collective bargaining at the sectoral level, even though sectoral collective agreements have tended to offer companies more flexibility. In line with this trend, employers' organizations have gradually been shifting to an advisory role, helping companies to negotiate or implement their own collective agreements.

Partly to substitute their declining role in collective bargaining and to remain attractive to their members, employers' organizations have diversified and developed new functions. These include the provision of new information and advisory services, and training courses for their members. They have also turned their focus back onto their traditional lobbying role (Hornung-Draus, 2004) and extended lobbying activities from the national to the EU level, with many employers' organizations setting up liaison offices in Brussels. As the European social partners have become increasingly involved in setting rules, for example through framework agreements, national employers' organizations have also assumed new responsibilities for the implementation of those rules by their members.

A new and particularly important issue for companies and employers' organizations in Western Europe in recent years has been corporate social responsibility (CSR). Employers' organizations have been involved in this field and have developed new services for their members. These include the provision of information and guidance on the content and interpretation of universally agreed core labour standards as benchmarks for company practice, for example when companies decide to adopt codes of conduct. Some employers' organizations, at the request of their members, have even set up mechanisms to monitor the CSR performance of companies. Employers' organizations have also helped to protect companies against unreasonable CSR demands, or assisted them in resolving conflicts in this respect. In the field of CSR, companies and employers' organizations now have to deal with, in addition to trade unions, new actors such as non-governmental organizations (NGOs) (Hornung-Draus, 2004).

In response to the more competitive environment, employers' organizations have also been streamlining their structures (Behrens and Traxler, 2004). While most of the restructuring has been internal or at the local or sectoral levels, and therefore less visible, there have also been spectacular cases of mergers or alliances between major national employers' organizations (for example, in Finland, Iceland, Luxembourg, the Netherlands and Sweden). This process is likely to continue.

The revenue of employers' organizations in Western Europe has remained relatively stable in recent years. Revenues from additional paid services have gained in relative importance, but income from membership fees continues to be the main pillar. In overall terms, the diversification of the roles and structures of employers' organizations in Western Europe has not been accompanied by a significant decline in membership (European Commission, 2006d).

The structure of employers' organizations in the EU-10 countries is somewhat different. In parallel with the catching-up process in these countries, employers' organizations have been developing their structures and roles. However, while the coverage rate of employers' organizations in Western Europe is estimated at between 55 and 60 per cent, it is still much lower in the EU-10 (about 20 per cent). While larger enterprises and industrial enterprises tend to be members of employers' organizations, the representation of SMEs has remained patchy. Compared with the EU-15, employers' organizations are relatively weak at the sectoral level in the EU-10. Although a number of mergers have taken place, there have also been some splits. The ongoing challenge for employers' organizations in these countries is to maintain their momentum in extending both their capacities and their membership.

Employers' organizations were first established in the former centrally planned economies of South-Eastern and Eastern Europe during the transition of the early 1990s. All these countries now have some kind of employers' organization, although their progress has varied in terms of their organizational development. While functioning and fairly representative national employers' organizations have emerged in certain countries (such as Croatia, Montenegro and the Russian Federation), in most others they are still unstable and weak in terms of influence and membership, or focus mainly on economic issues, giving little attention to labour and social matters. Promising developments have often been followed by setbacks.

A distinct trend in Eastern European countries has been the adoption of specific laws regulating the legal status of employers' organizations, the procedures for their establishment and the rights and duties of their members, often framed at the request of the employers' organizations themselves to consolidate their position as recognized social partners. The sometimes striking level of detail points to the educational function that these laws seem to play in clarifying the identity and interests of employers and their organizations. However, they sometimes risk running counter to basic standards and principles of freedom of association, as they may assign or limit the goals and scope of employers' organizations, or regulate internal matters that should be left to the rules of the organizations themselves. The ILO supervisory bodies have called for the amendment of some of these provisions to ensure compliance with the principles of freedom of association.

In the Central Asian countries, in particular, the development of independent employers' organizations is still hampered by a lack of understanding of the term "employer", and hence of the role of employers' organizations in a market economy. Employers' organizations in these countries tend to suffer from:

- *Lack of representativeness:* the number of members is low in general, or in particular regions or sectors of the economy. The relationship with members is often loose and there is little communication with members. Moreover, either there are no rules on the fair assessment of the representativeness of employers' organizations (for recognition in social dialogue or collective bargaining), or the rules are unclear or overly strict;

- *Lack of governance:* leaders of employers' organizations are also frequently involved in politics and consider employers' organizations as political support groups. Meetings of decision-making bodies are rarely convened and members are not properly involved;
- *Lack of revenue:* members do not pay membership fees, or do not pay them regularly, and there is no income from services. In certain countries, membership fees are still not tax-deductible for enterprises, which is an additional disincentive to membership;
- *Lack of infrastructure:* employers' organizations employ few or no permanent staff. Their staff often lack competence and change jobs frequently, thereby hindering the development of organizational knowledge and culture;
- *Lack of services:* the lack of services, or their rudimentary nature, makes membership of employers' organizations unattractive;
- *Lack of visibility, recognition and influence:* employers' organizations are often largely unknown to the general public. Governments do not take them seriously as competent partners in social dialogue and therefore do not consult them.

In some countries, emerging employers' organizations continue to face competition from established chambers of commerce and industry in representing employers in social dialogue and collective bargaining. It is not yet clear everywhere that this role should only be played by independent employers' organizations with voluntary membership, and not by chambers of commerce sponsored by the State, of which membership is sometimes compulsory. In one case, the CFA recalled the importance of the voluntary nature of collective bargaining and called on the government to take the necessary measures to ensure that employers could freely choose the organization they wished to represent their interests in the collective bargaining process, and that the results of any such negotiations were not subject to the approval of the legislatively constituted chamber of commerce (ILO, 2002). Other complaints to the CFA made by employers' organizations from these countries have concerned obstacles to the registration of their organizations, favouritism by the government and government interference in their internal affairs.

These adverse conditions and weaknesses have been mutually reinforcing. To address the resulting vicious circle, employers' organizations have to become more strategically oriented and expand their membership, while increasing their capacity to engage with governments and trade unions in policy-making on labour and social issues. To expand their membership, they need to provide new services, including training on collective bargaining and conflict management. To participate in policy-making and be fully engaged in social dialogue, they have to build technical expertise on a range of social and labour issues. A comprehensive strategy is therefore required, based on a clear commitment to address all the major shortcomings simultaneously.

There is a fair chance of future improvement. The legal and institutional environment for investment and entrepreneurship has been improving in most of the countries concerned, resulting in a rise in the number of private employers needing representation and services. Moreover, while not yet perfect in certain countries, the legal and institutional framework has been established for setting up and running employers' organizations. Governments are increasingly recognizing the need for independent and competent organizations of employers and workers as partners in the governance of the labour market. Finally, the rise of the private sector is resulting in an increased role for employers' organizations in bipartite interactions with workers' organizations.

7.3. Trade unions

Over the past decade, trade union organization in the EU-15 has been affected by the continuing decline of manufacturing, changes in technology and work organization, the parallel growth of precarious jobs and the increasing heterogeneity of the workforce. During the period 1995–2002, union density fell from 31 to 27.3 per cent in the EU-15 (European Commission, 2004), although this decline had been halted by 2006, with a slight increase in certain countries (Cyprus, Malta and Slovenia) (Hülsmann and Kohl, 2006).

Strengthening their membership base has therefore become a major issue for trade unions in the EU-15, whose organizing and recruiting policies are increasingly designed to take better account of the particular interests of specific groups. For example, in Germany, the union IG Metal has adopted innovative approaches targeting young people, women workers, the elderly and workers hired through private employment agencies. In certain countries, such as Spain, the organization of migrant workers has become a priority, while in others, the focus has been on improving services to members and robust organizing campaigns. Nevertheless, many categories of workers remain outside the scope of union representation.

The approach adopted by trade unions to collective bargaining has also been adjusted in response to economic restructuring over the past decade. Economic and monetary integration, labour market deregulation and increased capital mobility pose a challenge to collective bargaining and have exerted downward pressure on wages, working time arrangements and job security. Trade unions have responded to these developments through parallel efforts to maintain national centralized and sectoral bargaining, while at the same time strengthening the European dimensions of collective bargaining. ETUC has called for stronger coordination of bargaining at the European level to counter competitive wage moderation, ensure that economic benefits translate into higher wages and promote upward wage convergence through an intensified exchange of information on collective bargaining and the strengthening of European Works Councils (ETUC, 2006b; ETUC, 2007).

Changes in their organization and negotiation practices have triggered the restructuring of unions, resulting in mergers and cost-reduction programmes throughout Western Europe (Ebbinghaus and Visser, 2000). In the second half of the 1990s, multisectoral and multi-occupational union conglomerates were formed in Germany and the Netherlands, while bargaining alliances, mergers of sectoral structures and concentration processes also took place in other countries. The search for new organizational forms of worker representation and the renewal of the unions are likely to continue as efforts are made to strengthen worker protection in this new context.

In the EU-10, following a period of economic decline and privatization, accompanied by the growth of SMEs and the informal economy, trade union membership has fallen steadily. Starting in the early 1990s with the transformation of unions from compulsory to voluntary organizations, this trend continued with the further economic restructuring and deregulation of labour markets in the second half of the decade. By 2005, trade unions represented less than one quarter of the workforce in the EU-10. Their presence remains strong in the public sector, while the emerging private sector, services, SMEs and many multinational enterprises remain largely unorganized.

More recently, trade unions in the EU-10 have been operating in a more favourable environment of economic growth, relatively stable democracy and a new legal and institutional industrial relations context. If they are to benefit from these opportunities, unions in the EU-10 need to strengthen their representation, particularly in the private sector, consolidate their structures, strengthen their financial base and develop expertise in and the technical capacity for social dialogue (Dimitrova, 2005).

In particular, the excessive pluralism of trade unions and confrontation between them in the early 1990s has gradually given way to enhanced cooperation between national trade union centres, often through the coordination of peak organizations. Lithuania offers an excellent example of consolidation at the peak level through a permanent joint coordination body. The ability to speak with one voice has contributed to increased recognition of unions as important actors in social policy at the national level and an improved public image, although their impact on national social dialogue often remains relatively limited.

The strengthening of the capacity for collective bargaining at the sectoral level also requires a deepening of trade union reforms in certain countries, where a proliferation of industry organizations has resulted in fragmented sectoral representation, with sectoral structures often being dispersed not only within a single confederation, but also among various confederations. Internal union reforms, including mergers, can reflect sectoral shifts and make collective bargaining units more relevant to the emerging profile of the economy. At the company level, a more ambitious union agenda covering wages, productivity, training, OSH and equality could emerge and result in a tangible improvement in wages and working conditions. Ultimately, success in bargaining is by far the best means of demonstrating the relevance of unions to actual and potential members.

Finally, while European social dialogue has opened up new opportunities for trade unions in the EU-10, their capacity to take these opportunities remains limited. The allocation of proper financial and human resources to respond to the demands of social dialogue at the various levels is indispensable if unions in the EU-10 are to play a more effective role. A review is therefore required of the way in which fees are currently allocated to the various levels, alongside the development of industrial action funds and the maintenance of an adequate number and technical capacity of staff. Deficits in the capacities of unions can also be addressed by optimizing their scarce financial and human resources through greater coordination between national centres, rotation of representation in the various forums and the development of joint research.

In South-Eastern Europe, the scope of trade union action has been affected by the legacy of The former Yugoslavia, resulting in a decade of economic decline and crisis, followed by economic and social reforms that have been “compressed” over time. The years since 2000 have been characterized by volatile economic progress and advances and setbacks in the democratization process as well as slower and, at times, inconsistent legal and institutional reforms. Under these circumstances, trade unions have been under the double pressure of responding to painful transformations in the economy and society and acquiring legitimacy as social actors through the reform and renewal of their structures.

In most South-Eastern European countries, the trade union movement has experienced uneven development. Although progress has been made and the initial division between old and new unions is now less pronounced, this has not resulted in a sustainable trend towards union unity in most countries. A secondary wave of fragmentation has occurred in recent years, with national centres splitting in The former Yugoslav Republic of Macedonia and in Montenegro, while cooperation has been slow to emerge in Albania, Bosnia and Herzegovina, and Serbia. Political rifts, problems of representation and unresolved trade union property issues have affected trade union unity in the subregion. Notwithstanding these difficulties, unions have made an effort to participate in the reform of labour law and institutions, and have been involved in formulating employment and social security policies. The impact of such efforts has been felt most strongly in Croatia, where greater cooperation has gradually arisen from trade union plurality and where unions have been able to maintain strong technical expertise.

The prospect of EU accession is a strong impetus for a proactive and forward-looking trade union agenda. The experience of trade unions in the EU-10 offers lessons in terms of the types of involvement and technical expertise that can help unions in South-Eastern Europe to play an effective role in social dialogue and the accession process.

The situations of trade unions in the CIS countries remain varied. In the Russian Federation, independent unions have achieved effective cooperation at the national level and have made further steps towards the renewal of their internal structures, despite a substantial loss of members. In Central Asia, the conditions for the operation of independent trade unions have been slow to emerge; a high union density does not necessarily mean that they have the genuine capacity to defend their members' interests. In Belarus, independent unions face major challenges to their existence and operation.

Despite almost universal ratification of Conventions Nos 87 and 98, the functioning of independent trade unions in many CIS countries is impeded by barriers to freedom of association and the right to collective bargaining. As observed by the CFA, these include obstacles to registration, interference in trade union affairs, denial, to certain categories of workers, of the right of association and the right to strike, as well as anti-union discrimination. Belarus is a special case in this respect, and in 2004, the ILO Commission of Inquiry identified particularly serious violations of freedom of association.

Strengthening representation is a major challenge for independent unions in the CIS countries, especially in the private sector, small and micro-enterprises and the vast informal economy. For unions to be more effective in the subregion, it is necessary for them to overcome institutional inertia to deepen the democratization of their internal structures, modernize their education curricula and methods, enhance their financial independence and build stronger technical expertise.

7.4. Conclusions and policy options

The territorial scope of social dialogue in Europe and Central Asia has expanded considerably over the past decade and it can be argued that the role of labour institutions is more important there than in other regions. Nevertheless, despite a certain limited convergence, national industrial relations systems remain very diverse and embedded in national traditions and cultures. Multi-level bargaining and hierarchically structured social dialogue are probably their most common features. However, the diversity of trends is demonstrated by the fact that collective bargaining coverage has declined in some parts of the region, while remaining stable or even increasing in others.

There are many examples of social dialogue as an efficient tool for addressing social issues and contributing to the strengthening of social peace, democracy and social cohesion. Social dialogue has played a major role in EU enlargement, the introduction of EMU and the strengthening of fragile democracies in former transition economies; it has also helped address recent challenges such as increased global competition, employment insecurity and issues related to the ageing of the population.

Nevertheless, there are still major gaps in the efficiency of social dialogue in certain countries. These gaps include an inadequate legislative framework, including the legislative provisions respecting freedom of association and the right to bargain collectively; insufficient compliance with existing labour legislation; weak labour administration systems; a lack of institutional capacity among the social partners; and unstable support by governments. In other countries, social dialogue has proven its worth as a flexible method of governance that is well adapted to the dynamics of the changing world of work. Social dialogue bodies, institutions and processes have adapted to the needs of the economy and society as a whole. These adaptation processes, driven by government policies or by the social partners themselves, are likely to continue.

The regional dimension of social dialogue has been substantially strengthened in the EU. Decisive steps have been taken towards greater involvement by the social partners in policy formulation and even decision-making, and social rights are an integral part of the Treaty establishing the European Community.

Policy options

It is in the interests of all constituents, and their joint responsibilities, to ensure that social dialogue becomes more effective in addressing current social needs. In particular, the commitment of governments to promoting social dialogue through appropriate means is crucial to its success.

In this respect, governments could consider:

- improving the legal framework of social dialogue, and especially removing obstacles to freedom of association and the right to bargain collectively, in line with the recommendations of the ILO supervisory bodies. Special attention should be paid to enhancing the organization and bargaining rights of specific groups of workers, such as public sector workers, employees in SMEs, workers in atypical employment relationships and migrants;
- strengthening institutions that support and facilitate social dialogue, such as conflict prevention and resolution mechanisms, labour courts and other specialized judicial bodies and labour inspection systems;
- encouraging broader and more effective involvement of the social partners in macroeconomic policies, as well as major social and economic projects and reforms. The social partners should be provided with the necessary information and support to enable them to participate effectively in policy-making. National tripartite advisory and negotiating bodies should be made operational;
- setting up enabling environments by adopting the promotional measures envisaged in ILO standards, such as supporting a coordinated bargaining system, extending multi-employer collective agreements and providing the reliable data and statistics that are necessary for bargaining. Public procurement should be based on full respect for workers' rights and the right to bargain collectively. Special attention should be paid to the effects of foreign investment on industrial relations through the implementation of the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy;
- ratifying, in consultation with employers' and workers' organizations, ILO Conventions related to industrial relations, and particularly the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144), the Labour Relations (Public Service) Convention, 1978 (No. 151), and the Collective Bargaining Convention, 1981 (No. 154).

The social partners could consider the following:

- Employers' organizations could continue to strengthen and adapt their organizational structures, internal functioning and services in order to increase their value to their members and their recognition as the competent, credible and representative voice of employers in their respective countries.

- Workers' organizations could further strengthen their capacity to engage in social dialogue and collective bargaining at both the national and transnational levels. This involves broadening their base, promoting internal reforms, consolidating their structures and developing strong expertise and services so that they can represent the interests of their members more effectively.

The participants may wish to consider the following questions:

- What impact has social dialogue had, especially at the national level, on the formulation and implementation of major economic and social policies in your country? What role have the social partners played in national discussions on macroeconomic issues, employment, working conditions, wages and pensions?
- What concrete policy measures could be adopted by governments to strengthen social dialogue as a governance tool? What could be done by governments to promote forms of collective bargaining that encourage productivity, competitiveness and the creation of high-quality jobs?
- What capacity building is required for the social partners to strengthen their representation and address existing and emerging challenges such as the social repercussions of the global financial crisis, demographic developments and climatic change?

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