

Managing transitions:
Governance for decent work

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Managing transitions:

Governance for decent work

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Preface

In the opening years of the twenty-first century, Europe and Central Asia are becoming steadily more closely integrated, developing shared democratic values and open markets. The way ahead is not without difficulties, including challenges to these basic principles. Yet the European Union of 25, the Commonwealth of Independent States, the Stability Pact countries and their neighbouring countries are committed to securing these foundations for peace and prosperity. As a contribution to the process, this report for the Seventh European Regional Meeting examines a crucial aspect of sound policies for regional integration in a globalizing world – the governance of the world of work.

The title of the report *Managing transitions: Governance for decent work* signals that the heart of the matter is the management of change during people's working life: change from school to work, between jobs or occupations, from one country to another and from full-time employment to a well-earned retirement. It is about how societies organize themselves to have the flexibility to adapt, raise productivity, grow and compete, while maintaining a balance with the security that all families and communities need to build a happy and fulfilling existence.

It addresses the implications of precarious work, structural unemployment, pension reform and outsourcing. At all levels, promoting entrepreneurship, enterprise development and the enabling environment for productive investment is highlighted. And of course, the background is the transition from state planning to a market economy that has preoccupied policy-makers in the region for the last 15 years.

It is a commonplace to say that the one constant in the era of globalization is change, but in many ways our societies have not yet fully come to terms with the full implications this has for people and enterprises. To embrace change, one needs a sense of confidence that change will be for the better. If there is a risk that it might not be, unemployment must not lead to poverty but rather to support for adjustment and rapid re-employment. Change without a sense of values, or change that only benefits the few, is very destabilizing.

Since its foundation in 1919, in the aftermath of a European war that spread worldwide and marked the end of what some have called the first era of globalization, the ILO has sought to address not only how to manage change in the world of work, but what we are trying to achieve with change.

The opening phrase of our Constitution – “whereas universal and lasting peace can be established only if it is based upon social justice” – points to our commitment to fairness at work, in society and the economy, not only within but also among nations.

The twenty-first century expression of the ILO’s aim is decent work for all. The opportunity to obtain decent and productive work in conditions of freedom, equity, security and human dignity is a shared goal of the ILO’s worldwide constituency of governments, employers’ organizations and trade unions. Decent work as a global goal is also the guiding theme for the ILO’s next Strategic Policy Framework. Decent work can thus be a compass for the region’s own integration and also for its economic and social relations with other continents.

“Governance for decent work” is about how governments, employers and workers can together provide an institutional framework that balances flexibility for enterprises and security for workers. The report opens with a discussion of the significance of well-functioning systems for making and applying rules for efficient and equitable labour markets, work relations, enterprise development, job creation and social protection. It stresses that, in open economies, the main means by which a country can improve its economic performance is through the productivity dividend yielded by good governance for decent work.

Subsequent chapters examine stages in the working life cycle, addressing youth employment, employment mobility and stability, migration for work and older workers, and pension reform. They focus on four key transitions in the lives of working women and men. Societies that provide support and opportunity throughout the life cycle are likely to be both economically competitive and socially cohesive. Running themes throughout the report are the importance of respect for fundamental rights at work and gender equality, with social dialogue as a means of forging agreements for action.

Although there is global endorsement for the goal of decent work for all, there is no “one-size-fits-all” policy for achieving it. Indeed, success depends on each country defining its own priorities and policies. However, there is considerable scope for international cooperation and mutual support. Decent work is a sound platform for good neighbour policies. Looking to the future, the ILO is a meeting place where progress towards shared commitments can be evaluated, information on best practice exchanged and cooperation programmes planned.

In recent years a strong partnership has been formed between the European Union and the ILO. We signed a new cooperation agreement in 2004 with the European Commission on joint activities. It is founded on the striking similarity between the EU’s Lisbon strategy for economic, social and environmental renewal and the ILO’s Decent Work Agenda.

This relationship has further deepened through our dialogue on the report of the World Commission on the Social Dimension of Globalization, *A fair globalization: Creating opportunities for all*. The European Commission’s Communication to the Council in May 2004, released shortly after the report’s publication in February, describes the congruence between the thinking of the World Commission and the ambitions of the EU to achieve more and better jobs and increased social cohesion. As the European Commission Communication acknowledges, “much more should be done at all levels [global, regional and national] in a complementary and mutually reinforcing way to extend the benefits of globalization to all”. The heart of the efforts for more balanced and convergent policies is a coherent approach globally to growth, investment and employment.

We have also developed numerous cooperation programmes with countries that are members of the Commonwealth of Independent States and the Stability Pact. These activities are deeply rooted in a vision of a wider and more integrated Europe.

International economic integration is not yet leading to the sustainable growth and investment needed to give working women and men a fair chance of a decent job. Europe and Central Asia can lead the way in developing new approaches to this basic demand of all families and communities because, despite the centrality of decent work to all our societies and political processes, it is not yet a central concern of international policy-making.

Europe and Central Asia are a focus of worldwide attention as they seek to reinvigorate and modernize the concepts of a social market economy and the welfare state to meet the challenges of globalization. A continent for so long riven by conflict has taken a decisive step towards securing peace through economic integration and by blending the goals of social justice with innovation and growth. Social dialogue between governments, employers' organizations and trade unions is a vital mechanism for ensuring that these lofty objectives stay firmly rooted in the reality of work and enterprise. The ILO stands ready to accompany its members in this project and looks forward to the discussion of this report at our Budapest Regional Meeting and throughout Europe and Central Asia.

Juan Somavia

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Acronyms and abbreviations

ALMP	active labour market policies
CEECA	Central and Eastern Europe and Central Asia
CEEP	European Centre of Enterprises with Public Participation and of Enterprises of General Economic Interest
CIS	Commonwealth of Independent States
COMECON	Council for Mutual Economic Assistance
EBRD	European Bank for Reconstruction and Development
EES	European Employment Strategy
ETUC	European Trade Union Confederation
EU	European Union
Eurostat	Statistical Office of the European Communities
FAO	Food and Agriculture Organization of the United Nations
FDI	foreign direct investment
GTZ	German Agency for Technical Cooperation
ICFTU	International Confederation of Free Trade Unions
ICLS	International Conference of Labour Statisticians
ICT	information and communications technology
IMF	International Monetary Fund
IMO	International Maritime Organization
IOE	International Organisation of Employers
IPEC	International Programme on the Elimination of Child Labour
ISCO	International Standard Classification of Occupations
ISEP	International Small Enterprise Programme
JIU	Joint Inspection Unit

KAB	Know About Business (programme)
MDT	multidisciplinary advisory team
MIT	Massachusetts Institute of Technology
NES	National Employment Strategy
OECD	Organisation for Economic Co-operation and Development
PHARE	Programme of Community aid to Central and East European countries
PRSP	Poverty Reduction Strategy Papers
PSI	Public Services International
RBTC	Regular Budget for Technical Cooperation
SIYB	Start and Improve Your Business (programme)
STEP	Strategies and Tools against Social Exclusion and Poverty
TACIS	Technical Assistance to the Commonwealth of Independent States (EU)
TUAC	Trade Union Advisory Committee to the OECD
UNDCP	United Nations International Drug Control Programme
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICE	Union of Industrial and Employers' Confederations of Europe
UNICEF	United Nations Children's Fund
UNMIK	United Nations Interim Administration Mission in Kosovo
UNOPS	United Nations Office for Project Services
VET	vocational education and training
WCL	World Confederation of Labour
WCSDG	World Commission on the Social Dimension of Globalization
WHO	World Health Organization
WTO	World Trade Organization
YEN	Youth Employment Network

Executive summaries and points for discussion

1. Globalization, governance and balanced economic and social development

Economic and social development is no longer dependent on decisions taken purely within the nation State. As the ILO World Commission on the Social Dimension of Globalization (WCSDG) has observed, “Global markets have grown rapidly without the parallel development of economic and social institutions necessary for their smooth and equitable functioning” (ILO, 2004a, page xi). Consultations and the harmonization of policies in supranational, regional, global as well as local instances are therefore necessary.

Shared values, trust and mutual expectations are essential to lower the costs of economic and social transactions. The extensive support for fundamental international labour standards shown by the countries of Europe and Central Asia¹ testifies to such shared values.

Surveys of public opinion carried out by the EU single out employment and the economy as the two most important issues for EU-25 citizens, followed by crime, health care and immigration.

Sluggish growth in the EU is reflected in numerous reports and comments about “lagging Europe”. In Central Europe, only five countries achieved a GDP per capita in 2002 that was higher than in 1989. In the CIS countries and south-eastern Europe, average incomes remain below their 1989 levels. Persistent poverty and growing inequality help to slow down progress in raising living standards.

The main task is to reverse the high unemployment and low employment rates that are plaguing both Eastern and Western Europe and Central Asia. This calls for strong, responsible and accountable governance to sustain balanced economic and social development.

An important form of coordination that can be effective in sustaining strong economic performance is social dialogue and tripartite consultation. Indeed, successful economic and social policies tend to be derived from

Strong governance is a response to the challenges posed by globalization

Governance starts with shared values and trust

Sluggish growth, persistent poverty and growing inequality undermine living standards

Giving priority to full employment

Social dialogue and tripartite consultations are essential for good governance

¹ Ratification of the eight fundamental Conventions was 95.5 per cent of the total potential ratification rate in July 2004.

general principles adapted to local contexts and actors. Social dialogue can make a real difference in building links between local, national and international decision-making.

Interdependence: Increased opportunities and uncertainties

A recent survey (Ernst and Young, 2004) confirms that Europe is the most attractive global zone for direct investment, with 52 per cent of world foreign direct investment (FDI) inflows in 2003. Within Europe, Western Europe is ranked by decision-makers as the world's most attractive area, followed by Eastern Europe.

Economic globalization has opened the door to many new opportunities ...

The multiplication of exchanges resulting from more open borders enhances the diffusion of new technology, improves the flow of products and services, raises efficiency in domestic and foreign markets, and encourages new investment. Few analyses of economic development fail to emphasize innovation as a source of future growth. Globalization, together with information and communications technology (ICT), has spurred a "creative destruction" movement in new products, methods of production and markets, accelerated by the seemingly limitless potential of the electronic "chip". Small enterprises are major agents of innovation and regional development, particularly when operating in clusters.

... but carries new risks and greater uncertainties

But economic liberalization also carries with it new risks and greater uncertainties. Many of these risks have economic and social implications in terms of enterprise viability, job and income security, conditions of work, migration and social protection.

One in ten jobs is destroyed and one in ten created every year

There are many examples of outsourcing, closures and relocation throughout the region. The demise of outdated and unprofitable activities, and the constant restructuring of new ones, is a feature of modern market economies. It is generally estimated that one in ten jobs is destroyed and one in ten created every year in the industrialized economies.

Greater openness can amplify disparities within countries, as economic activity is spurred by greater specialization. Foreign direct investment, particularly in services and manufacturing, tends to favour regions that are better endowed with infrastructure and skilled labour, which are often located in or around capital cities.

Economic integration is affecting labour markets with increasing intensity. A growing proportion of the labour force is engaged in activities that are linked, through trade, markets and investments, to decisions taken in other countries. Employment levels and conditions are therefore responsive both to economic growth within the country and to developments and decisions in other countries and regions.

National labour markets and collective bargaining are being challenged

These developments clearly challenge national labour market policies and collective bargaining systems.

Economic and social reform agendas

Macroeconomic and labour market policies complement one other when viewed as a coherent whole. Few would now argue that high unemployment can be reduced *only* through macroeconomic demand stimulation or only by labour market reforms. A balanced interaction of most policies is generally felt to have a greater chance of success.

Labour markets are efficient with strong institutions

Effective labour market institutions are necessary because of the manifold imperfections that beset labour markets, but by themselves they have little influence on aggregate employment. It is only through the interaction between institutions and macroeconomic aggregates that the adequacy of a policy mix and of labour market institutions can be assessed.

A promising initial approach is to undertake a shared analysis of the likely impact on employment and social protection of major policy decisions, such as trade liberalization measures, labour market reforms and monetary policy.

The open method of coordination adopted by the EU in respect of employment, labour market policy and specific areas of social policy (see Chapter 5) is a good example of peer monitoring of labour market performance.

Productivity, wage bargaining and fiscal policy are key determinants of economic growth and employment throughout Europe and Central Asia. Policy coherence requires a high degree of cooperation and coordination among the different parties, as well as fairness in the distribution of national and enterprise income. An environment conducive to consultations and negotiations between representatives of employers and workers and government officials is necessary to achieve quality in governance.

Projections of future economic growth are highly sensitive to labour supply. Employment growth is sensitive to demographic growth and social and labour policies, which in turn influence the decisions of adults to have children.

Higher employment rates lead to greater social cohesion and higher living standards. Employment rates lie at the intersection of social, labour market, economic and fiscal policies, with multiple interactions that lend themselves particularly well to analysis, discussion and negotiation by the social partners and other stakeholders.

The principles by which the long-term unemployed could be subjected to a test of their “willingness to work” and to accept employment that is on offer could be discussed and agreed with the social partners at the supra-national level. These principles should be in conformity with international labour standards.

Governance and economic and social reform

Achieving full employment in conditions of decent work, without jeopardizing price stability or social equity, requires major economic and social reforms. These pose a genuine challenge of governance, given the manifold interactions between different policy domains. This makes reforms complex, but still feasible when supported by wide consultations.

The ILO brings to this debate two long-standing contributions, namely international labour standards and social dialogue. International labour standards offer a body of basic rights and protection, as well as policy guidance. The supervisory mechanisms promote their application through dialogue and cooperation.

The virtues of tripartite dialogue are based on democratic representation, multiple levels of participation and sound technical analysis. Complex reforms require complex forms of social dialogue which could include, where relevant, other civil society actors. But time spent on dialogue is well invested when the results from negotiations can be successfully implemented.

The World Commission on the Social Dimension of Globalization has made two specific proposals in this regard. The first is “regular national reviews of the social implications of economic, financial and trade policies” (ILO, 2004a, page 134), which the ILO could facilitate. This could take the form of peer reviews to share experience and lessons. The World Commission has also suggested policy coherence initiatives as a means of considering integrated policy proposals balancing economic, social and developmental concerns in specific areas.

Productivity, wage bargaining and fiscal policy are key determinants of economic growth

Cooperation, coordination and fairness

Higher employment rates lead to greater social cohesion and higher living standards

International labour standards and tripartite dialogue have stood the test of time

Complex reforms require complex forms of social dialogue

2. Refocusing on youth as the key to lifelong employment

Young workers are vital for future prosperity

It is a profound irony that, in a region with an ageing population and a rising dependency rate, the segment of the workforce that is vital for future prosperity and well-being should encounter disproportionate difficulties of integration and adaptation. At a time when it is necessary to maximize the contribution of all persons of working age to maintaining and improving economic performance and social well-being, young people are desperately needed, but often sadly under-utilized, with unemployment and underemployment rates that are well above the average for the workforce as a whole² (see table below which is based on table 2.1 in Chapter 2).

Recent developments in the youth labour market

Region	Youth unemployment rate (%)		Ratio of youth-to-adult unemployment rate	
	1993	2003	1993	2003
European Union (EU-15)	20.0	14.5	2.24	2.15
New EU Member States (EU-10)	22.5	30.7	2.54	2.43
WECEE* (28)	20.1	17.0	2.29	2.25
South-eastern Europe (SEE-8)	23.0	22.4	2.91	2.45
CIS (12)	9.4	14.6	3.58	2.46
Europe and Central Asia (49)	17.2	17.0	2.63	2.36

* EU-25 + Iceland, Norway and Switzerland.

Source: ILO.

Young people are still more than twice as likely as adults to be unemployed

Youth unemployment in Europe and Central Asia has remained at a very high level over the past decade. Although the countries of the EU-15 as a whole have a lower youth unemployment rate than elsewhere in the region, there are wide differences between countries. Young people almost everywhere are still more than twice as likely as adults to be unemployed. In Central and Eastern European and CIS countries, youth unemployment has risen rapidly and remains high. Nowhere in Central and Eastern Europe and the CIS is the youth unemployment rate lower than 10 per cent, and in Bulgaria, Croatia, Poland and Slovakia it is over 35 per cent.

The labour force participation rates of young people in these countries fell throughout the 1990s as part of a longer term trend that had been observable even before transition. In particular, the new EU Member States have seen a sharp decline in youth labour force participation (from 47.3 per cent in 1993 to 36.8 per cent in 2003). This can be attributed to a number of factors, including increased educational participation, workers becoming discouraged and leaving the labour market because of a lack of employment opportunities, and workers engaging in other forms of activity, such as travel abroad or voluntary work.

Long-term unemployment and its lasting effects are also increasingly affecting young people. The duration of unemployment experienced by young people is not generally shorter than that of the labour force as a whole, at least in the industrialized countries. Moreover, there is still a clear gender disadvantage in youth labour market access in several countries in the

² Young people are generally classified within the United Nations system as between 15 and 24 years of age.

region, particularly in southern Europe. Ethnicity is also a common source of disadvantage on the youth labour market, although the lack of data makes it difficult to establish a comprehensive picture in this respect.

Increasing concern has been expressed in recent years about the quality of work available in general, and for young people in particular, not only in terms of the conditions under which the work is performed, but also the type of employment relationship. Young people are more likely than workers in other age groups to find themselves working longer hours under informal, intermittent (temporary, part-time or casual) and insecure work arrangements, which tend to be characterized by low productivity, low earnings and reduced labour protection. While more flexible forms of employment may to some extent facilitate the access of young people to more permanent employment, questions remain as to the extent to which part-time and temporary employment are chosen by young people and the ease with which they can be transformed into long-term good quality employment.

National policies and action to promote youth employment

Even though young people face specific problems on the labour market, they are also directly affected by the general employment situation. Action to promote youth employment therefore has to be embedded in overall national employment strategies and policy frameworks. For example, in the new EU Member States, the incorporation of youth employment issues in the development of national employment plans forms part and parcel of the four-pillar approach of the EU Employment Strategy. This approach could usefully be extended to other countries in the region.

Education and training clearly play a key role in promoting more and better work for young people. Programmes which combine training with work experience have proven particularly effective in facilitating their integration into the labour market. For example, apprenticeships, or the “dual system”, which combines school-based education with in-company training, is a proven system of learning for work in some countries in the region, even though it might be difficult to transfer to other countries. The involvement of the social partners in programme design and implementation ensures that apprenticeship programmes meet specific labour market requirements.

In many countries in the region, reforms are being made, or are planned, with a view to improving vocational education and training (VET) programmes and institutions, particularly by improving the matching of the skills imparted with labour market needs. For a variety of reasons, which are outlined in Chapter 2, these reforms often prove to be problematic. Once again, as in the case of apprenticeship schemes, one key factor in ensuring the effectiveness of VET systems is their governance, as the close involvement of stakeholders, and particularly the social partners, can help to ensure that they meet the real needs of employers and the workforce.

Active labour market policies (ALMPs) are another important means of improving opportunities for young jobseekers. For example, public employment services have recently started to play a more proactive role in many countries in improving the functioning of labour markets through the provision of guidance and counselling and job matching services. Although experience is mixed, the most effective ALMPs for young people appear once again to be programmes that combine work experience with training, which appear to improve the chances of participants finding work. Support for self-employment and the creation of small businesses, often based on training in business skills and small-scale credit schemes, has also proven effective in providing young people with a greater variety of labour market opportunities.

Young persons are more likely to work longer hours under informal and insecure conditions

Embed action to promote youth employment in overall employment strategies

The combination of training and work experience is particularly effective

Active labour market policies (ALMPs) are important in improving opportunities for the young

Although it is often assumed that strict employment protection legislation acts as a disincentive to the hiring of young workers, this is not necessarily borne out by experience at the national level. Furthermore, many government interventions, such as the provision of incentives to employers to hire young workers (in the form of sharing initial hiring costs between employers and the State), have been effective in facilitating school-to-work transition.

Several major international initiatives on youth employment launched recently

Coordinated international action on youth employment

In recognition of the importance of promoting youth employment, several major international initiatives have been launched in recent years. The most significant is the Youth Employment Network (YEN), established under the auspices of the United Nations Secretary-General, in collaboration with the World Bank, and with the ILO taking the lead in the YEN secretariat. Another international initiative of direct relevance to many of the countries in the region is the EU's European Employment Strategy (EES), launched at the Luxembourg Summit in 1997. Many EES general objectives are relevant to young workers, and three of its targets specifically address young people:

- (1) every unemployed young person should be offered a new start in the form of training, retraining work practice, a job or other employability measure before reaching six months of unemployment;
- (2) by 2010, at least 85 per cent of 22 year olds in the European Union should have completed upper secondary education;
- (3) policies will aim to achieve an average EU unemployment rate among early school leavers of no more than 10 per cent by 2010.

Points for discussion

- (1) To what extent are the declining labour force participation rates of young people attributable to increased educational participation or to other factors, such as discouraged workers leaving the labour market owing to the lack of job opportunities?
- (2) In the experience of the participants, to what extent (if any) do flexible forms of employment and intermittent work arrangements facilitate the access of young people to more permanent employment?
- (3) Are young people still attracted by the model of full-time lifelong employment, or can their creativity and commitment be harnessed more effectively through other forms of employment and training, including such options as voluntary work and work experience in other countries?
- (4) Do participants have first-hand experience of innovative programmes and measures, particularly those combining training and work experience, which have been effective in promoting positive youth labour market outcomes?
- (5) How could the involvement of the social partners in the policy-making process (at the national and local levels) in general, and in the design and implementation of VET systems and ALMPs in particular, be improved?
- (6) How effective are government interventions, such as schemes to share initial hiring costs between employers and the State, in facilitating the school-to-work transition?
- (7) What action should the ILO take to further promote youth employment at the national and international levels?

3. *Balancing flexibility, stability and security in European labour markets*

Policy-makers, including stakeholders involved in discussions and advocacy on economic and social matters, are facing the crucial challenge of determining the forms of regulation that should accompany a rapidly evolving labour market in the context of the globalized economy.

Are they to take to heart the calls made, particularly in the 1980s and early 1990s, for greater flexibility to overcome what have often been characterized as the region's labour market rigidities (employment protection legislation, union bargaining power, generous welfare systems and high labour taxation)? Or can they place their trust in the new approach that has been emerging in Europe, which calls for the reform of labour market institutions with a view to developing new ways of balancing flexibility and security in relation to employment, income and social protection?

Chapter 3, which is based on the experience of two groups of countries, namely Western Europe and the former transition economies of Central and Eastern Europe and Central Asia (CEECA), draws together the findings of recent research focusing on effective examples of the combination of greater flexibility and forms of security ("flexicurity") that are adapted to modern labour market needs. These emphasize the importance of ensuring greater security for workers during transitions between jobs, and include income security through effective unemployment benefit schemes, as well as more intensive support to help workers improve their skills and find new jobs.

The chapter begins by refuting the claim that, as labour markets become more flexible, stable jobs are becoming a thing of the past. Citing research dating back to the mid-1990s, which has found that a large core of the workforce is still in stable and secure jobs, even though stability and insecurity have increased in segments of the labour market (ILO, 1996), the chapter concludes that the employment relationship is more stable than is commonly assumed in the industrialized world. Indeed, job stability, as measured by average tenure and reflected in the figures for these countries as a whole, has hardly changed in recent years, despite the large differences between countries and the persistence almost everywhere of the segmentation between well-protected core groups of workers in permanent employment and those in flexible forms of employment who enjoy less protection.

By contrast, the CEECA countries have experienced strong movements in their labour markets owing to the accelerated pace of job destruction in the wake of transition and the limited scope of job creation in the formal economy. While the share of traditional forms of flexible employment, such as fixed-term and part-time jobs, and even self-employment (after an initial increase), has remained fairly stable, there has been a rise in employment based on non-labour contracts or work performed without a contract. Nevertheless, these forms of labour market flexibilization have not in general served to improve mobility in the formal labour market. An acute perception of job insecurity, in a context of generally weak labour demand and unemployment protection, appears to be making workers hesitant to leave less productive jobs voluntarily and move on to more productive ones.

Analysis of the situation in Western European countries also tends to show that, while they still have a relatively high level of stable jobs, tenure is not necessarily synonymous with a perceived sense of employment security. Indeed, many of the countries with the longest average tenure are not those with the best results in terms of decent work. The interesting fact emerges that a number of countries in Western Europe have achieved a high quantity of jobs without sacrificing job quality. These countries have the

New forms of security are needed in relation to employment, income and social protection

Reports of the demise of stable employment are greatly exaggerated

Employment based on non-labour contracts or without a contract has increased in CEECA countries

Tenure is not the same as security

highest employment rates (including youth employment), low unemployment, high rates of participation by women in the labour market, a good record in relation to the transformation of temporary into permanent jobs, and among the best records of job quality and perceived security.

Although the evidence is still rather scanty, it would appear that, if workers have the confidence to leave their job and benefit from a high level of protection during their transition to another job, they feel less “locked in” and have greater choice of employment, which in turn leads to better matching of labour supply and demand. It follows that more than just job stability is needed to achieve good employment quality and quantity. It is thus likely that a reasonable combination of longer and shorter term jobs, combined with labour market institutions that provide income, social and employability protection during transitions, creates a greater sense of labour market security than nominally “stable” jobs in an uncertain environment.

“Flexicurity” requires high employment rates

However, if a system for ensuring labour market security in transitions between jobs is to be sustained, high employment rates are needed and the system must be based on work rather than welfare. Such a system is not without costs, and places a premium on individual responsibility, such as the obligation to participate in “activation” measures, which have slowly become standard in much of the region. But if the public benefits of such a system of “protected flexibility” are widely shared, the costs would appear to be acceptable.

In the CEECA countries, deregulation has not improved labour market performance

The preliminary findings of ILO research are similar for the CEECA countries, where labour law deregulation does not appear to have improved labour market performance, and has often had adverse effects on employment and labour reallocation. This is particularly true for vulnerable population groups, who are likely to be pushed into the informal economy. The main finding is that labour market institutions and policies really do matter. All labour market indicators appear to be affected positively by active labour market policies and a greater intensity of collective bargaining. Policies to stimulate employment promotion and reduce unemployment, rather than pure deregulation, should clearly be on the agenda of the former transition countries, with the aim of protecting transitions to new jobs.

Dialogue on policy choices is the foundation of the “flexicurity” approach

Finally, it should be emphasized that there is no single optimal institutional setting for any specific country, as all countries differ in terms of national experience, culture and circumstances. Each country must therefore consider a wide choice of policy options for creating labour markets that offer both flexibility and security. In this respect, social dialogue is undoubtedly the best tool for testing the acceptability and efficiency of the proposed changes and securing broad support for them.

Points for discussion

- (1) Do participants have first-hand experience of combinations of flexibility and security (“flexicurity”) measures which have been effective in promoting positive labour market outcomes in terms of the quantity and quality of employment and economic performance?
- (2) To what extent in practice are the social partners involved in dialogue at the national level concerning the introduction of “flexicurity” or other types of labour market reform measures?
- (3) Do participants agree in principle with the three points highlighted in the chapter, namely:
 - that a level of labour market flexibility (“protected transitions”) is acceptable when it is embedded in labour market security and recognition of the importance of the employment relationship?

- that a level of employment stability of the workforce is good for firms, as it is needed for productivity, human capital investment and motivation?
 - that governments should provide for an efficient labour market security system based on labour market policies focusing on work rather than welfare?
- (4) To what extent can “flexicurity” measures benefit the more vulnerable categories of the labour force, including youth, ethnic minorities and migrant workers?
- (5) What action (if any) should the ILO take to further promote the concept of “flexicurity” at the national and regional levels?

4. *Strengthening the rights-based framework for managing migration*

Migration has become a defining issue in almost all countries in the region, and consideration of possible responses is occupying the attention of policy-makers at all levels and in almost every policy field. The number of economically active migrants in the region is estimated to be 26.5 million, or about 4 per cent of the total workforce. But their significance for the future of economies and societies in the region may well far outweigh their current numbers.

While in Eastern Europe, most migration flows are from other CIS countries to the Russian Federation, the pattern is more varied in Western Europe. For example, although migrants from other EU countries are numerous in Germany (nearly one-quarter of foreign nations in the country), Italy (11 per cent) and the United Kingdom (one-third), the largest proportion of immigrants in Germany are from Turkey, and 30 per cent of foreign nationals in Italy are from North African countries and Albania.

Demographic trends are prompting a reconsideration of migration policies almost everywhere. In 2003, ten Western European nations already had higher mortality rates than birth rates. Net migration was positive in a great majority of these countries. By 2050, Armenia, Czech Republic, Estonia, Greece, Italy, Latvia, Slovenia and Spain are predicted to have median ages of over 51 years.

The fall in the population of the Russian Federation (currently 0.57 per cent per year, estimated at 0.73 per cent by 2020 and 0.86 per cent by 2050) is also expected to result in labour market shortages and increased dependency ratios. Although the United Nations Economic Commission for Europe (UNECE) considers that the Russian economy has the potential to grow rapidly, provided that its resources are used more efficiently, it notes that its declining population could become a serious constraint on its ability to meet its ambitious growth target of doubling GDP over the next ten years (UNECE, 2004).

These trends suggest that regulated immigration is likely to be one element of the careful policy mix required in many countries to maintain the workforces, productivity rates and economic activity levels required to ensure the continuation of current levels of socio-economic welfare for resident populations. If positive economic growth rates are to be maintained, the key factors of such a policy mix will almost certainly include accommodating replacement migration and increasing labour force participation rates, for example by extending the working lives and improving the skills of older workers.

Demographic trends are prompting a reconsideration of migration policies

Need for regulated immigration

However, unless migration is properly managed, it can and often does lead to a denial of the fundamental rights and entitlements of workers.

Clandestine migration and trafficking have become major concerns

Of the many concerns relating to migration that have emerged in the region, the following merit close attention:

- the growth of clandestine migration, including trafficking, which creates a sub-class of workers whose human and labour rights are often violated;
- the conditions of employment of a significant number of foreign nationals who are in an irregular status for a variety of reasons (including, for example, the political changes in Eastern Europe and failure to obtain refugee status);
- the impact of migration on the employment and wages of unskilled labour, which includes not only older native workers, but also earlier immigrants, as migrant workers are often concentrated in low-skilled occupations, in many cases in jobs with long or irregular hours of work, which are normally shunned by national workers;
- problems of social integration and high rates of unemployment among immigrant youth;
- the emigration pressures in some countries, resulting from high levels of unemployment, especially among educated youth;
- geographic imbalances in employment due, among other reasons, to the low intra-regional mobility of European workers, even in the EU, despite guaranteed free movement between EU countries; and
- the medium- to long-term implications of population ageing on productivity and the sustainability of social security systems, with the concomitant need to improve participation rates, inter alia, through immigration.

Information obtained from regularization programmes and other sources suggests that between 10 and 15 per cent of migrants in the main receiving countries are in an irregular situation. The growth of informal markets for unauthorized migrant labour is behind the growth of irregular migration. There is also ample evidence that irregular migration is stimulated by the excess demand in Europe for unskilled labour and the lack of legal channels to meet this demand.

Labour trafficking is one result of imbalances between labour supply and the availability of legal work

Official responses to irregular migration across the region, which have included the intensification of border controls, deportation procedures and an emphasis on policing, have generally had the undesired consequence of making people smuggling more profitable. The ILO's 2001 Global Report noted that "the recent rise in labour trafficking may basically be attributed to imbalances between labour supply and the availability of legal work in a place where the jobseeker is legally entitled to reside" (ILO, 2001a, page 53).

Little or no correlation between unemployment and immigration

Chapter 4 emphasizes that the effective, rights-based management of labour migration is the key to better protection of migrant workers' rights. It also argues that widely held fears in receiving countries, that an influx of low-skilled migrant workers will create downward pressures on wages and employment levels, have been shown to have almost no empirical foundation. Indeed, in most cases, migrant workers, as well as the enterprises set up by migrants, have a positive effect on the host country's economy.

Labour migration needs to be consistent with labour market conditions

Experience and research show that the effective management of labour migration has to include a number of key elements. In the first place, migration policy has to be consistent with labour market conditions and realities. The cooperation of receiving and sending countries also has to be obtained through agreements. Migration policy has to be based on broad public sup-

port, which is most effectively obtained through extensive social dialogue. The ILO's migration Conventions should be ratified and their principles applied. Moreover, measures are needed to regulate recruitment and prevent trafficking, while promoting decent work and ensuring that migrant workers are covered by national labour laws and social security schemes. Policies also need to be adopted to facilitate the integration of immigrant workers and combat discrimination.

When it comes to reducing emigration pressure and protecting nationals who seek employment abroad, countries of origin also have an important role to play. On the one hand, they can improve employment prospects in their own countries by giving high priority to employment promotion and decent work in their development strategies. On the other hand, they can supervise recruitment, facilitate remittance transfer, promote the productive investment of migrants' savings and encourage the return and transfer of "know-how".

The chapter also describes the areas in which assistance is being provided by the ILO through projects and policy dialogue in a number of countries in the region with a view to the development of migration policies adapted to the needs of both receiving and sending countries and of migrant workers themselves.

Sending countries need to do more to protect their nationals who are working abroad

Points for discussion

- (1) Are European and Central Asian countries satisfied with their current policies on labour migration? If not, what changes do they want to see?
- (2) In view of the conclusion that trafficking is, at least in part, a result of imbalances between labour supply and the availability of legal work, how can an appropriate mix be achieved between repressive measures and policy approaches to combat the underlying causes of trafficking in persons within the region?
- (3) Do participants agree that more migration is one answer to the sustainability of pension systems in many countries in the region?
- (4) In the experience of participants, what are the most effective approaches to promoting the integration of immigrants and overcoming the high level of youth unemployment among second-generation immigrants?
- (5) How can the tripartite parties be made to play a bigger role in designing labour migration policy? What structures should be established to facilitate it?
- (6) What are the most effective approaches to avoiding or reducing the negative effects on sending countries of emigration, particularly of the highly skilled?
- (7) What role should the ILO play in supporting constituents in the region in the field of migration policy?

5. Ageing, labour market participation and pension reform

Pension reform is now high on the social agenda. Despite far-reaching differences, pension schemes in the region face two common challenges, namely: ageing and its impact on pension financing; and the need to redesign the benefit package to meet changing needs.

Pensions schemes face common problems in the region

Although the establishment of national pension schemes in the world's industrialized countries ranks among the great achievements of the twentieth century, and those schemes have proved effective in alleviating poverty among the elderly, adjustments are needed if current levels of well-being are to be maintained. In Central and Eastern European countries, where full pension coverage had been achieved and served to cushion economic shocks in the early 1990s, many countries adopted radical reforms, including measures to scale down social insurance in favour of privately managed individual savings accounts. In the CIS, although hyperinflation reduced the real values of pensions until the mid-1990s, pension schemes were one of the most reliable means of preventing poverty in the early transition years. In south-eastern Europe, millions have been left destitute as national pension schemes have come under financial stress as a result of factors including political turmoil, armed conflict, the loss of subsidized employment, heavy foreign debt and high inflation, the growth of the informal economy and non-payment of contributions.

Keeping dependency ratios within reason

The older population is growing rapidly. Over the past 50 years, life expectancy in the region has increased from 63 to 73 years, and is expected to reach 80 years by the year 2050. Although the population in Western European countries is the oldest, that of the other subregions is ageing faster, except for the CIS, where life expectancy is the lowest in the region and has been declining.

Focusing on the ageing of the population obscures the importance of participation rates

While longer life expectancy is a great achievement, it has not been accompanied by longer working lives. Indeed, the focus on the ageing of the population and its impact on social security financing has tended to obscure the key issue of employment promotion and the need to increase labour market participation. Many people are inactive or in the informal economy, and do not contribute to pension schemes. Unless the overall participation rate, especially of young people, women, migrants and older workers, can be improved, the old-age dependency ratio may rise dramatically.

Employment is a powerful means of mitigating the effects of ageing on social protection schemes

Several types of measures have been taken to improve participation rates, including the establishment of targets by the European Council. One aim is to extend the working life of older people. While this is important, a key challenge is to increase the employment and participation rates of all population groups, particularly through measures such as childcare provision to help reconcile work and family responsibilities, and through the promotion of legal migration channels.

Pension reform

The importance of promoting productive and decent employment pervades this analysis. While much attention is given to pension reform, it is important to bear in mind that this can be effective in coping with demographic pressures only if employment levels rise and older people have viable options to continue working. The ILO's Global Employment Agenda is a response to this need, as well as being a key contribution to the ILO's Decent Work Agenda. With regard to the extension of working lives, in addition to raising the retirement age and curtailing early retirement schemes, consideration should be given to measures aimed at developing stronger incentives within pension schemes to delay retirement, establishing rules to facilitate gradual retirement, creating incentives for workers to save for their retirement and improving public awareness of the available options.

In redesigning benefit packages, there is a particular need to address gender issues, as women are often major losers in current pension reforms.

Older people need to have viable options to continue working

In addition, there is a strong call in many countries for the introduction of an adequate minimum pension and the improved portability of pension entitlements in response to the consequences for future pension provision of job mobility, non-standard forms of employment and international migration for employment.

In Central Europe, in particular, it is necessary to improve the efficiency of pension schemes by plugging leaks through which resources are lost, particularly in relation to the collection of contributions. For this purpose, initiatives are needed at the highest level to address the main problems of the chronic under-reporting of workers' wages, the size of the informal economy and government tolerance of non-compliance by certain large firms.

Regulating private pension provision

The emergence of private pension provision is tending to increase inequalities, and the high transition costs of shifting from "pay as you go" to prefunded pension systems raises concerns about the adequacy of future pensions. One possible option (as adopted, for example, in Denmark, the Netherlands and Sweden) is the development of industry-wide schemes managed jointly by employers' and workers' organizations. These ensure a high level of coverage, as they apply to all workers in the sectors concerned.

Although the original rationale – that privatization of pension provision could avert a pension crisis caused by population ageing – has since been abandoned by all analysts, privatization has proven popular in many Central, Southern and Eastern European and CIS countries. However, it has brought with it a range of problems that still need to be addressed. These include: the resulting "hole" in the financing of public pension schemes, as contributions are diverted to the privatized tier; equity issues, particularly with regard to women and low-income workers, especially those in the informal economy, who have paid few or no contributions; administrative issues, such as the maintenance of individualized records; and measures to ensure that the (currently very high) administrative charges are kept within reasonable limits in order not to erode savings.

Involvement of the social partners

If pension systems are to meet the needs and expectations of society and be effective in fulfilling their vocation of providing financial and social security, all these issues require strong government intervention and the development of social consensus through the close involvement of the social partners and other stakeholders. In this respect, by providing guidance, monitoring compliance with agreed minimum standards, and promoting social dialogue, the ILO has an important role to play at the national and regional levels, particularly through its recently launched Global Campaign on Social Security and Coverage for All.

Points for discussion

- (1) What can be done to raise awareness of ageing as a social issue and develop consensus on a set of policies to avoid the threats it poses for pension financing?
- (2) Do older workers, and in particular older women workers, face special problems arising from termination of their employment (through lay-off or early retirement, including early retirement due to disability) in the event of restructuring and in finding a new job? If so, what can be done to overcome the obstacles that older people face in the labour market (active labour market policies, legislation to combat age discrimination, etc.)?

Private pension provision raises equity issues

Administrative charges are often very high

Broad social consensus is crucial

- (3) What are the most promising labour market policies (such as the adaptation of training to meet the special needs of older workers and the promotion of part-time employment combined with partial retirement schemes) that can contribute to increasing the labour market participation rates of older workers? Are such policies feasible in your country and, if so, under what conditions?
- (4) In countries that have opted for privatized pension provision, what can be done to raise awareness of the problems that still need to be addressed?
- (5) What measures can be taken to address equity issues, particularly in private pension schemes, with regard to women and low-income groups?
- (6) What steps can be taken to improve the portability of pension rights for workers who change jobs frequently and, at the regional level, for migrant workers?
- (7) What action can be taken to ensure that vital decisions on pension reform enjoy the broad support that is essential for their widespread acceptance within society?
- (8) How can the ILO play a more effective role at the national and regional levels in promoting discussion and action on pension reform issues?

Introduction

The fact that the ILO's Seventh European Regional Meeting is being held in Hungary, a country which symbolizes the meeting of East and West and the bridging of the divisions that have characterized the region for so long, gives it particular resonance. The significance of the meeting is also recognized by its inclusion in the agenda of the Luxembourg European Union (EU) Presidency.

It is especially apt that this ILO regional meeting should be convened in Budapest around a report on transitions, in the sense not only of political transformations, but also the transitions facing each and every one of us at each stage of the life cycle. Constituents hardly need reminding of the historical transition starting in the late 1980s, or the current transformations related to the enlargement of the EU. Nor, in a climate of sluggish economic growth in many countries in the region, and persistent poverty and social exclusion in many others, do they need any prompting to recognize the overriding importance of decent work.

Transitions can be managed successfully by good governance. When transitions are aimed at sustained economic growth and full employment in conditions of decent work, governance is essential. The objective of decent work for all cannot be met without greater coherence in economic and social policies at the national, subregional and regional levels, as well as globally. Decent work lies at the crossroads between monetary and fiscal policies and labour market and social policies. Coherence among these policy objectives and means is the task of good governance. Respect for shared values and principles, and broad consultations and active participation of government departments, employers' and workers' organizations and other significant representative bodies, are pivotal to policy coherence, which is itself central to decent work. Only governance so defined can ensure the functioning of a market economy by introducing a number of non-market factors.

The European and Central Asian region is a key player in economic globalization. The region is also a world leader in economic, monetary and political integration, not only in the EU, but also in the Commonwealth of Independent States (CIS) and other parts of the region. Integration, as illustrated by post-war European history, exerts a strong influence on political stability and democracy, two preconditions for economic prosperity and social inclusion.

Everyone faces transitions at each stage of the life cycle

Successful transitions need good governance

Problems arise out of deficiencies in the governance of globalization

It is often argued that, with globalization, the space for public policy is shrinking. But, in this respect, the ILO World Commission on the Social Dimension of Globalization (WCSDG) has indicated: “We judge that the problems we have identified are not due to globalization as such but to deficiencies in its governance.”

This report examines good governance for transitions to decent work in five chapters covering interlinked subjects identified as priorities following widespread consultation with constituents. The first chapter explores governance as a means of achieving full employment in a context of economic globalization, with particular emphasis on, among other aspects, economic integration, labour market reforms, wage bargaining, economic performance and long-term unemployment. The subsequent chapters cover:

- youth employment and the transition from school to work;
- balancing flexibility, stability and security (“flexicurity”);
- migration; and
- ageing, labour market participation and pension reform.

Good governance is pivotal in all fields

Starting with the last of these topics, social protection systems are exposed to the twin pressures of demographic ageing and the requirement to adapt to changing needs. The path to reform must follow principles of good governance and equity. Broad consultations, public support and confidence are therefore critical to the viability of any reform measures.

In the field of migration, what are the policies and measures that could ensure the broad acceptance, by workers, employers and citizens in both receiving and sending countries, of the international mobility of labour, paralleling the cross-border mobility of capital, goods and services? These policies and measures can only be worked out through good governance.

Similarly, a balanced response to the contrasting needs for labour market flexibility and security (hence “flexicurity”), in place of the now largely discredited doctrine of simplistic deregulation, can only stem from inclusive governance.

Finally, the availability of adequate and fair employment opportunities for young workers rests on mechanisms of governance that effectively harmonize education and training policies, wage policies and recruitment policies.

Two common themes run through these chapters: social dialogue and full employment.

Social dialogue is vital to consensus and shared vision

The undoubted importance of social dialogue can perhaps best be illustrated by two examples. Firstly, ILO technical cooperation in Central Europe supports the view that successful pension reforms are a function of the depth of tripartite consultations. Many failures can be attributed to insufficient social dialogue. And secondly, the dramatic improvement in the human development index ranking in Ireland can be attributed to a number of factors, including social partnership, which has provided a solid framework for balanced social and economic development, based on consensus and shared vision. This has fuelled economic and employment growth and reduced poverty.

Employment first!

With regard to full employment, it is highly encouraging that several countries in the region appear to have succeeded in sustaining low levels of unemployment and high participation rates, without an acceleration of inflation or a worsening of income inequality. Again, social dialogue has played a pivotal role in balancing social pressures with economic constraints. Yet this is far from being the situation in most countries in the region. It is therefore hardly surprising that the EU Employment Taskforce, chaired by Wim

Kok, put forward a number of recommendations, under the title *Jobs, jobs, jobs: Creating more employment in Europe*, that run parallel to the issues raised in this report: the increasing adaptability of workers and enterprises; attracting more people to the labour market; investing more and more effectively in human capital; and ensuring the effective implementation of reforms through better governance.

To foster greater complementarity between global growth, investment and employment creation, the ILO World Commission on the Social Dimension of Globalization has called upon the relevant United Nations bodies, the World Bank, the International Monetary Fund (IMF), the World Trade Organization (WTO) and the ILO to join together in a Policy Coherence Initiative. The present meeting might offer constituents an opportunity to engage in a similar exercise on a regional basis. This could usefully be based on an impact analysis of the effects on decent work of international economic, financial and trade policies, as a means of examining national, regional and global policies and determining the role that the ILO could play in this connection.

With a view to facilitating discussion of the selected subjects, executive summaries of the chapters are provided, together with proposed points for discussion for Chapters 2-5, which will be debated in parallel sessions. The subject of governance (Chapter 1) is intended to provide the unifying link with the other four subjects.

A policy coherence initiative at the regional level?

1. *Globalization, governance and balanced economic and social development*

1.1. *The need for better governance*

The European and Central Asian region is a major player in the globalization of economies, which is weaving closer economic and social ties between regions, countries, enterprises and communities. Economic and social development is now more dependent than ever on decisions taken by multiple actors and institutions outside the nation State. Consultations and the harmonization of policies in supranational regional, global as well as local instances are therefore necessary. As observed by the ILO World Commission on the Social Dimension of Globalization (WCSDG), “Global markets have grown rapidly without the parallel development of economic and social institutions necessary for their smooth and equitable functioning” (ILO, 2004a). The WCSDG has therefore called for “better global governance” based on democracy, social equity, respect for human rights and the rule of law.

The main task is to reverse the high unemployment and low employment rates that continue to plague Europe, both Eastern and Western, and Central Asia. This calls for strong governance to sustain balanced economic and social development. This chapter looks at ways in which inclusive forms of governance can help achieve lower unemployment and higher employment. As such, it is an introduction to the ensuing chapters on youth employment, labour market policies for “flexicurity”, migration, and social protection and ageing.

1.1.1. *Shared values*

Institutions for good regional and global governance stem from shared values and principles, such as those implicit in the goal of decent work for all, as expressed in the ILO Constitution and the Declaration of Philadelphia (1944): “all human beings, irrespective of race, creed or sex, have the right to pursue both their material well-being and their spiritual development in conditions of freedom and dignity, of economic security and equal opportunity”.

Concomitant economic and social progress is a cornerstone of the EU and its social model. EU policy statements repeatedly reaffirm the goal of “sustaining economic growth with more and better jobs and greater social cohesion”.

In a similar vein, in May 2004 the President of the Russian Federation set the objective of doubling GDP per capita within a decade (implying an average annual rate of growth of 7.1 per cent) and reducing poverty (Jack, 2004).

The extensive support for fundamental international labour standards shown by the countries of Europe and Central Asia¹ is a further testimony to shared values.

1.1.2. Economic and social outlooks

This sharing of values is also shown by public opinion surveys carried out by the EU, which single out employment and the economy as the two most important issues for EU-25 citizens, followed by crime, health-care systems and immigration (table 1.1).

Table 1.1. Poll on the two most important issues facing your country

	EU-28	EU-25	EU-15	EU-10
Unemployment	49	47	44	61
Economic situation	30	27	25	35
Crime	24	25	26	23
Health-care system	16	17	15	25
Immigration	12	13	16	2

Source: Eurobarometer (2004).

Sluggish growth in the EU is reflected in numerous reports and comments about “lagging Europe”. In Central Europe, five countries achieved a GDP per capita higher in 2002 than in 1989. This stands in stark contrast with the CIS countries and south-eastern Europe, where average incomes remain below their 1989 levels. Persistent poverty and growing inequality are contributing to slow progress in living standards.

In 2001, income inequality in six of the eight Central and Eastern European countries was higher than the 0.30 Gini coefficient average for the Organisation for Economic Co-operation and Development (OECD).² In the CIS, eight of the nine countries exceeded the OECD average, with five countries displaying a Gini coefficient above 0.4 (UNECE, 2004). The average Gini coefficient for the EU-15 in 1999 was 0.29, ranging from 0.23 (Denmark) to 0.36 (Portugal) (Eurostat, 2004). Turkey also has high inequality levels, with a Gini coefficient of 0.49.

In Central and Eastern Europe, relative poverty (per capita household expenditure below half the median) averages 12.3 per cent (ranging from a high of 19.9 per cent in The former Yugoslav Republic of Macedonia and 16.9 per cent in Poland, to a low of 7.9 per cent in Hungary and 5 per cent in the Czech Republic). In the CIS countries, extreme poverty (at US\$2.15

¹ Ratification of the eight fundamental Conventions was at 95.5 per cent of the total potential ratification rate in July 2004 (see Chapter 3 in Vol. 1 of this report).

² The Gini coefficient is a measure of income inequality, with 0 corresponding to perfect equality and 1 to perfect inequality.

PPP per day) remains very significant in Armenia, Azerbaijan, Kyrgyzstan, Tajikistan and the Republic of Moldova (averaging close to 48 per cent of the population), significant in Georgia and the Russian Federation (18.8 per cent), but low in Belarus, Kazakhstan and Ukraine (3.2 per cent on average) (UNECE, 2004). In the EU-15, the share of persons with income below 60 per cent of the respective national median income was 15 per cent in 1999 (but 24 per cent before social transfers) (European Commission, 2003c, page 151).

“The widening of the gap between those at the top and bottom of the distribution of income and wealth has resulted in an acute sense of relative deprivation for those left behind” (UNECE, 2004, page 165).

1.1.3. Regional cooperation

Regional cooperation is an important instrument for building strong governance in response to globalization.

“I am convinced that regional cooperation is the key to allowing individual countries, especially those with limited resources, to play a more active role in ensuring an equitable distribution of the benefits of globalization” (President Parvanov of Bulgaria, ILO, 2004b).

Regional agreements aim to foster closer economic and financial ties, as well as deeper social and political integration. The euro symbolizes the EU project of close political, economic and social integration, while the CIS, established in 1991, is an economic and customs union, as well as a political forum. The Stability Pact also provides a framework for common action in the economic and social fields for the countries of south-eastern Europe, as does the European Social Charter of the Council of Europe.

1.1.4. Governance and globalization

The growing attention paid to “governance” is an acknowledgement of the role of non-market factors in a market economy.³ Interestingly, the transition from central planning to market economies has highlighted the importance of institutions that are not created automatically by the opening of markets.

Strong economic and social performance is often linked to good governance. Institutional arrangements need to go beyond the fundamentals of democracy and freedom of association, property rights, the fiscal regime and monetary regulation, policies for competition and accountability, social protection and the mediation of conflicting social and economic interests. The requirement for state regulation in the areas of information, incentives and coordination is increasingly recognized by policy-makers. Shared values, trust and mutual expectations are essential in lowering the costs of economic and social transactions.

“... one of the principal ways in which policy-makers can improve national economic performance is to secure better forms of coordination among private-sector actors” (Hall and Soskice, 2001, page 45).

One form of coordination that can be effective in sustaining strong economic performance is social dialogue and tripartite consultations. Indeed, successful economic and social policies tend to be derived from general principles adapted to local contexts and actors. Social dialogue can make a real

³ Governance is defined here as “the controlling, directing or regulating influence of the set of institutions and policies that determine the functioning of an economy and society” (GB.286/WP/SDG/3, Mar. 2003).

difference in addressing situations in which increasingly complex decision-making is shifted ever closer to where the issues arise.

“Local conditions matter not because economic principles change from place to place, but because those principles come institution free and filling them out requires local knowledge” (Rodrik, 2003).

Faced with greater uncertainty and risk in the context of globalization and economic and social reform, the quality of governance can make the difference between positive and negative outcomes.

1.2. Interdependence: Increased opportunities and uncertainties

The multiplication of exchanges which is resulting from more open borders enhances the diffusion of new technology, the flow of products and services, efficiency in domestic and foreign markets and new investments. But economic liberalization also carries with it new risks and greater uncertainty. Many of these risks have economic and social implications in terms of enterprise viability, job and income security, conditions of work, migration and social protection.

1.2.1. Financial market turbulence

Global markets are both a cause and a consequence of the liberalization of capital accounts and the huge increase in the flow of investment and capital across borders. The volume of daily exchanges on capital markets gives analysts enormous power over the financial situation of listed enterprises and countries. Recent excesses have emphasized the need for greater regulation and supervision. A good illustration can be found in emerging bond markets. Between July and September 1998, the yield spread on Russian bonds increased by 60 points as a result of the debt crisis, severely affecting access to international capital markets. In 2000-01, Turkey experienced a sharp devaluation of its currency, provoked by massive capital outflows, speculative attacks and an acceleration of inflation, leading to a sharp jump in the unemployment rate in 2001. In 2003, the Hungarian foreign exchange market was struck by strong volatility provoked by speculators.

Similar crises could erupt at any moment in any country, leaving their mark on the real economy by jeopardizing jobs, real wages, the financial viability of enterprises, investments and future growth.

1.2.2. Investment flows and outsourcing

Access to foreign direct investment (FDI) has been a determining factor in recent economic growth in many countries in the region. Central and Eastern Europe, the Russian Federation and Central Asia have been major recipients of FDI since 1995, particularly in manufacturing, energy and services, while Western Europe is both a large receiver and exporter of investment (table 1.2).

A recent survey by Ernst and Young (2004) confirms that Europe is the most attractive global zone for direct investment, with 52 per cent of total FDI inflows in 2003. Within Europe, Western Europe is ranked by decision-makers as the world's most attractive area, followed by Central and Eastern Europe. A new specialization is emerging across Europe and Central Asia, with foreign investments leading to greater integration and diversification.

One example is the automobile cluster in Central Europe, formerly the protected market of the erstwhile Trabant, which is now displaying a sophisticated combination of cooperation and competition (the Budapest – Bratislava – Prague – Warsaw area) and attracting the largest investments in the industry within the region (UNECE, 2004, page 88).

Table 1.2. Inward and outward FDI (percentage of GDP)

	1995	2002
European Union		
Inward	13.2	31.4
Outward	15.1	41.0
Central and Eastern Europe		
Inward	5.3	20.8
Outward	0.9	3.3
of which Russian Federation		
Inward	1.6	6.5
Outward	0.9	5.2
Central Asia		
Inward	8.8	45.8
Outward	–	4.4

Source: UNCTAD, 2003; annex, table B.6.

Lower relative wages are only one of several determinants of investment location. UNECE finds nine main reasons guiding foreign investment decisions: perceived growth potential, natural resource endowment, infrastructure, scope for external economies, international competitiveness of labour, human capital stock, protection of property rights, quality of financial intermediation and, where applicable, prospects for EU membership (UNECE, 2004, page 87).

1.2.3. Economic integration and labour markets

Economic integration is spilling into labour markets. A growing share of the labour force is engaged in activities that are linked, through trade, markets and investments, to decisions taken in other countries. Employment levels and conditions are therefore responsive to both economic growth within the country and to developments and decisions in other countries and regions. For example, influenced by prevailing economic conditions, several firms in Germany and France negotiated agreements with trade unions in 2004 to increase weekly working hours.

These developments clearly challenge national labour market policies and collective bargaining systems, and therefore show the need for social dialogue to be actively pursued in regions subject to an accelerated process of economic integration. Although supranational collective bargaining is incipient and limited to broad principles in a few sectors, a number of large companies have made public commitments to the ILO Declaration on Fundamental Principles and Rights at Work (1998). Some 28 framework agreements have been signed at the global level, mostly between European-based multinational companies and global trade unions.

1.2.4. *Disparities within countries*

There are also differences in natural and competitive advantages within countries, based on factors such as geography, history, infrastructure, institutions and skills. Within the EU-15, GDP per capita in several areas in eastern Germany, Greece, southern Portugal, Italy and Spain is below 75 per cent of the average (European Commission, 2004). In the new Member States, over 90 per cent of the population live in areas with GDP per capita below 75 per cent of the EU-25 average, with an over nine-fold difference in average income per capita separating the poorest and richest areas. Inequality within countries (which accounts for over 90 per cent of total inequality) increased during the 1990s (Sapir, 2003).

Greater openness can amplify disparities within countries as economic activity is spurred by greater specialization. Foreign direct investment, particularly in services and manufacturing, tends to favour regions that are better endowed with infrastructure and skilled labour, often in or around capital cities. Conversely, sunset industries specialized in products or markets displaced by new technology are often found in distant less well-endowed areas. This would suggest that openness requires more accompanying measures to promote the development of weaker areas.

Weak economic activity is usually reflected in higher unemployment. The average rate of unemployment in the EU-25 was 9.1 per cent in June 2004. But a number of areas had unemployment rates above 15 per cent, primarily in eastern Germany, southern Italy, southern Spain, Poland and parts of the Slovak Republic. However, regional disparities are by no means static. Ireland is a good example of a country that has moved within one generation from relative deprivation to an income above the EU-15 average, although its central and western areas still lag behind. Conversely, southern Italy, in spite of several decades of special programmes, has failed to even stabilize the gap with the industrial north (Sapir, 2003, page 62).

There is nothing natural about regional disparities. Lessons derived from EU cohesion policies and regional development funds point to local administrative capacity as a key determinant of local development, thereby reaffirming the broader lesson on governance in market economies.

1.3. *Economic and social reform agendas*

“The persistence of high unemployment in a number of industrial countries – notably in continental Europe – is arguably one of the most striking economic policy failures of the last two decades” (IMF, 2003, page 129).

(...) “there is no such thing as ‘the European unemployment problem’. The fundamental problem is high unemployment in four of the five large countries” (de Koning et al., 2004, page 2).

(...) “once again Full Employment is seriously considered as a primary aim of policy. Can it be regained without serious inflation and increasing inequality?” (Meade, 1995, page 3).

1.3.1. *Macroeconomic policy, employment and labour market reforms*

At a time when economic stability objectives have often been given priority over employment goals, which are assumed to be a corollary of economic growth, the question arises as to whether full employment is an objective of the past. The answer has to be no, as shown by five countries in

Europe (Austria, Ireland, Netherlands, Norway and Switzerland), which have sustained unemployment rates below 5 per cent for several years without endangering price stability or worsening income inequality.

Confronted with high unemployment, proponents of structural labour market reforms are challenged by advocates of more expansionary monetary and fiscal policies (UNECE, 2001a). Yet, commenting on sluggish growth in Germany, Robert Solow has noted that:

“Monetary and fiscal policy must be expansive so that people can expect more jobs if they are to endure the difficulties of labour market reforms more willingly. To expect more growth merely from cutting wages is a long, drawn-out and needlessly painful approach” (*Die Zeit*, 29 April 2004).

Unemployment in Europe is viewed by the IMF as being largely structural, rather than cyclical, and hence rooted in labour market and social protection institutions (IMF, 2003). As the guardians of price stability, central bankers fear that the coexistence of high unemployment and widespread vacancies will give rise to labour shortages and inflationary wage pressures. They therefore advocate reforms to ease perceived bottlenecks in hiring and firing. Much the same debate has dominated reform in Central and Eastern European countries (Blanchard, 2002).

However, the distinction appears artificial. Macroeconomic and labour market policies complement each other when viewed as a coherent whole. Few continue to argue that high unemployment can be reduced only through macroeconomic demand stimulation or only by labour market reforms (Malinvaud, 2003). Both avenues need to be pursued to ensure greater efficiency in the allocation of jobs, better protection during job search and higher labour demand (see Chapter 3).

Labour market institutions are necessary because of the manifold imperfections that beset labour markets, which are not quite like other markets. By themselves they have little influence over aggregate employment. It is only through the interaction between institutions and macroeconomic aggregates that the adequacy of a policy mix and of labour market institutions can be assessed.

In the opinion of MIT economist Olivier Blanchard:

“...much remains to be done to improve the political dialogue on [labour market institutions]. It is time to go beyond the slogans, to avoid blaming ‘labor market rigidities’ wholesale for the ills of our economies (...). Starting from the position that these institutions are in fact needed, but probably need to be reformed, is likely to both facilitate as well as improve the dialogue among social partners” (2002).

The views of all actors, including central bankers, ministries of labour and economy, business and trade union representatives, local government and civil society organizations at all levels, have to be better understood if full employment is to be achieved without serious inflation and increased inequality. A good start lies in a shared analysis of the likely impact on employment and social protection of major policy decisions, trade liberalization measures, labour market reforms and monetary policy.

The open method of coordination adopted by the EU in respect of employment, labour market policy and parts of social policy (see Chapter 5) is a good example of peer monitoring of labour market performance. National reports on the ILO’s Employment Policy Convention, 1964 (No 122),⁴ could also be used as a means of reviewing performance and exchanging experience.

⁴ Ratified by 42 of the 50 member States in the region.

1.3.2. *Wage bargaining and macroeconomic performance*

Wages are a key component of macroeconomic stability. Wage determination impacts on prices, aggregate demand and productivity, particularly when wage employment is the dominant form of employment.

Wage formation in Europe and Central Asia varies greatly in terms of the coverage of collective bargaining and the degree of centralization and coordination of bargaining at the national, sectoral or enterprise levels. Across the region, the number of workers whose terms and conditions of employment are set by collective agreements, whether or not they belong to a trade union, varies between under 20 and over 80 per cent. Trade union membership and rules on the coverage of collective bargaining differ widely.

There are divergent views regarding the impact of unionization and collective bargaining on labour costs, unemployment and economic performance. One view is that greater unionization is associated with higher labour costs and unemployment (IMF, 2003). More detailed analysis suggests that patterns of wage bargaining (voluntary and centralized, or coordinated as compared with uncoordinated or state-imposed) are more effective in explaining wage outcomes. In particular, centralized (or decentralized but coordinated) wage bargaining with strong governance of negotiations, including representation, procedures and technical capacity, is most effective in setting wages at levels that are compatible with macroeconomic performance. A number of observers specifically link low unemployment in several European countries with strong social dialogue and a high degree of centralized (or decentralized but coordinated) wage bargaining (Blanchard and Philippon, 2004; Traxler et al., 2001).

Wage bargaining, whether nationwide or at the industry or enterprise level, is fundamentally challenged by economic integration. Competition stimulates higher efficiency and added value, but also pressures costs, including wage and non-wage labour costs. The wage adjustment formula adopted by many trade unions (the sum of expected inflation and productivity growth) may prove insufficient in a period of heightened competition across borders. Other policies, such as minimum wages, training and fiscal policy to reduce the share of non-wage labour costs in total labour costs, particularly for the lower skilled, are required to combine competition with fairness.

In the euro zone, labour productivity has in recent years lagged behind nominal wage increases, pushing unit labour costs above 2 per cent per year. In contrast, in Central and Eastern Europe, unit labour costs have risen only moderately, dampened by the more rapid growth of labour productivity than of nominal wage increases. Should this balance be sustained, it would form a good basis for rapid economic growth and employment generation.

In the CIS countries, trends in both productivity and employment have been disappointing, resulting in the “jobless growth” observed in some countries. This will require further microeconomic reforms to enable small and medium-sized enterprises to operate in a more stable institutional environment. The sharp increase in unit labour costs is no longer compensated by an undervalued currency.

Productivity, wage bargaining and fiscal policy are key determinants of economic growth and employment throughout Europe and Central Asia. Policy coherence is fundamental. This requires a high degree of cooperation and coordination among the various parties, as well as fairness in the distribution of national and enterprise income. An environment conducive to consultations and negotiations between representatives of employers and workers and government officials is necessary to achieve quality in governance.

1.3.3. *Innovation, microeconomic competitiveness and local development*

Few analyses of economic development fail to emphasize innovation as a source of future growth. Globalization, together with ICT, has spurred a Schumpeterian “creative destruction” movement in new products, methods of production and markets, accelerated by the seemingly limitless potential of the electronic “chip”. Dynamic economic growth is often located in areas that combine several elements of success. Many exhibit the characteristics of “clusters” of activity with such common features as a high concentration of knowledge and research institutions (with training and education), strong specialization around one product or line of activity, the coexistence of multiple forms of cooperation and competition, intense coordination between local actors, strong support for incipient entrepreneurs and extensive decentralization and local autonomy. In consequence, these microeconomic conditions are very dependent on local institutions and actors. As observed by Michael Porter:

“Wealth is actually created in the microeconomic level of the economy, rooted in the sophistication of company strategies and operating practices as well as in the quality of the microeconomic business environment in which a nation’s firms compete” (World Economic Forum, 2003, Chapter 1.2).

Among the top 30 countries of the microeconomic competitiveness index compiled by the World Economic Forum, 16 are European, with Finland, the United Kingdom and Germany in second, third and fourth position respectively, and Slovenia, Hungary and Estonia in 27th, 28th and 30th position (2003 data).

Moreover, small enterprises are major agents of innovation and regional development, particularly when operating in clusters. It is estimated that in Central and Eastern Europe, the share of employment in SMEs has increased very rapidly, to approximately 45-55 per cent today, compared with less than 20 per cent in the CIS countries (UNECE, 2003a, page 136).

Much can be learned from successful experiences throughout Europe which could be suitably adapted elsewhere (Blanc, 2004). Several examples illustrate how the social partners can be actively involved in learning about and disseminating such approaches (Biagi, 2002).

1.3.4. *Economic restructuring and employment*

There are many examples of outsourcing, closures and relocation throughout the region, with globalization and new technologies as the twin drivers of economic and industrial restructuring. The demise of outdated and unprofitable activities and the constant restructuring of new activities is a feature of modern market economies:

- coal production in Kizel in the western Urals was deemed unprofitable and gradually stopped as of 2000. Some 11,000 workers lost their jobs but very few have found alternative employment (*Moscow News*, 2004, No. 24);
- in 2001, a Finnish electronics manufacturer cut back production in Estonia and relocated part of its capacity to China, leading to 1,300 redundancies (UNECE, 2001b, page 22);
- in May 2004, an optical plant in Traun, Austria, transferred its production to Italy, leaving 480 workers unemployed (*Die Presse.com*, 7 November 2003);
- in Walbrzych in South West Poland, unemployed workers have taken to informal mining as a means of economic survival (ILO, 2004c).

It is generally estimated that one in ten jobs is destroyed and one in ten created every year in industrialized economies. A similar pattern can now be observed in several former transition economies. For instance, the job destruction and creation rate in Estonia rose from under 2 per cent in 1989 to over 10 per cent in 1994 (Haltiwanger and Vodopivec, 1999). Similar estimates have been made for the Russian Federation (Brown and Earle, 2002).

Restructuring almost always implies the relocation of employment, if not of workers. The question arises as to whether its consequences on jobs, workers and families can be mitigated and redeployment facilitated? There are examples of good approaches in this respect.

In 2003, an inter-ministerial mission on economic restructuring was launched in France to develop negotiated plans of action at the local level. In the United Kingdom a rapid response service was established in 2002 to address emergency economic situations and facilitate the coordination of existing economic and employment services. In Austria, *Arbeitsstiftungen* (work foundations) coordinate financing and local actors to enable the victims of mass dismissals to find new employment. Some enterprises (for example in Sweden) assist redundant workers with training and guidance to find new employment.

The reasons for enterprise failures are diverse and it is not always possible to anticipate their social implications. But responses are possible and necessary to enable workers to find alternative employment under adequate conditions. Experience points to the importance of mobilizing local actors in specific cases of restructuring.

1.3.5. Alternatives to long-term unemployment

“In my life, I have seen the destructive effects of unemployment. But I have also learnt that it can be beaten with political will and leadership” (Kok, 2003).

The number of people seeking work for over 12 months has remained stubbornly high in a number of countries across the region. In 2003, the long-term unemployment rate was 3.5 per cent for men and 4.8 for women in the EU-25. In the EU-10, 46.5 per cent of the unemployed have been searching for a job for over a year, ranging from very high levels in Slovakia (65.2 per cent) and Poland (55.9 per cent) to lower levels (below 25 per cent) in Cyprus and Lithuania. The average proportion in the EU-15 was 41.6 per cent, with low levels in Sweden, Denmark and the United Kingdom (below 22 per cent) and high levels (50 per cent or more) in Germany, Greece and Italy (Eurostat, 2004).

The persistence of long-term unemployment across Europe suggests genuine difficulties in finding employment, at least for some age, sex and skill groups in certain areas. Its devastating consequences for individuals, families, communities and economies are well known. It is the responsibility of society to help persons who are temporarily unemployed, usually in the form of income replacement, and counselling and information on the available vacancies.

A number of countries have introduced or are contemplating an “activity principle”, whereby the State provides unemployment benefits and placement services and the unemployed actively search for employment and, after a certain period, accept a job on offer – “after a year of unemployment, a person should be guaranteed some worthwhile full-time activity and be required to accept it” (Layard and Nickell, 2004).

The principles under which unemployed persons could be subjected to a test of their “willingness to work” and accept employment that is on offer

could be discussed and agreed upon with the social partners at the supranational level. These principles should be in conformity with international labour standards.

1.3.6. Raising labour supply and employment rates

Projections of future economic growth are highly sensitive to labour supply. In turn, employment growth is sensitive to demographic growth and social and labour policies, which in turn influence the fertility decisions of adults.

The population in Eastern and Western Europe is projected to decline by 1 million persons annually as of 2005. In Turkey, population growth will attain 1.2 per cent between 2005 and 2010, and it will be slightly above 1 per cent in the CIS countries, although it will virtually stagnate in Kazakhstan (United Nations, 2003).

In order to counterbalance the implications of negative or slow population growth on living standards, including the sustainability of social protection (see Chapter 3), it is necessary in many countries to raise employment rates. Table 1.3 contains recent data on the situation in this respect, which can be compared with the EU objectives of an overall employment rate of 70 per cent, and a rate of 60 per cent for women and 50 per cent for persons aged 55-64, by 2010 (see Chapter 1 in Volume I of this report).

Table 1.3. Employment to working age population ratio (per cent)

	Total	Female	55-64 years	Year
EU-10	55.9	50.2	30.5	2002
EU-15	64.8	56.1	42.3	2003
Bulgaria	40.6	37.6	27.0	2001/2
Croatia	40.1	33.8	–	2001
Georgia	58.8	52.0	–	2001
Romania	58.1	52.4	37.3	2001/2
Russian Federation	51.0	45.1	–	1999
Turkey	45.5	25.2	32.7	2003
Ukraine	50.3	44.7	–	2000

– Unavailable.

Source: OECD, EU, ILO.

While recent trends are encouraging in the EU, an acceleration of the pace of change is required to meet these targets. In the new EU Member States, as well as in Eastern European and CIS countries, recent trends have been negative, with lower employment rates, particularly for women, than ten years ago. In addition, wide variations are observed across countries. Over ten percentage points separate female employment rates in Slovenia (58.6 per cent) and Poland (46.2 per cent). A large gap distances Sweden (72.2 per cent) from Italy (42 per cent). As noted in Chapter 5, similar variations are observed in the employment rates of older workers.

Policy recommendations on raising employment rates tend to address three groups: women, youth and older workers. In each case, a range of experience emerges from the region that could inspire policy debates at the various levels. Female employment rates are highly sensitive to maternity protection regimes, the availability of low-cost childcare, the compatibility of working hours with family responsibilities and taxation modalities.

Moreover, significant progress still has to be made in the achievement in practice of the principle of equal pay for work of equal value.

Youth employment is dependent on overall labour demand, as well as on the specifics of the transition from school to work, a subject of intense debate in many countries. Successful policies (see Chapter 2) rely on education and training policies supplying the skills required by rapid technological change, together with work experience opportunities. Raising the employment rates of older workers requires the reversal of financial incentives for early retirement, retraining opportunities, the adaptation of working hours and conditions to their higher age and measures to facilitate part-time work and flexible retirement. Useful proposals are found in Kok (2003).

Higher employment rates lead to greater social cohesion and higher living standards. Employment rates lie at the intersection of social, labour market, economic and fiscal policies, with multiple interactions that lend themselves particularly well to analysis, discussion and negotiation by the social partners and other stakeholders.

1.3.7. Migrants and the integration of minorities and immigrants

Europe, both Eastern and Western, is subject to strong migratory pressures. As a result of ageing and slow or negative population growth, immigrant labour will play an increasingly important role. Higher labour productivity alone cannot compensate for falling labour supply and ensure the economic growth required to sustain living standards and social protection. A major obstacle continues to be the social and labour integration of migrant workers, beset in particular by higher unemployment rates. Globalization has ushered in a striking imbalance between the liberalization of capital markets and financial integration, compared with the limitations on the movement of workers, leading to an increase in the trafficking and exploitation of migrant workers. As observed by the World Commission on the Social Dimension of Globalization:

“Fair rules for trade and capital flows need to be complemented by fair rules for the cross-border movement of people (...). Steps have to be taken to build a multilateral framework that provides uniform and transparent rules for the cross-border movement of people and balances the interests of both migrants themselves and of countries of origin and destination” (ILO, 2004a).

Future economic growth and living standards depend on an orderly flow of labour migration within the region and beyond. At the same time, greater acceptance of migrant workers hinges on the better integration of existing migrant populations, in terms of employment, training and education, housing, business services and social protection, as well as anti-discrimination information campaigns and measures (see Chapter 4). Migrants’ remittances are facilitated by financial globalization, with swift transfers to the families they have left behind, which yield many social benefits (ILO, 2004e). Ministries of labour and of the interior, employers’ and workers’ organizations and other civil society organizations, including organizations of migrant workers, share a strong interest in pursuing broad dialogue in these areas.

1.4. Governance and economic and social reform

Full employment in conditions of decent work, without jeopardizing price stability or social equity, requires major economic and social reforms. These pose a genuine challenge of governance given the manifold interactions between different policy domains. This renders reforms complex, but feasible when supported by wide consultation.

1.4.1. Interlocking agendas

Economic integration has ushered in a greater interdependence of agendas. Economic and social regulations are governed by different specialized institutions, with boundaries frequently being crossed. The European Central Bank, the main objectives of which are price stability and the value of the euro, has consistently aired concerns about structural labour market reforms as a means of raising economic growth while keeping inflation low.

“Structural reforms permit a higher level of sustainable long-run economic growth by increasing the supply of production factors and improving the efficiency with which they are used (...). The more flexible labour, product and financial markets are, the lower the employment and income losses in response to adverse domestic and global economic developments will be” (Trichet, 2004).

At the same time, the social partners have voiced concerns about economic policy in the euro area. European employers (represented by the Union of Industrial and Employers’ Confederations of Europe (UNICE)) have cautioned against “uncertainties surrounding fiscal discipline, and patchy pension and labour market reforms” (J. Strube, President of UNICE, 25 March 2004). European trade unions have called for a balanced macro-economic policy mix and a sensible implementation of the Stability and Growth Pact (European Trade Union Confederation (ETUC) resolution, 17-18 March 2004). The General Secretary of ETUC, J. Monks, has stated that the history of the EU shows that free trade has generated growth, wealth and jobs. The role of the trade unions has been to ensure that growth is shared equitably (*Le Monde*, 17 July 2004).

In reviewing its “Jobs strategy”, the Organisation for Economic Co-operation and Development (OECD) acknowledges the interdependence of policies and the need for harmonization. “Pursuing more and better jobs, however central an objective, needs to be combined with other social objectives, in particular adequate social protection, a better reconciliation of work and family life, and equity outcomes in line with national preferences” (OECD, 2004, page 12).

1.4.2. Two ILO contributions to governance

The ILO brings to this debate two long-standing contributions, namely international labour standards and social dialogue. International labour standards offer a body of basic rights and protection, as well as guidance for policies. The supervisory mechanisms promote their application through dialogue and cooperation.

The virtues of tripartite dialogue draw on democratic representation, multiple levels of participation and sound technical analysis. Complex reforms require complex forms of social dialogue which include, where relevant, other civil society actors. But time spent on dialogue is well invested when the results from negotiations can be successfully implemented.

1.4.3. Reforms and distribution

Few reforms offer “no pain and all gain”. The fair distribution of the costs and benefits of reform across social groups and over time is a key to their political viability. Reforms are more difficult when the burden is placed on a single group and when the benefits are longer term. Two major lessons have been identified by the IMF on structural reforms in industrial countries (IMF, 2004). Firstly, comprehensive reforms, rather than single reforms, are more likely to succeed when costs and benefits can be spread more widely. Second, “fiscal flexibility” is important to cushion or compensate for short-term costs. This suggests that fiscal adjustment and structural reforms should be sequenced over time and not carried out simultaneously.

1.4.4. The pace of reform

The pace and timing of reform are bound to differ, reflecting national institutions, characteristics and political coalitions. The pace of reform is often a function of broad social and political support. Reforms can be drawn out because of strong opposition, or they can proceed swiftly with broad support.

For instance, Poland and Estonia are often characterized as “fast reformers”, whereas Slovenia and Ukraine are viewed as “gradualists”. Similar observations can be made for the United Kingdom and Ireland, and Germany and Italy, respectively. Reviewing the economic and social performance of these countries, there is no prima facie evidence that one approach produces better outcomes. Reform processes have to be adapted to local characteristics, even though the sharing of experience and comparative analysis are welcome.

1.4.5. Exploring new governance mechanisms

Detailed analysis and discussion of the likely benefits and costs of any particular reform proposal are an important means of the governance of reform. Wide consultation and dialogue over reforms, in particular with employer and worker representatives, is critical, not only to gauge potential acceptability, but also to enrich the proposals with the viewpoints of the various actors. Consultations that are merely formal are of little value. A genuine dialogue is built on compromises which acknowledge the contributions of the different parties and respond to their concerns. Balanced reform processes stand a better chance of being sustainable than those which ignore the distribution of costs and benefits.

The World Commission on the Social Dimension of Globalization has made two specific proposals in this regard. The first is “regular national reviews of the social implications of economic, financial and trade policies” (ILO, 2004a, page 134), which the ILO could facilitate. This could take the form of peer reviews to share experience and lessons. It has also suggested policy coherence initiatives as a means of considering integrated policy proposals balancing economic, social and developmental concerns in specific areas. More precisely, the World Commission on the Social Dimension of Globalization has proposed a policy coherence initiative on growth, investment and employment. Such dialogue could be initiated on a regional basis and consider ways and means in all countries to facilitate adaptation to integrated markets and higher quality employment with adequate social protection and rights at work.

Box 1.1**The European Social Model as a governance mechanism**

In this context, it is important to note that the European Social Model (ESM) provides a valuable conceptual basis for a new governance mechanism to balance economic and social development. It combines a certain set of common features (values, institutions, dialogue and principles) that are inherent in the status quo of the EU Member States with an emerging range of institutional instruments (regulations, rules and practices) at the EU level.

In particular, the open method of coordination allows EU Member States to pursue common policy objectives in the fields of employment, the labour market and parts of social policy through continuous peer monitoring and discussion of progress towards quantified goals, which keeps Member States moving on the necessary reforms and promotes real cohesion of policy objectives. Even though the ESM is an evolving model which is influenced by national and European processes and developments in the context of globalization, and it is still unclear how it will be affected by EU enlargement and the EMU, it offers an interesting model of collective governance and joint learning through trial and error, which has prompted the ILO Director-General, Juan Somavia, to remark that "The social future of the world is in Europe; if Europe is able to maintain its social model, it will be a sign of hope for the rest of the world" (*La Libre Belgique*, 5 Feb. 2003, p. 7).

These proposals and approaches to the strengthening of governance mechanisms could provide an effective framework for the application of the two ILO principles mentioned above, based on the pursuit of broad dialogue on reform and balanced economic and social development.

2. Refocusing on youth as the key to lifelong employment¹

2.1. Introduction

It is a profound irony that, in a region with an ageing population and a rising dependency rate, the very segment of the workforce that is vital for future prosperity and well-being encounters disproportionate difficulties of integration and adaptation. Young women and men, with their vitality and creativity, are invaluable resources that should not be squandered. Yet young people are also a group with great vulnerabilities and often face high levels of economic and social uncertainty, including unemployment rates that are commonly at least twice as high as those of the labour force as a whole.

It is therefore understandable that the transition from education to the labour market and the associated problems have recently moved centre stage in discussions of employment policy at the national and international levels. This concern is reflected at the level of the EU by the strong emphasis placed in the European Employment Strategy (EES) on the integration of young people in the world of work. Coordinated efforts have also been made recently at the international level, particularly in the form of the Youth Employment Network (YEN), which has been developed since 2001 under the auspices of the United Nations Secretary-General, with the ILO taking the lead in the YEN secretariat.

2.2. Recent developments in youth labour markets

Youth unemployment has increased in many regions over the past decade (ILO, 2004d).² Between 1993 and 2003, the increase was close to 19 million people worldwide (26.8 per cent) and in 2003 the global youth unemployment rate reached a peak of 14.4 per cent, with 88.2 million young people (52.4 million men and 35.8 million women) without a job. The EU countries as a whole have performed relatively well in this respect over the

¹ This chapter draws widely on the information contained in ILO: *Starting right: Decent work for young people*, background paper for the Tripartite Meeting on Youth Employment: The Way Forward (ILO, Geneva, 13-14 October 2004).

² Within the United Nations system, and in all its statistics and indicators, young people are classified as between 15 and 24 years of age.

past decade, with the lowest youth unemployment rate (14.5 per cent) and the lowest youth-to-adult unemployment ratio (2.15) of any group of countries (see table 2.1). However, the economies of Central and Eastern Europe and the CIS show less favourable trends affecting several youth labour market indicators, including very low youth labour force participation rates and relatively high youth unemployment rates.

Table 2.1. Principal youth labour market indicators, 1993 and 2003

Region	Youth labour force participation (%)		Youth employment-to-population ratio (%)		Youth unemployment rate (%)		Ratio of youth-to-adult unemployment rate	
	1993	2003	1993	2003	1993	2003	1993	2003
EU-15	48.6	45.9	38.9	39.2	20.0	14.5	2.24	2.15
New EU Member States (EU-10)	47.3	36.8	36.6	25.5	22.5	30.7	2.54	2.43
EU-25	48.4	44.1	38.5	36.5	20.4	17.3	2.29	2.24
WECEE (28)*	48.7	44.5	38.9	36.9	20.1	17.0	2.29	2.25
South-eastern Europe (SEE-8)	51.3	40.3	39.5	31.2	23.0	22.4	2.91	2.45
CIS (12)	47.4	40.8	42.9	34.8	9.4	14.6	3.58	2.46
Europe and Central Asia (49)**	48.6	42.3	40.3	35.1	17.2	17.0	2.63	2.36
World	58.8	54.9	51.9	47.0	11.7	14.4	3.1	3.50

* WECEE (28): EU-25 + Iceland, Norway and Switzerland.

** Excluding San Marino.

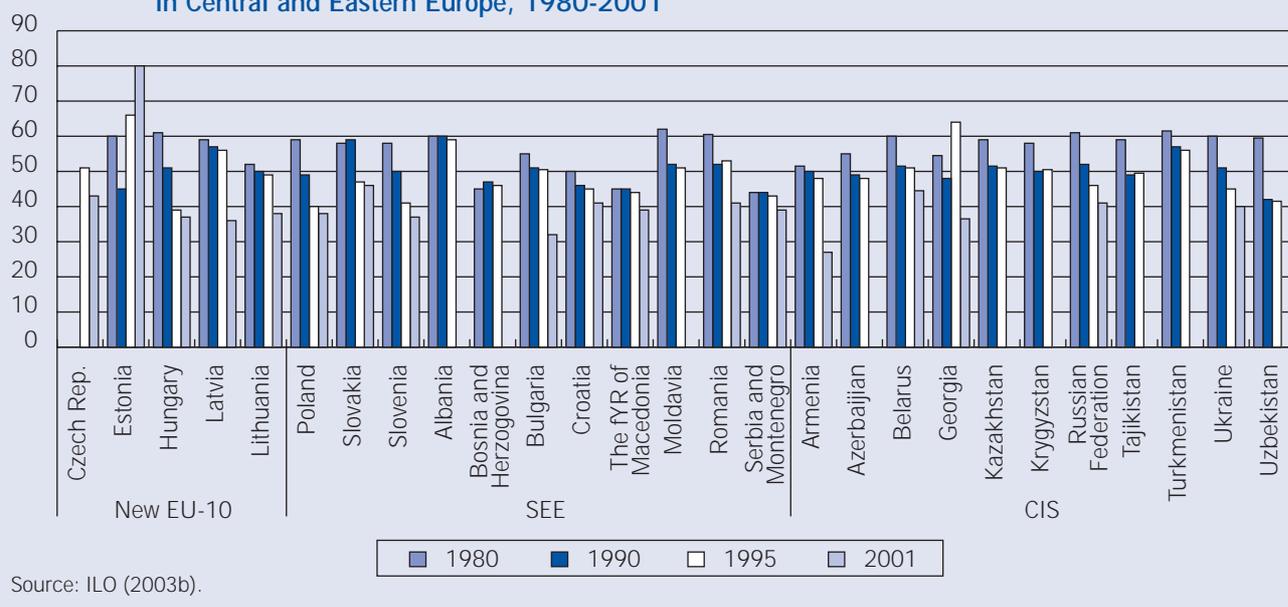
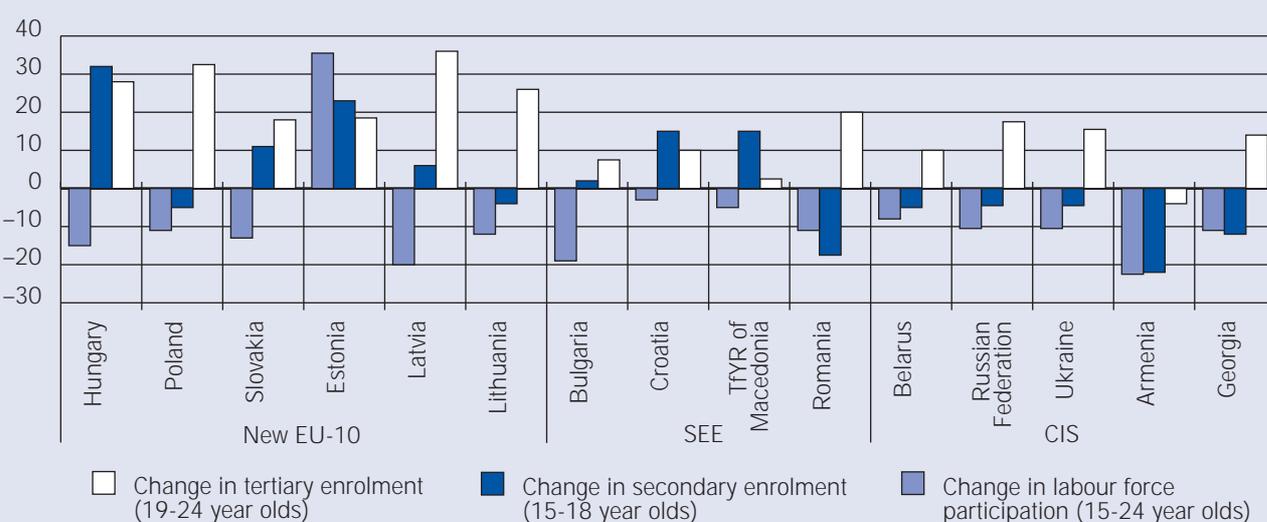
Source: ILO.

2.2.1. Labour force participation

The labour force participation rates of young people in Central and Eastern Europe fell throughout the 1990s as part of a longer term trend observable even before transition (see figure 2.1). Youth participation rates fell worldwide between 1993 and 2003. The highest rates were in East Asia (73 per cent) and the lowest in the Middle East and North Africa (39.7 per cent). The participation rate in the region was at the lower end of this range, at 42.3 per cent, with a very low participation rate of 36.8 per cent in the new EU Member States (see table 2.1).

The labour force participation rate of young people is lowered by a number of factors, including higher educational participation, discouraged workers leaving the labour market as a result of the lack of employment opportunities, and workers undertaking other forms of activity, such as travel abroad or volunteer work. An important question is therefore the extent to which declines in labour force participation are attributable to greater educational participation or other factors, including worker discouragement.

Figure 2.2 attempts to throw some light on this issue by showing changes in labour force and educational participation rates in Central and Eastern Europe and the CIS between 1990 and 2001. The picture is somewhat varied. With the exception of Estonia, the general impression for the new EU Member States is that increased educational participation has largely compensated for the fall in labour force participation. But the increase in tertiary education seems to outweigh the falls in both labour force participation and secondary enrolment, with the fall in the latter being a cause for concern in Poland and Lithuania.

Figure 2.1. Labour force participation rates of young people (15-24 years) in Central and Eastern Europe, 1980-2001

Figure 2.2. Percentage change in labour force participation rates and gross enrolment rates of young people (15-24 years), 1990-2001


Notes: (1) The figure shows the percentage change in the labour force participation rate for the entire age group, and the analogous change in gross enrolment rates in secondary and tertiary education. (2) For Croatia, the change in secondary enrolment is for 1991-2001; for The former Yugoslav Republic of Macedonia, the change in labour force participation is for 1990-1999 and for secondary enrolment 1992-2001; in Belarus and the Russian Federation, the change in labour force participation is for 1990-1999; and in Ukraine, the change in both labour force participation and secondary enrolment is for 1990-2000.

Source: ILO (2003b) and Transmonee 2003 database.

In south-eastern Europe, there is a clear distinction between countries in which educational participation has more than compensated for declining labour force participation (Croatia and The former Yugoslav Republic of Macedonia) and those where it very clearly has not done so (Bulgaria and Romania).

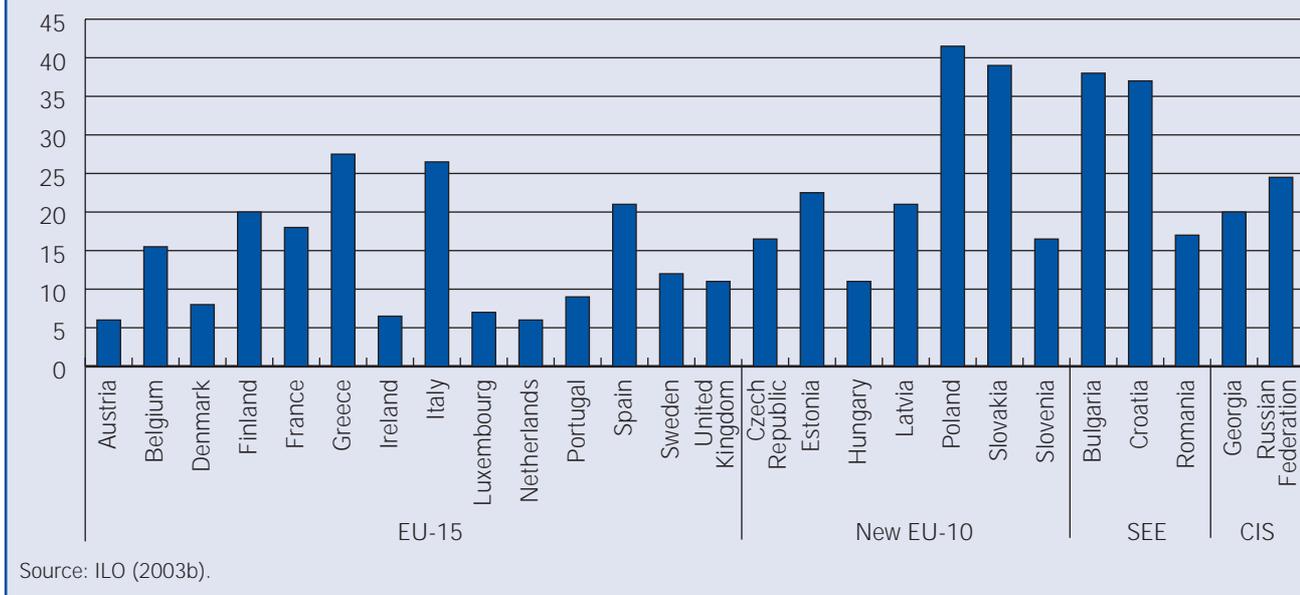
In the CIS countries, the universal reductions in both labour force participation and secondary-school enrolment, and also in tertiary participation in Armenia, give rise to a strong supposition that the numbers of discouraged

young people have increased. While it is difficult to obtain figures in this regard, ILO background research for the National Action Plan on Youth Employment in Azerbaijan shows that young people dropping out of the labour force constitute a sizeable phenomenon (Godfrey, 2004). Recent labour force survey data suggest that, in addition to 166,000 unemployed 15-24 year olds, a further 175,000 are not studying, not working and not seeking work in Azerbaijan.

2.2.2. Youth unemployment

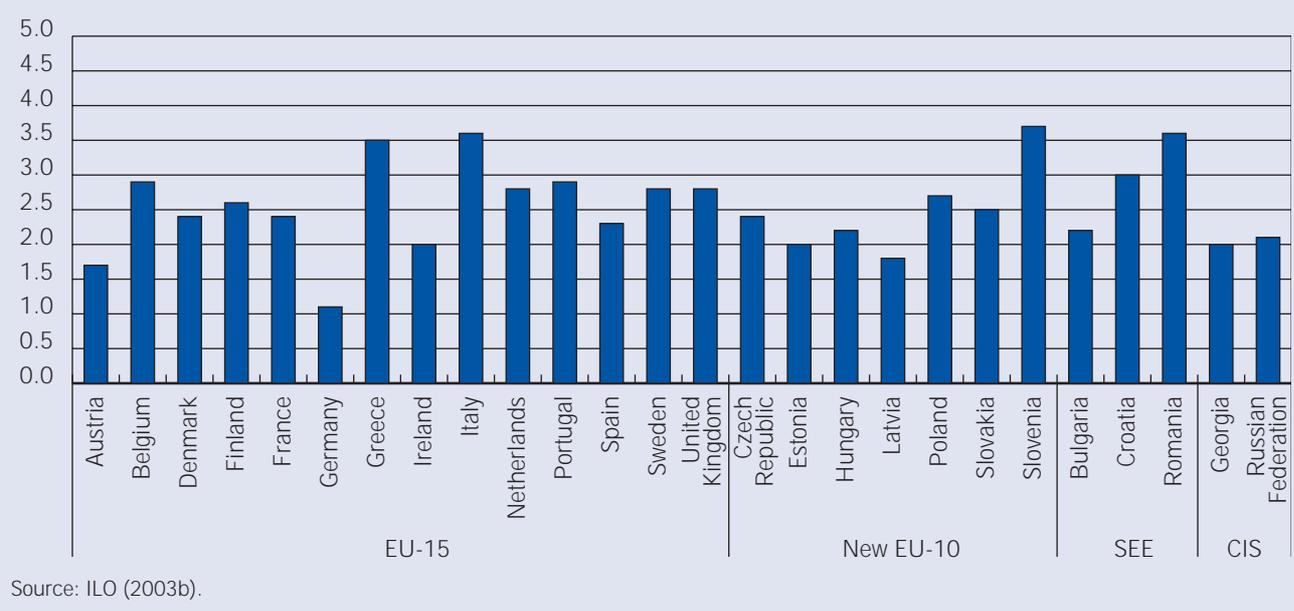
As might be expected, the changes that have occurred in the region have had a major impact on the labour market experience of young people. Among the EU-15, Greece, Italy and Spain tend to have the highest youth unemployment rates of between 20 and 30 per cent (see figure 2.3). Youth unemployment rose rapidly in Central and Eastern European and CIS countries and has remained high. Nowhere in these countries is the youth unemployment rate lower than 10 per cent; in Bulgaria, Croatia and Slovakia it is over 35 per cent, and in Poland over 40 per cent. In these latter countries, more than one in three young people who are looking for work do not find it.

Figure 2.3. Youth unemployment rates in Europe, 2001



In large part, the situation in the youth labour market depends on what is happening in the aggregate labour market and the economy as a whole. An indicator of the relative position of youth in the labour market is the youth-to-adult unemployment rate ratio. At the global level, both the industrialized and former transition economies perform relatively well in this regard, with the lowest average youth-to-adult unemployment ratios of 2.3 and 2.4 respectively (see table 2.1). However, a closer look at the country-disaggregated data in figure 2.4 shows that there are wide differences between countries in the region. Almost everywhere, young people are more than twice as likely as adults to be unemployed, the exceptions being Austria, Germany and Switzerland with their dual education systems, as well as Latvia. In general, the ratio tends to be higher in southern Europe.

Figure 2.4. The ratio of youth unemployment rates to adult unemployment rates in Europe, 2001



2.2.3. Long-term unemployment and its lasting effects

There is a growing body of literature concerning the harm caused by long-term unemployment to the human capital made up of individuals, and consequently to the economic potential of societies. Indeed, it is now firmly established that early experiences in the labour market have an important influence in shaping lifetime patterns of employment, pay and unemployment. Although evidence of the long-term scarring effects of unemployment is difficult to obtain, such effects have been found to last for at least seven years in France and over 20 years in the United Kingdom.³

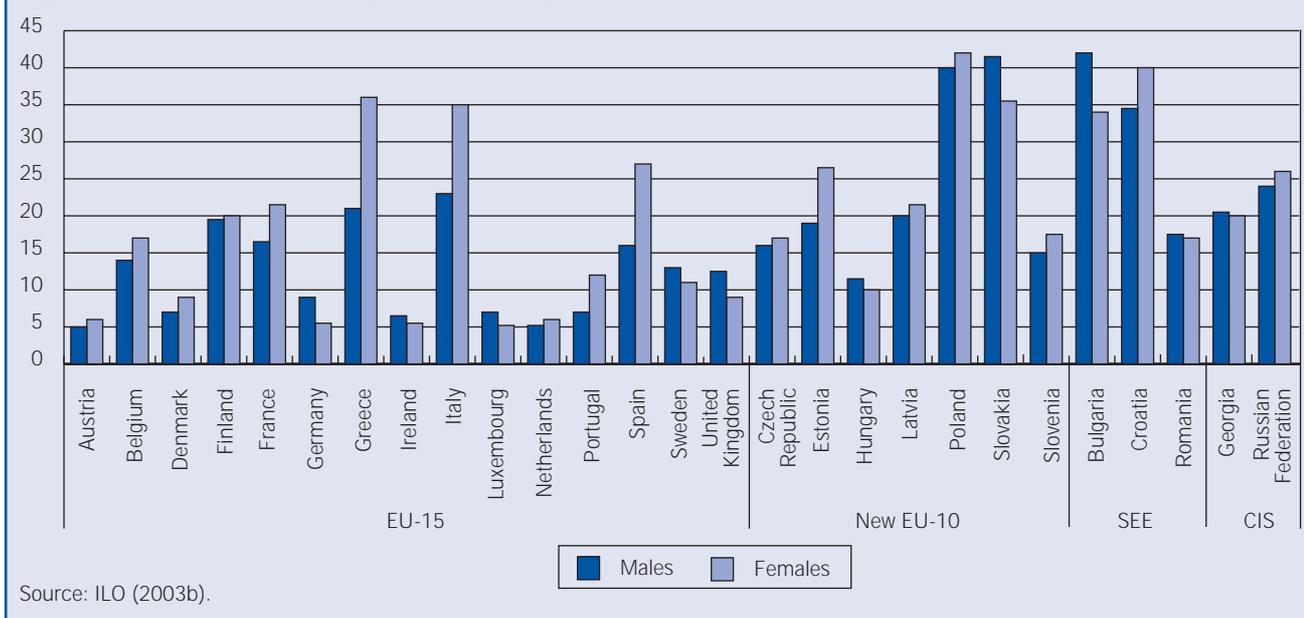
The duration of unemployment experienced by young people is by no means uniformly shorter than that of the labour force as a whole, at least in the industrialized countries (O'Higgins, 1997 and 2001; Ryan, 2001). Figure 2.5 provides data on this issue for four countries in the region.

Figure 2.5. Incidence of long-term unemployment (over six months) for young people and adults, 2000



³ See Allaire et al. (1995) on France; and Gregg and Tominey (2004) on the United Kingdom, where the resultant wage reduction effect is of the order of 12-15 per cent.

Figure 2.6. Male and female youth unemployment rates, 2002 (percentage)



2.2.4. Difficulties in labour market access for different groups

Although there is no dominant pattern in the region with regard to the unemployment rates of young people by gender, in the EU-15 the average female youth unemployment rate in 2002 was very slightly higher than the average male rate, with no aggregate difference in the new Member States. However, in several countries in the region (Croatia, Estonia, Greece, Italy and Spain), young women have unemployment rates which are much higher than those of young men, whilst the reverse situation is observed only in Bulgaria and Slovakia (see figure 2.6). There is thus in some countries, particularly in southern Europe, a clear gender disadvantage in labour market access.

Ethnicity is also a common source of disadvantage on the labour market, although the lack of data makes it difficult to establish a comprehensive picture. In many countries in the region, the collection of labour market and other information by ethnicity is explicitly forbidden. Recent efforts by the United Nations Development Programme (UNDP), in collaboration with the ILO, to rectify this deficit have focused on the Roma, the most obviously disadvantaged ethnic group in Central and Eastern Europe (UNDP, 2002). The picture that is emerging confirms the overall view of labour market disadvantage among the Roma, although the relative disadvantage attached to being young appears to be somewhat less for this group, as the unemployment rates of young Roma are not much higher than they are for adults (which may to some extent reflect the early labour market entry of young Roma). However, the point that a bad start in the labour market often leads to prolonged unemployment throughout working life may be particularly relevant for this ethnic group.

2.2.5. Decent work aspects of youth labour markets

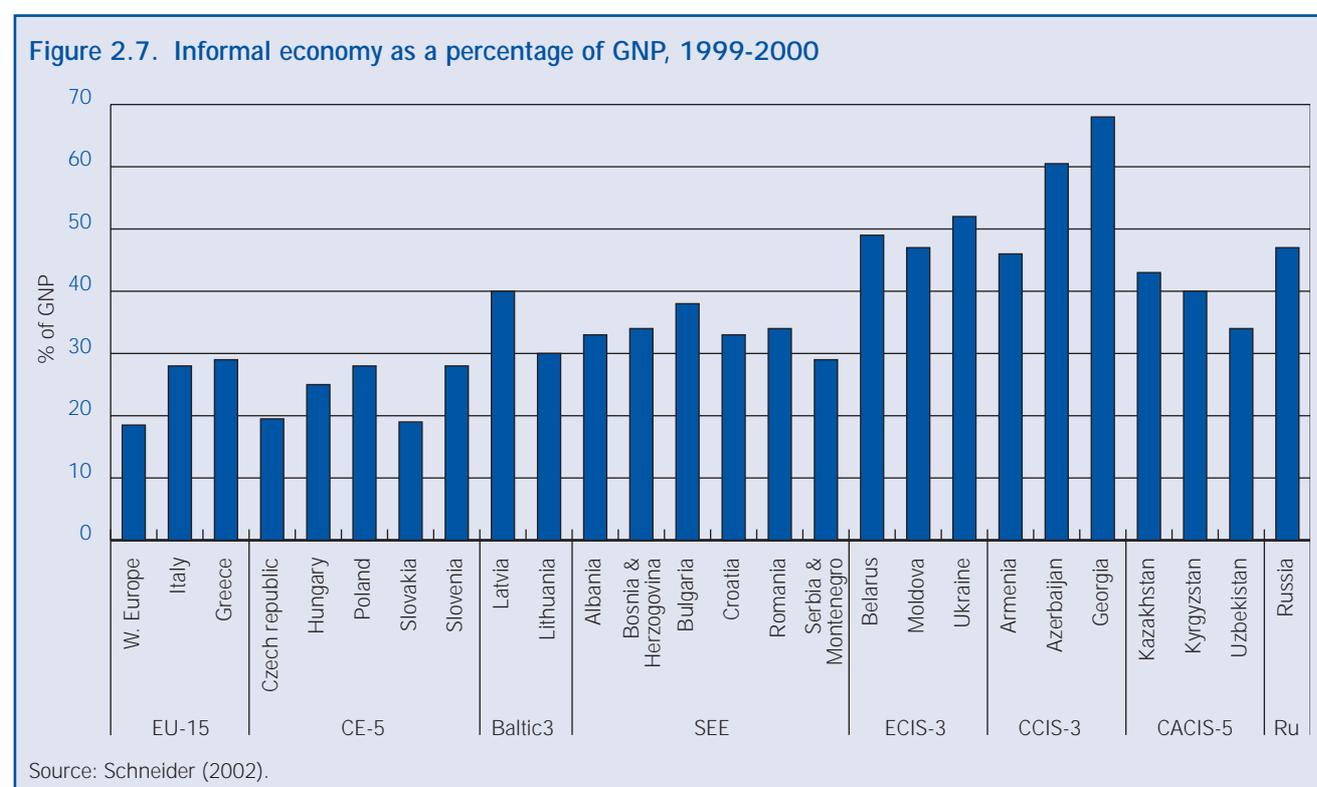
The promotion of decent work is not just about getting people into jobs, but also about the quality of the work obtained. Increasing concern has been expressed in recent years about the quality of work available in general, and for young people in particular, not only in terms of the conditions under

which the work is performed, but also the type of employment relationship. In this respect, open unemployment rates are only the tip of the iceberg. Young people are more likely than other age groups to find themselves working longer hours under informal, intermittent (temporary, part-time or casual) and insecure work arrangements, which tend to be characterized by low productivity, low earnings and reduced labour protection.

2.2.6. Informal employment

Informal employment is by its nature highly flexible and exploitative, and therefore raises important issues in relation to decent work. Informal employment is difficult to measure, although greater efforts are now being made in this respect.⁴ Where data are available, they show a high level of involvement of young people in the informal economy (ILO, 2004d).

Estimates of the size of the informal economy as a percentage of national income in countries in the region are probably conservative (see figure 2.7). Even so, they suggest the existence of a substantial informal economy, particularly in the CIS countries, which is actually larger than the formal economy in Azerbaijan, Georgia and Ukraine, and almost as large in Armenia, Belarus, Republic of Moldova and the Russian Federation. Casual observation, theoretical reasoning and such evidence as does exist in relation to particular cases suggest that the involvement of young people in the informal economy is disproportionately high. Bernabè (2002), for example, estimates that in Georgia, 76 per cent of young workers are employed in the informal economy, compared to 57 per cent of the workforce as a whole.



⁴ See, for example: ILO, 2002b and 2003b.

2.2.7. Underemployment

Another important, albeit rather neglected area, is underemployment. Difficulties of concept and measurement are even more pronounced for underemployment than for involvement in the informal economy.⁵ Although information is collected on a rather ad hoc basis, such evidence as exists once again suggests that young people are disproportionately represented in this type of employment. ILO estimates indicate that around one-quarter of those who are underemployed in the developing world as a whole are young workers (ILO, 2004d).

2.2.8. Part-time work

In many industrialized countries, the proportion of young people in part-time employment also tends to be higher than that of the labour force as a whole. For example, part-time employment rates in 2002 were higher for young people than for the workforce in general in Finland, France, Greece, Norway and the United Kingdom, and particularly in Iceland, the Netherlands and Sweden. On the other hand, the opposite was true (lower rates of part-time work for young workers) in Italy, Luxembourg, Portugal and Turkey.

Rising part-time and temporary forms of employment have been important factors in the growth of employment for young people in the EU-15 (OECD, 2002). During the period 1992-2002, the incidence of part-time work among young workers increased in nearly all OECD countries (exceptions include Greece and Turkey), and the largest increase was experienced in Iceland, Ireland, Netherlands and Sweden. Where young people are engaged in involuntary part-time work, this may have impeded their relative employment prospects compared to others in the industrialized economies, although care is needed in drawing firm conclusions in this regard, as some young people may have opted for part-time work to facilitate their studies or cope with family responsibilities.

2.2.9. Temporary jobs

Temporary jobs represent another form of flexible working arrangement that has been on the increase in many countries in the region, although they generally give lower levels of job satisfaction than permanent jobs.⁶ The question that arises is the extent to which temporary work arrangements fall disproportionately on the shoulders of young workers. The incidence of temporary work in the 15-24 years age group (measured as the share of temporary employment in total dependent employment in this age group) tends to be much lower in Central than in Western Europe (table 2.2). In the Scandinavian countries, as well as Portugal, Spain and Switzerland, the incidence of temporary employment among young workers is over 30 per cent, a very high figure compared to other age groups.

While these flexible forms of employment may to some extent facilitate the access of young people to more permanent employment, questions remain as to the extent to which part-time and temporary employment are chosen by young people and the ease with which they can be transformed into long-term good quality employment (see OECD, 2003a).

⁵ For a formal definition of underemployment, see ILO (1998).

⁶ OECD (2002) presents country comparisons as of 1997 indicating lower satisfaction among temporary workers with job security and remuneration than among permanent workers.

Table 2.2. Incidence of temporary employment in Western and Central Europe by age group, 2000 (per cent)

	Share of temporary employment in total dependent employment for the indicated group (%)		
	15-24 years	25-54 years	55+ years
Slovakia	7.4	2.7	13.6
Czech Republic	10.3	3.8	33.6
Iceland	11.2	4.6	2.2
Luxembourg	11.3	1.8	1.0
Hungary	11.5	5.4	10.9
United Kingdom	12.0	4.9	5.8
Poland	13.0	4.0	11.3
Italy	14.7	5.4	5.5
Ireland	15.1	5.7	4.9
Belgium	19.7	4.5	2.1
Turkey	23.7	18.7	37.7
Netherlands	24.3	6.9	6.7
Austria	28.2	3.8	2.6
Greece	28.4	12.1	12.2
Denmark	30.6	6.5	5.1
Norway	33.6	8.6	5.2
Portugal	34.4	10.9	6.5
France	34.8	6.6	3.0
Germany	38.9	6.1	3.8
Sweden	41.3	10.5	7.5
Switzerland	44.9	5.3	4.1
Finland	49.5	14.3	5.1
Spain	67.4	25.2	11.8

Source: OECD (2002).

In the EU-15 between 1999 and 2000, the rates of transition from temporary to permanent employment ranged from under 10 per cent in Portugal to over 50 per cent in Austria. By contrast, in Finland and the United Kingdom, over one-quarter of those in temporary employment in 1999 were out of work in 2000. More generally, the numbers moving from low- to high-quality employment (as measured by higher pay, access to training or a permanent contract) ranged from under 20 per cent in Portugal to nearly 40 per cent in Ireland (European Commission, 2003a).

The emphasis placed in recent years on the need for greater flexibility in the labour market has often been narrowly interpreted as a need to relax employment protection legislation so as to reduce disincentives to the hiring of new workers. While the resulting measures have not actually led to any marked reduction in job stability, as measured by employment tenure and job separation rates in the EU and other OECD countries (see Chapter 3), any falls in job tenure that have been observed tend to be concentrated among young workers (Auer and Cazes, 2003).

By contrast, the transition to a market economy in Central and Eastern European and CIS countries was accompanied by a rapid decline in job stability and a significant increase in labour turnover, the effects of which were felt most keenly by the youngest and oldest groups of workers. Nevertheless, the fall in the job tenure of young people in those countries has done no more than bring them into line with their Western European counterparts.

In 1999, the average job tenure of young people in Central and Eastern Europe was 2.2 years, compared with an average of two years in the EU in 2000 (Cazes and Nesporova, 2003).

2.3. National policy to promote youth employment

Action to promote youth employment must above all be grounded in an overall employment creation strategy involving the establishment of appropriate conditions for economic and employment growth. Nevertheless, there are two main areas for specific proactive interventions to improve the labour market prospects of young people, namely education and active labour market policies (ALMPs). Although the two are not independent, in practice ALMPs tend to be used in an attempt to remedy failures in the educational system, so it is to be hoped that they can play more complementary roles. Labour market regulation is often identified as a factor obstructing the access of young people to employment and therefore also needs to be considered.

2.3.1. Embedding youth issues in national employment policy frameworks

Increased recognition by the national authorities, that addressing the youth employment problem is crucial for achieving decent work over a full lifetime and for promoting inter-generational cohesion, has led to greater emphasis on the inclusion in national employment policies of measures to promote youth employment. For example, in the new EU Member States, the incorporation of youth employment issues in the development of national employment plans forms part and parcel of the four-pillar approach of the EU's European Employment Strategy. This type of approach could usefully be extended to other countries in the region.

The ILO assistance provided in this respect has also shown that a comprehensive employment framework incorporating measures for youth can be developed at a variety of economic and social levels, as illustrated by the regional employment strategy formulated with ILO assistance in Lodz in Poland and the local economic strategies in pilot regions in Kazakhstan. Another example is the National Action Plan on Youth Employment in Azerbaijan (see box 2.1).

Box 2.1

National Action Plan on Youth Employment, Azerbaijan

Recognizing the need for a comprehensive employment policy, the Government of Azerbaijan has established an Inter-Ministerial Employment Committee with the aim of developing a National Employment Strategy (NES) based on a process of broad consultation with key stakeholders. The ILO has been involved in the preparation of the NES, particularly in the field of support for SMEs, technical vocational training and social protection in relation to employment. The National Employment Strategy was approved by the Inter-Ministerial Committee in July 2004, and the ILO continues to provide assistance for its operational implementation through the development of a mid-term National Action Plan on Employment, which includes as an integral component a National Action Plan on Youth Employment.

In Kazakhstan, the issue of youth employment is also being addressed in the framework of ILO technical cooperation projects aimed at employment creation for youth and other marginalized groups in the informal economy by increasing their employability. The core activities of these projects include the development of a mid-term National Employment Programme for Kazakhstan, accompanied by local economic development strategies in pilot regions (see Chapter 3 in Volume I of this report), support for entrepreneurial education through the ILO's Start and Improve Your Business (SIYB) and Know About Business (KAB) programmes, and assistance in the provision of employment services at both the national and local levels.

2.3.2. Education and training

Education and training play a key role in promoting more and better work for young people. Indeed, apprenticeships under the “dual system” combining school-based education with in-company training are proven systems of learning for work in some countries in the region, and particularly in Austria, Denmark, Germany and Switzerland (Ryan, 1998). In these countries, low youth unemployment is often attributed to the success of the apprenticeship system in providing large numbers of young people with high-quality education and training in recognized skills demanded by employers. The involvement of the social partners in programme design and implementation ensures that apprenticeship programmes meet labour market requirements (O'Higgins, 2001).

The German system is a good example of combined school education and in-company training. The ratio of youth to adult unemployment rates, which is around one to one in Germany, contrasts with most other countries, where youth unemployment is generally between two and five times the adult rate. However, in recent years problems have begun to emerge even in Germany, particularly as regards what happens to young people when they leave the dual system and the system's adaptability at a time of rapidly changing occupational and industrial structures. The transferability of a German-type system to other countries with differing institutional structures also raises many issues. Nevertheless, the German system remains a good example of what can be achieved.

In the countries of Central and Eastern Europe and the CIS, while the need to reform and improve educational systems is widely recognized, that goal is not easy to achieve. The situation in these countries was exacerbated by the rapid industrial restructuring arising from transition, particularly since, following the transfer of apprentice schools and training facilities from enterprise to public budgets, or their closure (thereby actually dissolving the dual system in many of these countries), enterprises are often no longer willing to invest their resources in vocational education and training (VET). Progress has been varied in improving VET systems, and their reform is under way in many countries.

In the new EU Member States, and above all in Hungary and Slovenia, reforms are well advanced, although problems remain in terms of the high numbers of secondary school students, especially vocational secondary school students, who drop out and/or subsequently become unemployed (ETF, 2003a). In south-eastern Europe and the CIS countries, reform still has a long way to go. Governance issues remain of crucial importance: VET is still highly centralized in these countries, funding comes out of the central budget, and institutional autonomy and the involvement of local communities and the social partners are extremely limited (Fetsi, 2003).

A number of problems are common to many of the countries of the region. These include situations in which responsibility for the provision of

VET is spread over different ministries, creating parallel structures. VET systems also remain inflexible in many cases, still being based on long-term planning without mechanisms to adapt to assessments of labour market needs. The involvement of the social partners is frequently not institutionalized, meaning that they are not, for example, involved in the development of curricula (ETF, 2003a)

Educational systems in general, and VET systems in particular, need to be more responsive to the labour market. This can, and indeed should, be achieved by action at many levels.

At the central level, policy-making should be based on social partnership. As a means of making policy-making more decentralized and responsive to actual needs, the social partners should be involved in both the implementation of policy and in its adaptation to local needs. While the formal involvement of the social partners in overall policy-making in the sector is more or less the norm in most countries in the region, there is much scope for improvement, particularly at more decentralized levels. For example, the social partners could develop direct links with schools, in both formal and informal ways, so as to ensure that contacts are developed between actors in the local labour markets and young people in schools. At a broader level, the involvement of the social partners needs to be made more effective.

2.3.3. *Active labour market policies*

Active labour market policies (ALMPs) essentially fulfil a remedial role in correcting malfunctions in education systems and labour markets. Public employment services in the region have traditionally been involved largely in the payment of income support to the unemployed and in the administration of employment and training programmes. However, they have recently started to play a more proactive role in many countries in improving the functioning of labour markets through the provision of guidance, counselling and job matching services

Although experience is mixed, the most effective ALMPs for young people appear once again to be programmes involving work experience combined with training, which appear to raise the chances of finding work for participants.⁷ In particular, labour market training is one of the principal measures that can be used to address the problems of disadvantaged youth in the CIS countries where much of the former state-run system of VET schools is in disarray and the educational system does not have the capacity to provide skills training for all school-leavers. In these cases, labour market training based on the ILO's modular employable skills can provide at least basic skills to young people who would otherwise be limited to unskilled seasonal jobs, mainly in the informal economy.

In circumstances in which there are relatively few job opportunities, attention naturally turns to support for self-employment and the creation of small businesses. Action in this respect may be taken at two levels. On the one hand, measures can be adopted to facilitate the establishment of new businesses by reforming the institutional and legislative framework, which often acts as an impediment to business start-ups. Initiatives can also be taken to promote self-employment by young people through the provision of a range of services, and particularly access to credit and training in business skills. Support for self-employment and the creation of small businesses is an area in which the ILO is particularly active, especially through its SIYB

⁷ A recent ILO paper (Axmann, 2004) looks at recent experiences with enterprise-based schemes for training and skills development and provides a number of useful examples, particularly of way in which enterprise-based VET can help in redressing imbalances in the supply and demand for skills.

and KAB programmes (see Chapter 3 in Volume I of this report), based on the principles set out in the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189).

Much recent work in the area of policies to promote youth employment has also emphasized the importance of guidance and counselling, both before and after young people enter the labour market, to help match their skills and aspirations with employment and training opportunities.⁸

If offered at the first stage of labour market programmes, guidance and counselling services can play a key role in identifying and tailoring employment and training opportunities and in helping young people make realistic choices in line with labour market opportunities. Based on individualized assessment, they allow for the mapping of vulnerability and the more efficient targeting of labour market programmes at the most disadvantaged job-seekers (ILO, 2004d). In practice, they have proven to be a relatively cost-effective form of intervention, which often obviates the need for more expensive work-oriented training.

The provision of guidance and counselling services differs greatly from country to country. In several cases, educational guidance and counselling are available from primary school onwards to help children make their educational and training choices. In the current context of rapid change, increased learning opportunities and greater job mobility, many countries are introducing reforms to make career counselling and guidance services available to citizens throughout their working lives. However, one major obstacle faced by many countries in the field of guidance and counselling is the basic lack of labour market information, which is another area in which the ILO provides technical assistance.

2.3.4. Involvement of the social partners

Employers' and workers' organizations are involved in the design and implementation of ALMPs in many countries. However, the extent to which formal involvement is translated into real input into the policy-making process varies enormously. The social partners are often included on a collaborative or consultative basis with national labour market boards and/or public employment services.

The quality of the programmes provided is likely to be higher where the social partners are involved. Numerous studies have demonstrated that programmes that are more closely linked to private employers tend to be more effective, as employers may use them for the purposes of recruitment and/or screening. The relevance of training is also likely to be greater when private employers are involved, as they can ensure that the skills acquired match those required on the labour market. In self-employment programmes, employers can provide advice and support. They can also, for example, support the introduction of a self-employment option in schools, act as mentors or sponsor business competitions.

Similarly, the involvement of workers' organizations can help avoid some of the pitfalls of work experience and training programmes. For example, by promoting the training content and monitoring the implementation of programmes, workers' organizations can guard against the exploitation of participants and help to promote their long-term prospects of good quality employment. They can also ensure that programme participants are not used to replace other categories of workers.

⁸ See, for example, Fay (1996).

Employers' and workers' organizations can be directly involved in the provision of training. This is particularly helpful in the case of small firms, where it may not be viable to make provision for training within the firm. Finally, workers' and employers' organizations can play an important promotional role in advocating measures to improve the employment prospects of young people, including appeals to the private sector to create or increase training provision.

2.3.5. Labour market regulation and youth employment

Labour market regulation can have positive and negative impacts on the access of young people to employment (ILO, 2004f). It is regularly argued that labour market regulations of various types that are intended to protect workers end up harming them in practice by discouraging the hiring of new workers or introducing disincentive effects.⁹ The argument is claimed to be strongest for low-skilled workers and new entrants to the labour market. However, neither the OECD nor the ILO have identified a statistically significant link in selected Central and Eastern European countries between the strictness of employment protection legislation and youth employment levels. Moreover, government interventions can facilitate the school-to-work transition by providing incentives to employers to hire young workers. Indeed, young people are less likely to be recipients of unemployment benefit, and may indeed benefit from the reduced competition in the labour market brought about by effective unemployment insurance schemes.

A wide array of schemes has also been introduced in various countries in order to share initial hiring costs between employers and the State. In some European countries, for example, employers receive the equivalent of the national minimum wage for each person hired or apprenticed. Lithuania applies a combination of subsidized employment and limited-term employment contracts for young people. In Austria, the annual training premium for apprenticeship contracts is directly transferred to the employer (ILO, 2004d).

Combined work-training contracts are also used in many countries. For example, in the Czech Republic, the labour market access of young people is facilitated by a one-year wage incentive to employers to provide on-the-job training (O'Leary et al., 2001). Public incentives are also granted in Belgium, France and Italy to employers which recruit and provide on-the-job training to young jobseekers (OECD, 2001a).

2.4. Coordinated international action on youth employment

In recognition of the importance of promoting youth employment, several major international initiatives have been launched in recent years, which should perhaps be best seen in the framework of the Millennium Declaration and the eight Millennium Development Goals, the last of which consists of "developing and implementing strategies that give young people everywhere a real chance to find decent and productive work". The Millennium Development Goals aimed at reducing the number of people in extreme poverty, promoting gender equality, empowering women and curbing illit-

⁹ Findings regarding disincentive effects of unemployment insurance are not universal. For example, Lubyova and van Ours (1999) find little evidence of disincentive effects in Slovakia, while Earle and Pauna (1998) clearly reject the idea of disincentive effects in Romania.

eracy are closely related to youth employment issues. The ILO's Global Employment Agenda aims to provide a comprehensive employment framework for the development of such policies in line with the Decent Work Agenda.

The ILO has long been active on youth employment issues through its standards-related action and technical assistance activities. International labour standards are an important pillar of the ILO's effort to promote the employment and improve the working conditions of young people. This is true not only of those standards setting out fundamental work-related rights, but also those on employment policy, human resources development and specific aspects of youth employment. The operational approaches adopted to achieve these goals have evolved over the years in response to the changing economic environment and needs of ILO constituents.

2.4.1. Youth Employment Network

Probably the most significant recent initiative at the international level¹⁰ is the establishment of the Youth Employment Network (YEN) under the auspices of the United Nations Secretary-General. In July 2001, the YEN High-Level Panel started to prepare a set of recommendations on youth employment, and called on governments, in consultation with civil society, to prepare national reviews and action plans for youth employment addressing four main priorities: employability, equal opportunities, entrepreneurship and employment creation. Separate working groups have been established to deliberate on each of these strategic themes.

In 2003, "roadmaps" for each of the four areas were produced (YEN, 2003). These included detailed recommendations in which the YEN working groups noted the lack of links between education systems and the labour market, as well as the problems associated with the informal economy and the disproportionate involvement of young people within it. The working groups also noted the additional impediments faced by young women in gaining access to decent work.

Within the Europe and Central Asia region, Azerbaijan has emerged as a YEN lead country. Two-thirds of its population is under 35 years of age, and it illustrates the point that youth employment problems cannot be effectively addressed in isolation from overall employment policies and broader macroeconomic policies.

2.4.2. European Employment Strategy

Another international area of action of direct relevance to many of the countries in the region is the EU European Employment Strategy (EES) initiated at the Luxembourg Summit in 1997. The EES and its concomitant employment guidelines have become the basis for employment and labour market policy in all the EU-25 countries, as well as strongly influencing policy-making in several others. The EES was initially built around four pillars, the first of which (improving employability) was directly concerned with young people. During its development, and most notably at the European Councils in Lisbon in 2000 and in Stockholm the following year, specific targets were established with the aim of achieving them by 2010 (see box 2.2).

¹⁰ The United Nations Secretary-General in his *Millennium Report* announced that, together with the head of the World Bank and the ILO, he was convening a high-level policy network on youth employment to explore imaginative approaches to this difficult challenge (United Nations, 2000).

Box 2.2**EES targets of direct relevance to young people**

Although many of the targets set at the Lisbon and Stockholm Summits are of some relevance to young people, such as the target of an overall employment rate for the working age population of 70 per cent by 2010, three specific targets are of direct concern to young people:

- (1) *Every unemployed young person should be offered a new start in the form of training, retraining work practice, a job, or other employability measure, before reaching six months of unemployment.* Performance in achieving this target has been mixed (countries such as Finland, Portugal and Sweden are nearing the target), but compliance with the target for young people is better than for the corresponding targets relating to long-term unemployed for the population as a whole.
- (2) *By 2010, at least 85 per cent of 22 year olds in the EU should have completed upper secondary education.* For the EU-15 as a whole, the rate currently stands at over 75 per cent. Several countries (Austria, Finland, Sweden and the United Kingdom) have already reached the target. However, in Denmark, Italy, Luxembourg and Spain, the rate has not yet reached 70 per cent, and Portugal lags behind with a rate of under 45 per cent.
- (3) *Policies will aim to achieve by 2010 an average EU early school leaving rate of no more than 10 per cent.* Progress on this target is well advanced in some countries. Austria is at 9.5 per cent and Finland at 9.9 per cent. But the overall percentage of young people dropping out of the school system without any qualifications was 18.1 per cent in 2003. This is a long way away from the target of 10 per cent by 2010, and the rate remains very high in Portugal (41.1 per cent in 2003). This calls for urgent action.

While the primary responsibility for employment policy lies with Member States, the effective implementation of the Employment Guidelines requires the active participation of social partners at all stages, from designing policies to their implementation. The Guidelines expect the social partners to contribute in all areas under their responsibility, in particular concerning the management of change and adaptability, synergy between flexibility and security, human capital development, gender equality, making work pay and active ageing, as well as health and safety at work.

Source: European Commission (2004).

In July 2003, the EES was revised and it is now organized around the achievement of three overarching medium-term objectives, namely: full employment; the promotion of quality and productivity; and fostering cohesion and inclusive labour markets. The EES is implemented through National Action Plans on employment and is monitored through the regular Joint Employment Reports issued by the European Commission.

2.5. Conclusions

In any discussion on the issue of youth employment, it should be recalled that the entry of young people into the world of work is not just an isolated event at the beginning of their working lives, but an event that to a large extent conditions their subsequent working lives and also their contri-

bution to society over their lifetimes. In an ageing society, where it is necessary to maximize the contribution of all people of working age if current levels of economic performance and social well-being are to be maintained or even improved, young people are desperately needed but often sadly under-utilized, with unemployment and underemployment rates that are well above the average for the workforce as a whole.

While the youth employment situation is closely related to a country's overall employment situation, and all available policy instruments should clearly be focused on raising the quality and quantity of employment in general, it must be acknowledged that, in most countries, young people face specific problems related to their labour market integration, including unemployment rates that are commonly between two and three times as high as those of the working age population as a whole. It is therefore necessary to focus measures on improving the transition from school to work. A number of options have been reviewed here, and relate in particular to VET systems, activation measures for young people, including self-employment and setting up small businesses, and incentives to employers to recruit young people. All of these policies and measures have highlighted the importance of involving the social partners and other stakeholders and of strengthening linkages between school, training and work, for example through initiatives which combine training and work experience.

The need to address youth employment issues has been highlighted in recent years by the initiatives taken at the international level, with particular reference to the Youth Employment Network, which can undoubtedly help in drawing attention to the problems involved and to examples of good practice. But it is also necessary to focus on areas in which there is as yet insufficient knowledge. These include the real role played by more flexible forms of employment, such as part-time and temporary work, in facilitating the vocational integration of young persons. Greater attention should also be paid to the aspirations of the young. Are they still attracted by the model of full-time lifelong employment? Can their creativity and commitment be harnessed more effectively through other forms of employment and training, including such options as voluntary work and work experience in other countries? These are questions which show the need for increased attention to youth employment issues at the national and international levels.

3. *Balancing flexibility, stability and security in European labour markets*

3.1. *Introduction*

The debate on the pros and cons of labour market flexibility, which has now been under way for over two decades, has its origins in the differences observed in the adjustment flexibility of employment and wages to economic shocks in the United States and (Western) European labour markets. Higher unemployment and lower job creation rates in Europe were, it was argued, mainly due to labour market rigidities in the form of employment protection legislation, union bargaining power, generous welfare systems and high labour taxation. The argument was that, once those elements of rigidity were eliminated, Europe's labour markets would recover.

While the extremes of this debate have not entirely died down (see, for example, IMF, 2003), a more moderate European position has developed that gives credit to European labour market institutions, while not entirely dismissing the positive effects of labour market flexibility on employment and unemployment.

This chapter addresses the interaction between these European labour market institutions, with particular reference to employment protection, unemployment benefit systems, active labour market policies and labour market outcomes. It does this for two clusters of countries which have seen divergent development in the recent past: the former transition countries of Central and Eastern Europe and Central Asia (CEECA) (eight of which are now Member States of the EU) and the countries of Western Europe (with some references to the United States and Japan).

The chapter endeavours to respond to the concerns of policy-makers in the field of employment and labour market policies, reflecting an ongoing debate among labour market experts. Simply put, the central question concerns the forms of regulation – especially labour market policies – that should accompany a rapidly evolving labour market. It is commonly assumed that a labour market that is radically changed by the twin forces of globalization and technological advances will no longer deliver the employment security and social security of the past, making it necessary to develop new securities in regard to employment, income and social protection (see ILO, 2004a). Labour market policies (both active and passive measures) are an important element of employment and social protection and their

adaptation to the current more flexible environment is crucial for the development of new employment-related securities.

However, this debate lacks one keynote: while a strong consensus exists on the secular development of labour markets towards more numerical and functional flexibility, the claim that there has been a systematic decline in the security associated with long-term jobs has rarely been empirically proven. The question therefore needs to be raised: has the longer term employment relationship really gone for good?

3.1.1. No more stable jobs?

When the same question was raised in the 1990s, the conclusion was that “there is little overall evidence of increased job instability” (OECD, 1997) and that a large core of the workforce is still in stable and secure jobs, even though instability and insecurity have increased in segments of the labour market. These findings have been confirmed by more recent international comparisons (Auer and Cazes, 2003; Doogan, 2002) and national case studies (Erlinghagen and Knuth, 2002; Souza-Poza, 2004), while many other indices also show that the employment relationship is more stable than commonly assumed in the core countries of the Western industrialized world.

Moreover, there is little evidence that firms themselves favour an internal labour market with a very high degree of numerical flexibility and labour turnover, except in some specific low-skilled sectors. Indeed, the value of tenure for a firm’s efficiency, by reducing transaction costs and allowing for investment in human capital and productivity, has been a recurrent theme in microeconomic literature (Becker, 1964; Williamson, 1985; Lichtenberg, 1981; Blakemore and Hoffman, 1989). On the stability record, a United States observer has noted that “there may well be powerful incentives on both sides of the labor market to preserve the continuity of the employment relationship” (Wanner, 1999).

3.1.2. Advantages of stability for labour market performance

The question therefore remains as to whether labour market stability constitutes an advantage for overall labour market performance, decent work for all and output growth. As the following brief summary of the analytical work carried out by the ILO shows for the advanced industrial countries, there is no straightforward answer to this question. With all prudence, it may be concluded from the research undertaken that countries with a more flexible labour market usually have a better record in terms of employment and unemployment rates. However, when qualitative factors are considered, it may be concluded that not all “flexible” countries can deliver in terms of decent work, because they lack, or only have minimal, labour market institutions. It seems that countries which combine a medium level of employment protection with a coherent network of labour market institutions and policies fare best in terms of both the quantity and quality of work.

For productivity the message is slightly different. While some optimum tenure for productivity seems to exist (because the relationship is one of decreasing returns), tenure must also be of a certain length to yield high productivity. A win-win solution would be to find the optimal level of stability for the labour market and for productivity. However, experience tends to suggest that shorter average tenure and a more even distribution between long and short tenure produce gains in labour market effectiveness (higher employment rates), but that such gains are less clear for productivity. In other words, productivity performance tends to require longer tenure than labour market performance. This seems to confirm the productivity/employment

trade-off, while hinting at the difficulties of achieving both at the same time, at least in the short and medium term.

Even though the continuity of the employment relationship has held true in many of the advanced industrialized countries, there has also been a rise in more flexible forms of employment around this stable core. Moreover, while the standard employment relationship (defined as full-time employment in a legal framework) still dominates, some of the forms of non-standard work, such as part-time work, have in fact become standard in many countries. This is not to say that there are no problems in the labour markets of the advanced countries. Unemployment is high and rising once again, segmentation between insiders and outsiders persists and country differences remain wide.

3.1.3. The situation in Central and Eastern Europe

In the former centrally planned economies of Central and Eastern Europe, the former situation of high rates of job stability, combined with very high employment security, based on the ideologically motivated commitment to full employment, swung rapidly to the opposite extreme following the introduction of economic and social reforms. The abrupt liberalization of prices and foreign trade and the break-up of the USSR contributed to the collapse of the Comecon market and exposed undercapitalized domestic enterprises to the need to find new markets rapidly under global competitive pressure. Only those enterprises which underwent major restructuring, usually combined with privatization and an influx of foreign capital, were able to succeed. This process, however, was associated with massive job destruction. At the same time, small firms emerged and the new labour legislation supported the adjustment flexibility of enterprises. The trend towards the flexibilization of the labour market was further strengthened by the poor enforcement of labour law due to weak labour inspection and tax collection and weakening through various mechanisms of the power of trade unions.

While the stability of the employment relationship has been maintained to a greater extent in Western European countries, at least for a large core of the workforce, the trend towards more flexible jobs and informality poses a challenge to social protection systems. While there is no one-size-fits-all solution for the two sets of countries, there are a number of commonalities.

3.2. The experience of the economically advanced countries

3.2.1. Has employment become more flexible?

A stylized view of labour market developments in advanced countries gives a mixed picture of the evolution of different categories of jobs. A preliminary overview of employment developments in OECD countries shows that, with exceptions, “standard” forms of employment (full-time and permanent) have grown more strongly than “flexible” forms (part-time and fixed-term). This is particularly true for the United States, but also for the EU. Only in Japan has part-time work grown more strongly than full-time employment. In Europe, some of the larger countries, such as Germany and Italy, have also experienced a growth of more flexible forms of employment, while in others (France, Spain and the United Kingdom) the growth of flexible employment has been outpaced by the growth of “standard” forms of employment.

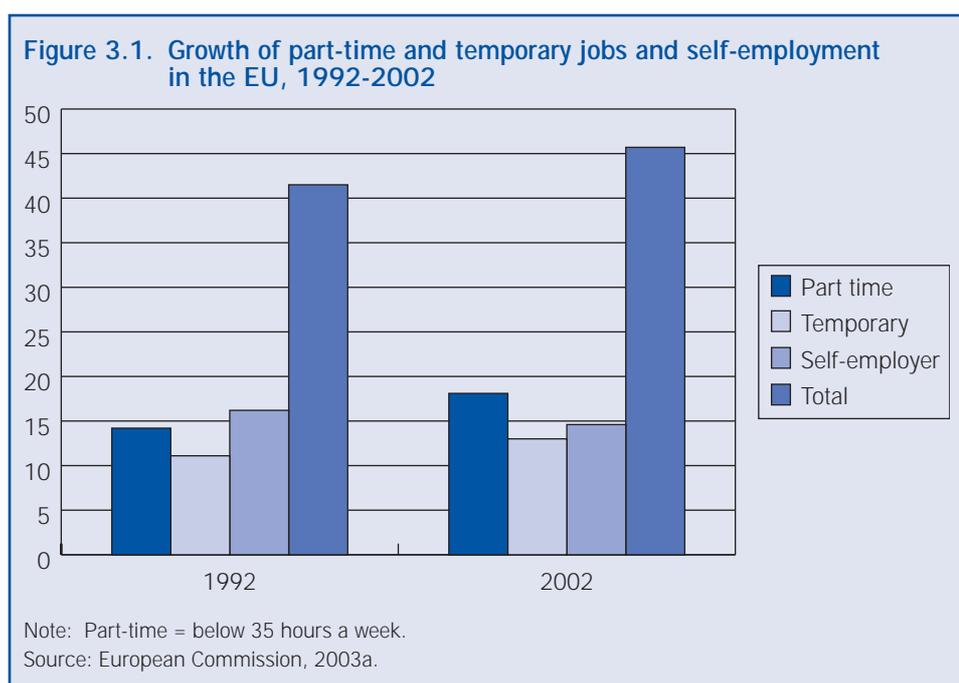
Table 3.1. Contribution of full-time, part-time and permanent/temporary work to employment growth, 1991-2001 (average annual growth)

	Full-time	Part-time	Permanent	Temporary
OECD	0.74	0.32	1.24	0.33
Japan	-0.40	0.50	0.40	0.30
United States	1.50	0.10	2.00	-0.10
EU	0.56	0.42	1.54	0.30
Germany	-0.80	0.60	-0.50	0.30

Note: Averages for OECD and EU are not population-weighted.

Source : OECD, 2003a.

Figure 3.1 also shows that there was only moderate growth in non-standard forms of employment (defined here as temporary jobs, part-time jobs and self-employment) for the EU in total in the 1990s. However, the level of 45 per cent of non-standard employment in the EU shown in the figure is overstated, as it does not correct for double counts (for example, temporary jobs that are also part-time). Part-time jobs grew considerably, while the stock of fixed-term jobs increased at a slower pace and self-employment declined.



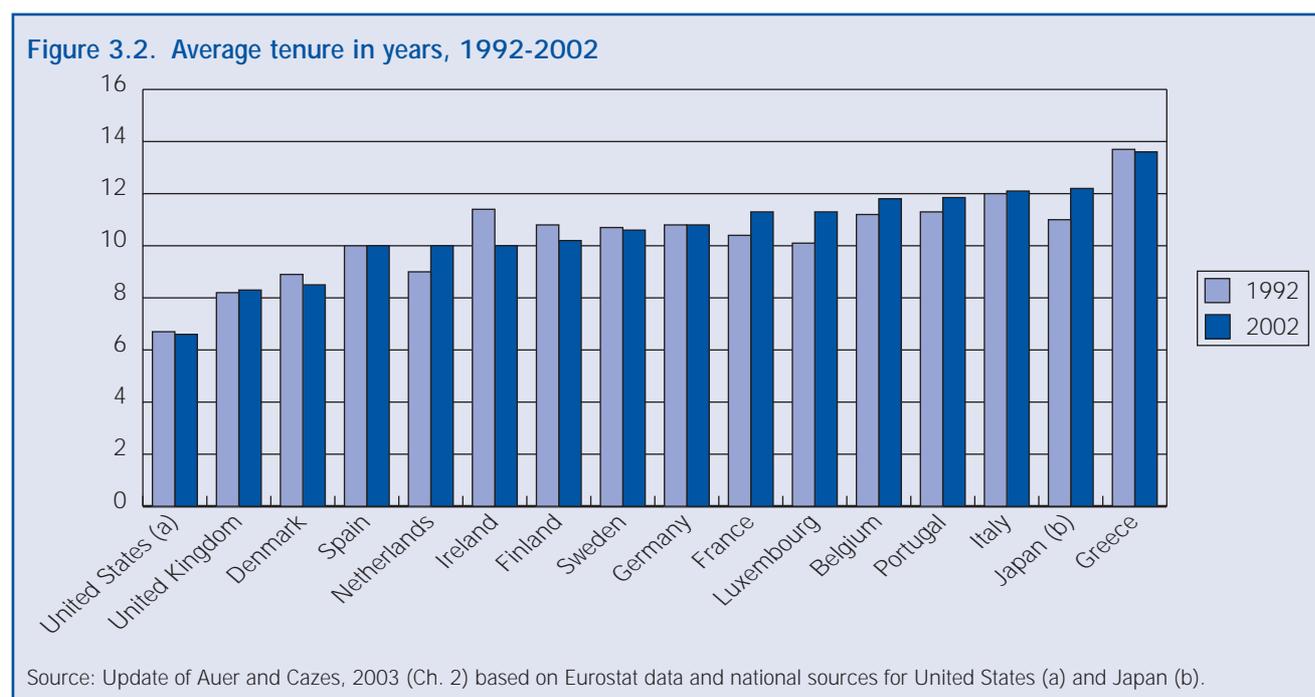
One detail that is very often ignored by labour market analysts is that both self-employment and part-time jobs have become “regular” forms of employment in many countries. In countries with high levels of part-time work, this form of employment is often sought voluntarily by women, and sometimes (increasingly) by men, to help them combine work and family life.

Moreover, temporary jobs are often transformed into permanent jobs after a certain period, thereby acting as a bridge to the regular labour market. An increase in these forms of employment does not therefore automatically

lead to an “erosion” of the standard employment relationship, as shown by the resilience of non-standard and standard jobs in terms of duration. For example, the growth in long-term (+10 years) part-time jobs was particularly strong over the period (almost 60 per cent, compared to around 35 per cent for short-term part-time jobs (Doogan, 2002). When this is combined with the resilience of average job tenure (the time spent with an employer or as self-employed) in the 1990s (figure 3.2), it can be seen that, despite claims to the contrary, employment stability, as measured by average tenure, has hardly changed over the 1990s. The question of whether this is good or bad for labour market efficiency and economic growth is addressed below.

3.2.2. Insignificant changes in average job stability

Figure 3.2 shows that average tenure remained stable in four countries, decreased in four and rose in the remaining eight. While the European average increased slightly from 10.5 to 10.6 years, there is large country variation and no visible convergence (for example, towards the United States model). Although the indicator concerns job stability, it also sheds some light on labour market flexibility. Countries with lower average tenure are also those with higher mobility and flexibility (United States and United Kingdom, but also Denmark and the Netherlands).



But, while the average is stable, the different elements may have changed. For example, there have been changes relating to gender (the gender gap in tenure is closing as women’s tenure increases and men’s declines), age, the sectoral composition of the economy and the distribution of tenure. Furthermore, the apparent “stability” of the longer term employment relationship does not mean that there are not many dramatic changes, for example, for individuals, families or regions. When jobs are lost, the experience is always dramatic for those affected. Nor does it mean that stable jobs are equivalent to good jobs. Stable jobs can be involuntary part-time jobs or undesirable jobs with bad working conditions (people may be locked into their jobs). Parts of so-called stable jobs can in fact be recurrent tem-

porary jobs. OECD data suggest that about one in ten temporary jobs is a long-term (+5 years) temporary job (OECD, 2002).

Despite the changes, such as the shorter employment spells of younger, and also older workers in some countries (Auer et al., 2002), the conclusion is that the long-term employment relationship is still dominant in most European countries and is far from disappearing. There is no general demand-driven erosion of the employment relationship, also because employers value the longer term attachment of their workers, and no general supply-side-driven erosion, because workers and unions place a high value on longer term employment relationships. For the advanced industrial countries, the future therefore seems to hold not a race towards extremes, but some new “equilibrium” between flexible and stable jobs, with the latter gaining some percentage points on the former.

3.2.3. Does stability pay?

The observation of core stability and marginal flexibility in the employment systems of the advanced countries leads to the question of whether this pattern conveys the “goods” usually associated with longer term relationships: employment security as an important element of decent work and productivity.

While it is generally agreed that stable jobs convey more employment security than unstable short-term jobs, a distinction has to be made between the subjective expectation of employment security in the future and an objective, empirical indicator of employment security which measures past trends. If countries are ranked according to the three criteria of job quality, future

Table 3.2. Job quality, average tenure and employment security, 1996

	Quality 1 = best	Tenure 1 = lowest	Security 1 = best
Norway	n.a.	4	1
Denmark	1	3	2
Ireland	8	10	3
Netherlands	3	5	4
Finland	2	8	5
Belgium	6	14	6
Austria	5	9	7
Italy	10	15	8
Germany	4	6	9
Sweden	n.a.	12	10
France	n.a.	11	11
United Kingdom	7	2	12
Greece	12	17	13
United States	n.a.	1	14
Portugal	11	16	15
Spain	9	6	16
Japan	n.a.	13	17

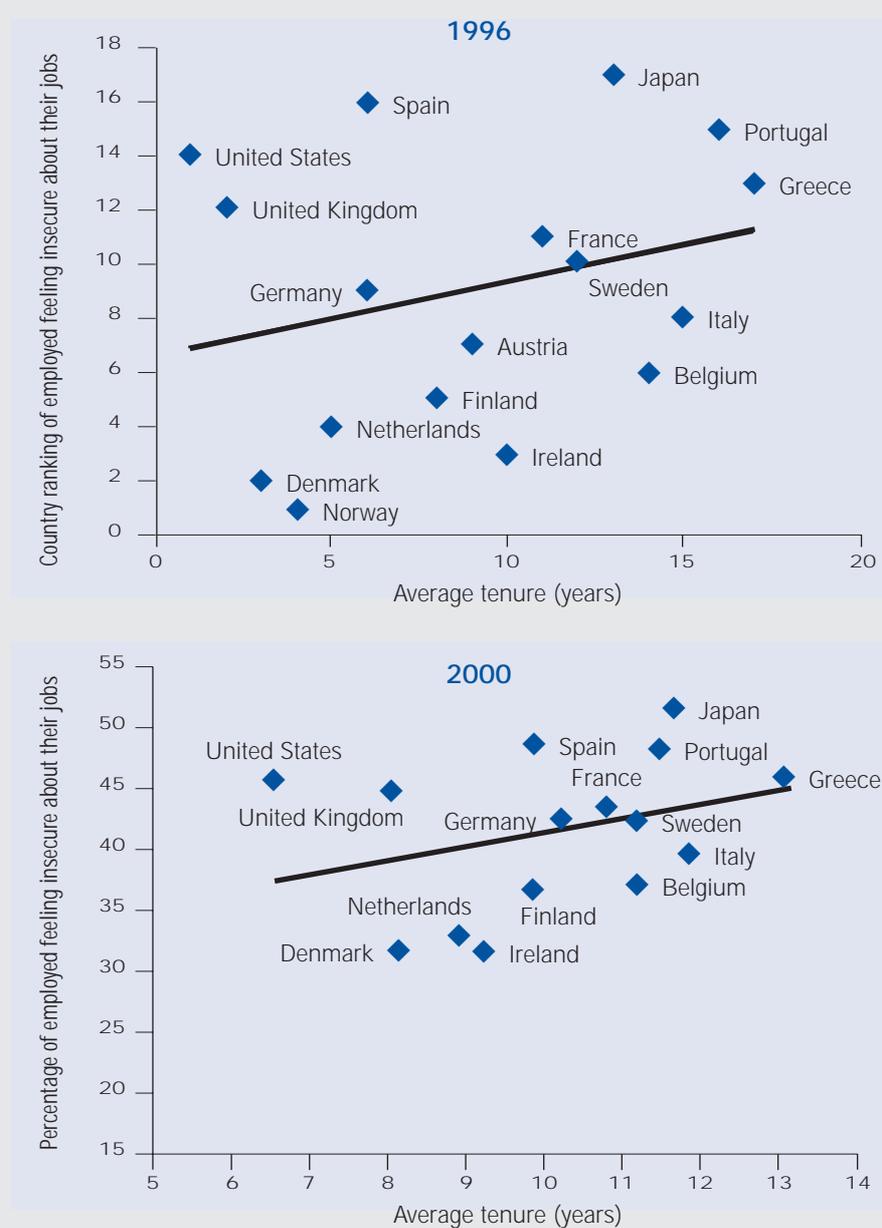
Notes: *Quality*: Ranking of the share of good jobs, defined as paying good wages, yielding employment security, giving access to training and allowing for career development (European Commission, 2001). *Tenure*: Ranking of average tenure in years (see fig. 3.2) in terms of elapsed tenure at the time of the survey. *Security*: Ranking of combined indicators of people who are worried or unsure about their job (international survey research, OECD). “Worried” = percentage worried about the future of their company; “unsure” = percentage unsure of a job with their company even if they perform well (this can be interpreted as perceived insecurity or future expectation of employment security).

Source: Auer (2004).

expectation of employment security and past employment security measured by tenure, as in table 3.2, there is no apparent correlation between past trends and future expectations. Although there is a positive correlation between the share of good jobs and expected employment security, the same is not true for past and future employment security.

As shown in figure 3.3, there are countries with high tenure, but a low share of good quality jobs and relatively high employment insecurity (Portugal and Greece), and others with comparatively low tenure, but high perceived employment security and a high share of good quality jobs (Denmark and the Netherlands). The subjective feeling of future employment security is therefore apparently weakly determined by the length of elapsed tenure and is also influenced by the general state of the labour market and the economy. Yet perceptions of employment security are important, as they

Figure 3.3. Employment insecurity and tenure



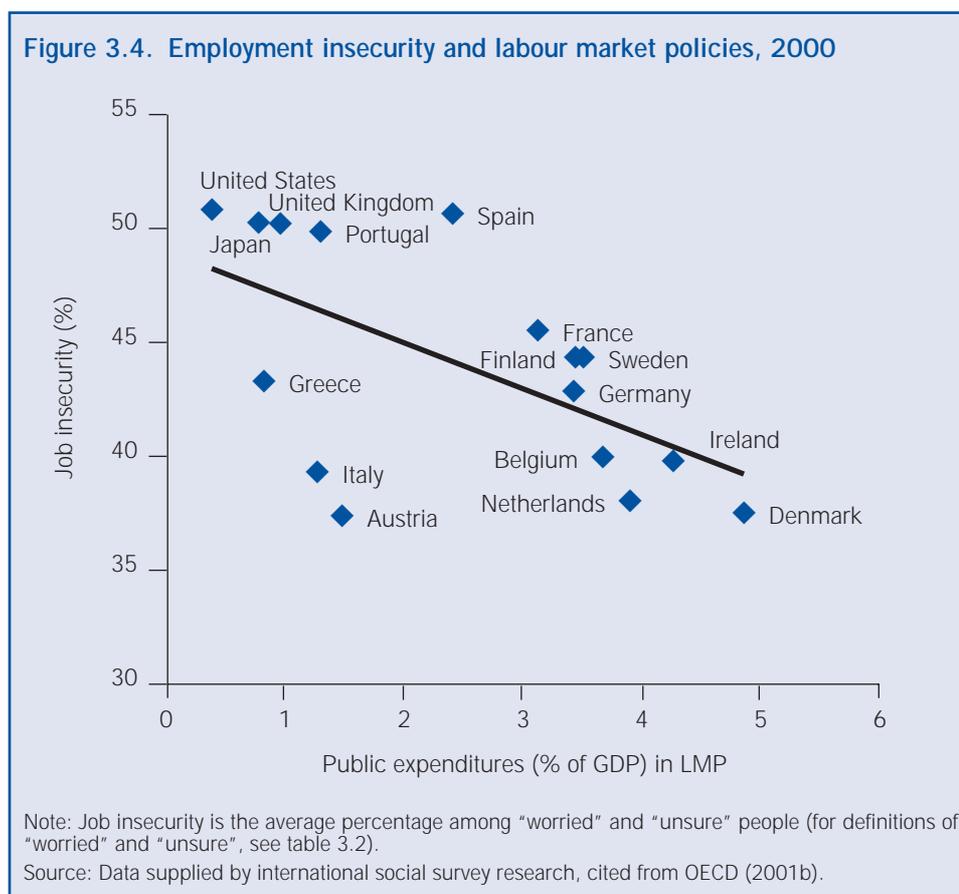
Source: International survey research, OECD, Eurostat and national sources.

determine (in part) decisions on savings and consumption, and therefore have an impact on economic growth.

3.2.4. Tenure alone is not enough

Part of the puzzle as to why long tenure does not appear to convey the feeling of security that might be expected is that, all other things being equal, security obviously also requires other forms of protection, as job loss is always possible, even in countries/sectors with good employment protection. The perception of protection in the event of job loss may indeed convey a feeling of greater security. To check this possibility, expenditure on labour market policies (both passive and active) has been correlated with the indicator of perceived employment security, showing a significant and positive correlation between these two variables. This result suggests that investing

Figure 3.4. Employment insecurity and labour market policies, 2000



in insurance against the risk of job loss increases the feeling of employment security. A similar finding is reported in the latest OECD Employment Outlook (2004). However, total spending is only an approximation of the actual effectiveness of labour market policies and a more thorough analysis of their effectiveness is required.

3.2.5. Does flexibility pay?

It can therefore be concluded that countries with the longest average tenure (or the highest share of workers with long tenure) are not those with the best results in terms of decent work (combining elements such as good wages, perceived job security and participation in training). These countries (France, Germany, Greece, Italy, Spain) appear to have lower employment

Table 3.3. Different employment systems (data for 2001)

	Employment rate (%)				Temporary jobs (%)	Unemployment rate (%)			Tenure distribution (%)	
	Total	Young	Older	Female		Total	Youth	Long-term	Under 1 year	10 years +
Group A										
Belgium	59.9	32.7	24.1	50.5	9.0	6.6	17.6	3.0	13.3	47.3
Greece	55.4	26.0	38.0	40.9	12.6	10.2	28.1	5.4	6.6	53.2
Italy	54.8	26.3	28.0	41.1	9.8	9.4	28.1	5.9	11.1	49.9
Luxemburg	62.9	32.4	24.4	50.9	5.8	2.0	7.5	0.5	11.1	43.9
Portugal	68.9	43.8	50.3	61.1	20.6	4.1	9.3	1.5	12.9	44.0
Sweden	71.7	36.6	66.5	70.4	13.5	5.1	11.1	1.2	12.4	42.2
Average	62.3	33.0	38.6	52.5	11.9	6.2	17.0	2.9	11.2	46.7
Group B										
Finland	68.1	41.7	45.7	65.4	16.4	9.1	19.7	2.5	21.7	40.8
France	63.1	29.5	31.0	56.1	14.9	8.6	19.5	2.9	16.4	44.0
Germany	65.8	46.5	37.7	58.8	12.4	7.9	9.4	3.9	15.2	40.8
Spain	56.3	33.1	38.9	41.9	31.7	10.6	21.5	5.1	20.5	38.5
Average	63.3	37.7	38.3	55.6	18.9	9.1	17.5	3.6	18.5	41.0
Group C										
Denmark	76.2	62.3	58.0	72.0	9.2	4.3	8.5	0.9	21.5	30.9
Ireland	65.7	49.6	46.8	55.0	3.7	3.8	6.6	1.3	19.7	34.4
Netherlands	74.1	70.4	39.6	65.2	14.3	2.4	5.5	0.8	21.6	35.9
United Kingdom	71.7	56.9	52.3	65.1	6.8	5.0	11.9	1.3	19.9	32.7
Average	71.9	59.8	49.2	64.3	8.5	3.9	8.1	1.1	20.7	33.5

Source: Based on European Commission (2002).

to population rates than the more “flexible” countries, such as Denmark, Finland or the Netherlands. While this may stem from many factors, including women’s employment rates and the sectoral distribution of employment, flexibility also seems to play a role. For example, Greece and Italy, with a combined share of only 9 per cent of the employed with less than one year of tenure and around 51 per cent with over ten years, have an employment rate of 55 per cent; this compares with an average of 75 per cent for Denmark and the Netherlands, which have a combined share of 21.5 per cent of workers with less than one year of tenure and around 33 per cent with over ten years (table 3.3). There is some consistency here, as (with exceptions) countries with a higher share of shorter-tenured workers tend to have a much better employment record than those with a higher share of more tenured workers.

3.2.6. Flexibility, stability and labour market institutions: Protecting individual labour market transitions

The above analysis points to the interesting fact that a cluster of countries in Europe appears, in relation to other countries rather than in the absolute, to have achieved a high quantity of jobs without sacrificing job quality. These countries have the highest employment rates, low unemployment rates and among the best records of job quality and perceived security. Of course there is no causal implication: further research is needed on whether flexibility creates high employment rates, or high employment rates create flexibility. From table 3.3 it appears that flexible countries have high employment rates for youth, who are disproportionately represented in flexible jobs, as well as a high rate of transformation of temporary jobs into permanent jobs. Over a period of three years, around 65 per cent of temporary

jobs in Denmark and 55 per cent in the Netherlands were transformed into permanent jobs (European Commission, 2002).

Based on this rather summary evidence, it would appear that more than just employment stability is required to achieve good rankings in the quantity and quality indicators. A reasonable share of longer term jobs, combined with labour market institutions that provide income, social and employability protection during transitions probably yield greater job security than stable jobs alone in an uncertain environment. This also partially explains why job quality is higher in some countries than others. If workers are able to leave their job and enjoy protection in their transition to another job, they feel less locked in and have greater choice of employment, which can lead to a better matching of supply and demand.

There accordingly appear to be strong arguments in favour of “protected flexibility” or “flexicurity” arrangements for labour market transitions,¹ combining a reasonable level of stable employment with flexible jobs embedded in a system of social protection.

At a time of public resource constraints, when a greater premium is placed on individual responsibility, it may seem utopian to advocate such a system. However, it works in some countries. It is not without costs, as can be seen by the high rates of taxation in Denmark; nor is it without individual responsibility, such as the obligation to participate in “activation” measures, which have slowly become standard in Europe. But if the public goods created by such a system of protected flexibility are widely shared, the costs would appear to be acceptable. And it is likely that globalization will increase, rather than decrease the need for insurance against labour market risks and for protected transitions (Agell, 1999; Auer et al., 2004; Auer and Gazier, 2002).

3.2.7. *The need for high employment rates*

However, one other condition has to be fulfilled. If this system of labour market security in transitions is to be sustained, high employment rates are needed and the system must be based on work and not welfare. The goal of increasing the employment rates of the population is therefore, as stated by the EU, of utmost importance for the survival of European welfare states. And in light of the above analysis, the social partners, who should be involved in designing such labour market security, should be able to agree on the following:

- a certain level of labour market flexibility is acceptable when it is not equivalent to the destruction of the standard employment relationship and is embedded in labour market security, thereby allowing protected transitions, because this enhances rather than destroys the welfare of workers;
- a certain level of employment stability (external numerical stability) of the workforce is good for firms, as it is needed for productivity, human capital investment and motivation; and
- governments should provide for an efficient labour market security system based on labour market policies, and on work rather than welfare.

There should therefore be more tripartite bargaining on optimal combinations of flexibility, stability and security in labour markets and a common acceptance that all of the above three elements are needed for a productive economy and a well-functioning labour market providing decent work.

¹ A whole school of labour market researchers advocate the value of “transitional labour markets” to ensure against labour market risks, based on “the safety of wings” rather than “the protection of a shell” and the need to protect transitions between different labour market segments (between jobs, jobs and unemployment, jobs and training) (Auer and Gazier, 2002).

3.3. Central and Eastern European and Central Asian countries

3.3.1. Towards labour market flexibilization

As indicated in Volume I of this report, despite the high economic growth achieved by practically all the countries in the CEECA over the past five years, the labour market situation does not give much reason for optimism. A few of these countries have recorded positive, but still limited employment growth over that period. Moreover, while unemployment seems to have declined recently in almost all the countries conducting labour market surveys, in general it remains very high, with high levels of long-term unemployment and youth unemployment.

The limited demand for labour and persistent high levels of unemployment have acted as a stimulus for the liberalization of employment protection legislation in the hope of boosting job creation, recruitment and small business development. However, statistical data on flexible forms of employment reveal some distinct features compared with the economically advanced countries. Part-time contracts are not widespread, although the practice of short-time working or administrative leave is a well-known feature of the CIS countries. Nor was there any generalized trend in part-time employment over the 1990s.

While the use of fixed-term contracts has increased in the majority of these countries, their share is still much lower than in EU countries, and generally well below 10 per cent of total employment. Nevertheless, with the increasing liberalization of labour legislation, the share of temporary contracts offered to newly recruited persons has accelerated recently, as has the incidence of civil contracts and other forms of non-employment contract. Finally, after an initial acceleration of self-employment in the early 1990s, its share in total employment appears to have more or less stabilized everywhere.

Labour market data indicate a deepening of labour market segmentation as, on the one hand, there is a core group of workers, usually in their prime age, holding permanent contracts and, on the other, a group of usually young, lower educated or otherwise disadvantaged persons squeezed by temporary labour or civil contracts or working informally under precarious conditions.

However, the major form of flexible employment since 1989 seems to be multiple-job holding, or second jobs, formal but more often informal, performed alongside a worker's main formal employment, registered unemployment or formal inactivity.

3.3.2. Labour market flexibility, stability and security

The available data for the region point to a substantial increase in labour turnover since 1989 (table 3.4). This reflects not only a reduction in the formerly widespread practice of labour hoarding as enterprises cut their labour costs, but also the growing incidence of voluntary quits by people deciding to start their own business or join a newly established firm. This initial phase of intensive labour reallocation occurred in the first few years following the economic reforms, when separations markedly exceeded hirings, largely as a result of enterprise downsizing, privatization and closure. Labour turnover subsequently declined and stabilized, although all countries have continued to experience periodic surges in labour turnover, reflecting further structural changes connected with economic imbalances

Table 3.4. Labour turnover for selected CEECA countries in the 1990s (%)

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Bulgaria	ES	48.9	50.9	43.7	45.0	43.9	43.4	46.1	59.3	55.8	67.5	
Czech Republic	LFS				44.5	36.1	30.3	24.8	24.7	22.3		
Estonia	LFS	30.8	38.4	54.4	55.6	55.3	31.0	42.9	36.2	35.0		
Poland	ES	35.2	42.9	40.3	41.6	41.7	45.2	47.3	37.1	47.4		
Poland	LFS			35.7	44.1	54.2	47.1	53.4	40.1	38.2		
Russian Federation	ES			49.8	46.2	48.2	48.3	42.8	44.4	45.9	48.7	
Slovenia	ES	27.1	34.2	31.6	32.2	32.0	31.4	31.2	29.3	28.8	31.1	30.1
Ukraine	ES						38.8	37.6	35.3	35.2	37.4	

Note: ES = establishment survey; LFS = labour force survey.

Source: National statistics. LFS data from Arro et al. (2001), Vecernik (2001) and Kwiatkowski et al. (2001).

and remedial policy packages. There were also significant inter-country differences in labour turnover, reflecting different paces of restructuring (Cazes and Nesporova, 2001).

Economic stabilization and recovery in CEECA countries might have been expected to bring fluctuations in labour market flows roughly into line with those prevalent in the industrialized countries, namely greater mobility to better jobs, the increased hiring of the unemployed or previously inactive, and fewer redundancies and resignations. However, workers in CEECA countries seem to behave differently and, even in an improved economic situation, many appear to be hesitant to leave their jobs voluntarily and move on to others. The main reason is the heightened perception of job insecurity in a situation in which labour demand is generally weak, many large and medium-sized companies are still or once again cutting staff and small firms are often fragile. Despite the low average wage levels in all CEECA countries, a decline in income due to unemployment is critical and for most people means falling into poverty. This is confirmed by the finding of a tendency towards a counter-cyclical movement of labour turnover in the former transition countries, which is the opposite of the situation in industrialized countries (Cazes and Nesporova, 2001).

3.3.3. Job stability

Average job tenure in CEECA countries is quite low when compared with some Western European countries and Japan. Table 3.5 presents data on average job tenure and the distribution of employment by job tenure for selected Central and Eastern European (CEE) countries. The two Baltic States have the lowest job tenure of 6.9 years for Estonia and 7.5 years for Lithuania (close to the level of the United States of 6.6 in 1998) together with Bulgaria (7.6), followed by the Czech Republic and Hungary with tenure below ten years (similar to Denmark, the Netherlands and the United Kingdom). The longest average tenures are found in Croatia, Poland and Slovenia.

The distribution of employment across job tenure points to other interesting features. Firstly, there are quite significant cross-country differences, especially as regards the share of workers with long tenure (ten years or more), which varies from around 20 per cent in the Czech Republic, Estonia and Lithuania to 45 per cent or more in Croatia, Poland and Slovenia (compared with a figure of 25.8 per cent for the United States in 1998). A second interesting pattern relates to the percentage of workers with less than one year's tenure, with table 3.5 showing that countries with high percentages of workers with long tenure also tend to have high percentages of

Table 3.5. Distribution of employment by job tenure, 2002 (%)

	Bulgaria	Croatia	Czech Republic	Estonia	Hungary	Lithuania	Poland	Slovenia
		(b)	(a)	(a)	(a)			(a)
Average tenure (years)	7.6	12.2	8.2	6.9	8.8	7.5	11.7	12.1
Under one year	17.5	9.7	14.6	18.4	12.6	14.9	12.0	12.0
Over ten years	30.0	46.7	25.5	19.9	30.9	26.5	43.8	48.2

Notes: (a) = 1999; (b) = 2001.

Source: Eurostat; Czech data from the *Statistical Yearbook of the Czech Republic*, 2000.

workers with less than one year's tenure (Croatia, Poland and Slovenia) and therefore quite segmented labour markets.

Analysis of the tenure profile of different groups of workers (Cazes and Nesporova, 2003) also points to some interesting characteristics. First, the distribution of job tenure by industry is very similar to that of industrialized countries, suggesting that the sectoral structure of a country has a significant effect on average job tenure. A higher share of personal, producer and distribution services contributes to greater instability of employment, while large shares of agriculture and higher proportions of civil and social services tend to result in longer average job tenure.

Second, job tenure increases sharply with age in all the countries reviewed. Hence, the demographic composition of the working population also partly explains differences in job stability. The entry of many young people into the labour market in the 1990s, combined with a sharp increase in resignations and the early retirement of older workers, contributed to a general decline in job stability.

Third, women tend to have slightly higher job tenure than men in most of the countries concerned, thereby confirming that gender has come to play a more decisive role in the availability and quality of employment during economic transition.

The main conclusion from this analysis is that perception of insecurity by workers can be an important aspect of labour dynamics, leading to inefficient reallocation as it hinders workers' moves to more productive jobs in periods of economic growth. Contrary to liberal economic theory, increased flexibilization of labour legislation does not automatically increase mobility to new and presumably more productive jobs, and may actually have an adverse effect on labour productivity throughout the economy. Individual transitions have to be enhanced and protected through labour market institutions and policies. Greater flexibility therefore needs to be combined with higher levels of employment security in transitions to new jobs.

3.3.4. Flexibility, employment protection legislation and labour market institutions: Findings of an ILO analysis for the Central and Eastern European countries²

The introduction of economic and social reforms in CEE countries was facilitated by significant changes in labour legislation and labour market institutions. The weaknesses of newly established or refurbished institutions and weak observance of the law further enhanced the adjustment flexibility of firms, which made use not only of direct staff cuts and reductions in real wages, but also the shortening of working time, the delayed payment of wages and informal work.

² The following section briefly summarizes the main findings of Cazes and Nesporova (2003).

Broadly speaking, by the end of the 1990s, these countries had adopted a set of labour market institutions and policies that broadly resembled those of Western OECD and EU countries. ILO analysis has shown that they opted for a rather average “institutional package” and that their employment protection legislation is in the middle range of the flexibility scale. One exception concerns payroll taxes, which are much higher in the transition countries (relative to average wages, although the share of both payroll taxes and wages in total production costs is low) compared with OECD and EU countries.

Based on theoretical and empirical evidence for Western OECD countries (relating to expected effects in such areas as job search behaviour, bargaining power and turnover), an econometric analysis was conducted to assess the potential effects of labour market institutional settings on labour market outcomes and to test the assumption of similar responses in the CEE countries.

The analysis found no statistically significant impact of employment protection legislation on the aggregate long-term and youth unemployment rates in transition countries. However, it did identify a significant correlation between the level of employment protection, on the one hand, and the employment rate and the labour market participation rate, on the other, although with opposite trends for Central and Eastern European and for Western OECD countries. While in OECD countries stricter employment protection tends to have a negative effect on employment and labour market participation, in the CEE countries the results indicate that greater protection could contribute to increased employment rates and rates of economic activity in the formal sector of the economy. This reinforces the earlier conclusion concerning the need to balance flexibility and security.

3.3.5. Two models of labour market management

The analysis also showed that two different models of labour market management can be broadly distinguished in the former transition countries, one in Central and south-eastern European countries and the Baltic States, and another in the CIS countries.

The Central and south-eastern European countries have opted for a model that largely shifts responsibility for supporting redundant workers away from enterprises towards public institutions. Employment protection legislation has been greatly relaxed and public employment services have been established, active labour market policies launched, unemployment insurance schemes introduced and social welfare programmes reshaped. Instead of hoarding labour, enterprises wishing to reduce labour costs lay off excess workers directly or persuade them to leave voluntarily. In addition, enterprises have greatly reduced their human resource programmes and social services for workers, after having transferred apprentice schools and training facilities to public budgets or having already closed them down in the initial phase of economic transformation.

In the current situation of high unemployment, enterprises often prefer to recruit new workers with the desired work experience, rather than invest in the retraining of their own staff or the hiring of school leavers with no work experience. Redundant workers may then turn to public employment services, although whether or not they do so depends on the services, eligibility rules and level of income support provided, which vary greatly between countries. The extent of protection against lay-offs also varies between countries, as does the enforcement of national labour legislation.

The CIS countries, in contrast, continue to rely mainly on employment protection within enterprises, with a relatively poor level of assistance being provided by public employment services. The restrictive employment protection legislation is now gradually being liberalized. Nevertheless, employers do not wish to escalate social tensions by firing redundant workers and prefer other forms of labour cost adjustment, such as short-time working, administrative leave or the delayed payment of wages, while keeping workers on the payroll. Given the low labour demand, the low quality of the available jobs and the very modest income support and other assistance provided by public employment services, this solution appears the most acceptable to all parties.

In theory, the first model facilitates adjustment flexibility for enterprises and stimulates the more effective allocation of labour between sectors, with gains in terms of higher overall labour productivity. But workers can benefit from the system only when income support protects them effectively against sharp falls in earnings and efficient re-employment assistance is available. Yet analysis clearly shows that perceptions of employment security are low, adversely affecting the behaviour of workers in certain countries, with negative consequences for labour mobility and flexibility. There is now an urgent need for these countries to establish a reasonable balance between adjustment flexibility for enterprises and employment and income security for workers which is acceptable to both sides and financially feasible and sustainable for public social funds.

In contrast, the model largely applied in the CIS countries tends to delay labour reallocation to new enterprises and occupations, at the cost of lower labour productivity. While employment rates are generally higher and unemployment rates lower, this does not mean that human capital is better utilized or income levels higher. Instead, workers remain in low productivity jobs and supplement their incomes by working in second jobs of similarly low quality, resulting in a waste of human resources combined with a lack of well-qualified applicants for any high-quality jobs that are created.

The main finding of this ILO research is that labour market institutions and policies do indeed matter. All the labour market indicators analysed (labour market participation, employment, unemployment, youth unemployment and long-term unemployment) are affected positively by collective bargaining and active labour market policies, while unemployment, and particularly long-term and youth unemployment, tends to rise with higher payroll taxes.

Policies to promote social dialogue, stimulate employment promotion and reduce unemployment, while protecting transitions to new jobs, rather than pure deregulation, should clearly be on the political agenda of the former transition countries. Labour legislation reform should also be considered, after assessing all the main elements and their linkages within the complete labour market institutional setting, with a view to finding the right balance between the need for flexibility and security.

3.3.6. "Flexicurity" through labour market policies and institutions

The ILO's analysis proves that, without competitive enterprises which are able to adjust their workforce to market conditions in terms of numbers, structure and quality, employment performance will be poor. However, high levels of labour market flexibility per se cannot solve the unemployment problem, and may in fact have a counter-productive effect, unless workers enjoy sufficient employment and income security to motivate them to accept

higher mobility and flexibility, increase their productivity and reduce their reluctance to change.

The policy of reducing employment and social protection has not therefore really improved labour market performance, and has often led to adverse effects on employment and labour reallocation, with particularly negative consequences for vulnerable groups of the population. Moreover, as it was not systematically discussed with the social partners, this policy lacks their support. Research findings provide evidence that the policy prescription that has been enforced over the past decade in the subregion is a “jacket that may not suit all sizes”.

A single institutional setting on its own does not determine the issues of job flexibility and security, which are dependent on the interactions of the principal labour market institutions. Policy-makers in the former transition countries, including the social partners, therefore have to make policy choices based on different combinations (trade-offs and/or complementarities) of the various components of employment and social protection systems. As these choices involve complex and sensitive issues, their viability is largely dependent on the willingness and ability of the social partners to engage in tripartite and bipartite dialogue and identify the right balance among the various components of employment policy.

It is therefore crucial for the social partners to play a meaningful role in establishing and adjusting national employment policies to market dynamics through dialogue and negotiations at the various levels. Moreover, the choices made have to be based on financial feasibility and sustainability for public social funds, as public institutions should be the third stakeholder in sharing the risk, particularly in view of the dynamic labour adjustments that have characterized these countries.

3.3.7. The ILO's “flexicurity” project

The ILO launched research on this issue in 2001 through the preparation of several country reports³ examining the manner in which the employment and social protection provided by labour market policies are combined in several Western and Central and Eastern European countries. The main findings of the first phase of the research are described above.

Table 3.6 illustrates the different policy responses of the CEE countries to employment challenges.

In the current second phase of the project, the scope of ILO support has been broadened to include more gender equality concerns and advocacy among policy-makers. A crude classification of the six countries covered by the second stage of the research project would group Bulgaria, Czech Republic, Lithuania and Poland as having a rather low level of employment protection through labour legislation and low social protection through labour market policies (see table 3.6).

In contrast, while employment protection through legislation is also rather low in Hungary, spending on labour market policies is considerably higher. The situation in Croatia is characterized by a higher level of employment protection, but a low level of spending on labour market policy measures. Finally, although not selected for the project, Slovenia is included in table 3.7 as an example of a country which has maintained quite a high level of employment protection through fairly strict labour legislation and

³ Country studies were prepared for Bulgaria, Czech Republic, Denmark, Estonia, France, Japan, Poland, Russian Federation and the United States.

Table 3.6. Employment protection legislation (late 1990s),¹ unemployment benefit systems and spending on labour market policy measures, 2002

	Difficulty of dismissing employees ²	Overall employment protection legislation	Unemployment benefit as % of average wage	Share of unemployed receiving benefits	Total expenditure on labour market policy measures as % of GDP	of which on active measures	of which on passive measures
Bulgaria	2.9	2.8	33	20	0.97	0.67	0.30
Croatia	3.5	3.6	27	22	0.55	0.06	0.49
Czech Republic	3.2	2.2	22	34	0.44	0.17	0.27
Estonia	2.9	2.4	7	50	0.30 ^a	0.08 ^a	0.22 ^a
Hungary	2.5	1.8	26	34	0.88	0.51	0.37
Latvia	n.a.	2.5	21	44	0.64 ^a	0.14 ^a	0.50 ^a
Lithuania	n.a.	2.7	16	11	0.28 ^b	0.16 ^b	0.12 ^b
Poland	2.7	2.0	21	19	1.25 ^b	0.11 ^b	1.14 ^b
Romania	n.a.	n.a.	23	23	0.88 ^c	0.03 ^b	0.85 ^b
Slovakia	2.4	2.3	26	17	0.96	0.47	0.49
Slovenia	4.5	3.3	39	24	1.00 ^c	0.44 ^b	0.58 ^b
Ukraine	n.a.	n.a.	27	62	0.62 ^b	0.11 ^b	0.51 ^b

Notes: ¹ EPL indicators are given for 1999, that is before recent revisions of most labour codes. ² Difficulty of dismissal: summary score covers the strictness of the legal definitions of unfair dismissals, the frequency of verdicts involving the reinstatement of employees and monetary compensation typically required in the case of unfair dismissals; overall EPL summary indicator is a weighted average of indicators for regular contracts, temporary contracts and collective dismissals. The indicator ranges from 0 to 6, with countries with very flexible legislation having a low overall value (close to 0 or 1) and those with very strict legislation having a high value (5 to 6). ^a = 2001; ^b = 2003 (estimate for Ukraine); ^c = 2000.

Source: For employment protection legislation: authors' calculations, Riboud, et al. (2002) and Eamets and Masso (2004); for unemployment benefits (third and fourth columns): UNECE (2003a); for expenditure on labour market policy: national employment services, OECD (2003a).

high social protection through fairly generous unemployment benefits combined with a high level of spending on active labour market policies.⁴ Slovenia performs well in terms of labour market outcomes: the unemployment rate was around 6 per cent in 2003 and employment and average wages exceed their 1991 levels (Vodopivec et al., 2003).

Table 3.7. Employment protection or employability protection?

	High social protection	Low social protection
High employment protection	Slovenia	Croatia
Low employment protection	Hungary	Bulgaria, Czech Republic, Lithuania, Poland

Source: ILO assessment.

Another specific and important dimension of the “flexicurity” approach for former transition countries is the existence of a lively shadow economy. These countries therefore often face the paradoxical situation of having a large informal economy while experiencing difficulties in promoting flexibility in their formal sectors.

In order to provide similar labour market environments for all economic actors, policy measures should aim at a certain “formalization” of the informal economy through appropriate tax policy and legislative changes. One approach to bridging the different labour market segments, as well as reducing the dichotomy between permanent and fixed-term contracts is, for example (as recommended in Crnković-Pozaić (2004)), to reduce termination costs for permanent contracts. However, any reduction of employment

⁴ But Slovenia also imposed a heavy tax burden on labour and kept minimum wages relatively high during the transition.

protection should be compensated by improved access to and quality of active labour market programmes to enhance the employability of workers and assist them in finding decent new jobs, while providing income support during their job search.

Preliminary results of the research again confirm that labour law deregulation has not improved labour market performance in these countries. In Bulgaria, for example, the research points to the urgent need to improve the enforcement of labour legislation and enhance social dialogue, in particular at the enterprise level, and to stimulate internal flexibility through education and training. In Poland, failure to reconcile labour market flexibility with employment and income security is to be largely attributed to a fragmented approach to legislative and policy changes.

The Hungarian report has identified wrongly conceived employment and social policies which have prompted withdrawals from the labour market instead of promoting employment, as a cause of the extremely low labour market participation rate, despite flexible labour market institutions. There is accordingly a need for a new employment policy to address the high persistent inactivity of less competitive social groups. The main challenge for Lithuania, characterized by low employment protection at work and low employability and income security, is to stimulate genuine social dialogue on appropriate legislative changes and policies directed towards improving the employability of workers and jobseekers and providing them with adequate employment and social assistance. However, any improvements in employment and income security cannot be achieved without high and sustained economic growth and increased wages and income.

3.4. Conclusions

Empirical analysis of the labour markets in the two groups of European countries (Western and Eastern, including the Central Asian republics) shows that, for the economically advanced countries of Western Europe, permanent full-time employment actually grew on average in the 1990s more strongly than fixed-term and part-time employment. The share of self-employment even declined in relation to wage employment. Moreover, job stability, as measured by average tenure, did not generally change. It is therefore difficult to speak of the flexibilization of their labour markets over the period, even though these aggregate figures hide large differences between countries in relation to both flexibility/stability levels and dynamics, while segmentation between well-protected core groups of workers in permanent employment and much less protected workers in flexible forms of employment persists everywhere.

In contrast, the former transition countries experienced strong movements in their labour markets, due to the accelerated pace of job destruction, but only limited job creation in the formal economy. While the share of the more traditional flexible forms of employment, such as fixed-term and part-time jobs, remained almost stable, and self-employment, after an initial steep increase, stabilized at a surprisingly low level, there was a rise in employment based on non-labour contracts or performed without a contract. Job stability also weakened significantly. All this evidence proves a tendency towards the flexibilization of labour markets in the CEECA countries.

Although the data on economically advanced countries suggests some benefits of labour market flexibility in terms of quantitative labour market performance, a win-win solution in terms of both the quantity and quality of work tends only to exist in those countries that have had recourse to labour

market policy measures to protect their flexible workforce. While a variety of combinations of employment protection (at work), social protection through income transfer and active labour market policies have been adopted, it would seem that countries with a medium level of employment protection combined with a well-developed system of labour market institutions and policies have the best record of employment in both quantitative and qualitative terms.

Such countries allow enterprises to adjust their labour input and costs to economic conditions in a flexible manner, but provide displaced workers, including those in flexible forms of employment, with effective assistance for re-employment and income support during unemployment. While the benefit for the country of such a combination of measures is (almost) full employment of good quality, which in turn has important economic and social effects, the cost is high taxes and expenditure on the labour market and social welfare system, which cannot be afforded by every country for political and economic reasons. There remains, of course, concern about the effectiveness of labour market policies, although they appear to be instrumental in achieving the security that should accompany a more flexible labour market.

In the case of Central and Eastern European countries, labour market flexibilization has also been accompanied by the establishment or refurbishing of labour market institutions, the introduction of unemployment benefit systems, the launching of active labour market policies and changes in national social welfare systems. However, institutional weaknesses in the employment services available to jobseekers have been compounded by the allocation of only very limited resources for labour market policies, allowing only a modest proportion of unemployed persons to benefit from these programmes and obtain effective assistance for re-employment.

In a situation of massive job destruction, generally low labour demand and the limited availability and low quality of labour market policy measures, perceptions of employment insecurity have remained high. This has resulted in a slowing of labour reallocation to more productive jobs and lower labour force participation and employment in the formal economy, despite greater deregulation of the labour market, with important economic and social losses at both the national and individual levels. It has also pushed workers into informal employment, which is characterized by poor working conditions and a lack of job security.

The remedy for the CEECA countries is similar to the optimum model described for the economically advanced countries, namely relatively more liberal employment protection (properly enforced), combined with strong labour market institutions and effective labour market policies. ILO research has found that labour market indicators are positively affected by active labour market policies (proxied by public expenditure on these policies).

A positive and statistically significant correlation has also been identified between labour market indicators and the intensity of collective bargaining. This points to the important role of social dialogue in the operation and reform of national employment and social protection systems. The greater attention paid to social dialogue and active labour market and social policies by the new EU Member States and other CEE countries wishing to join the EU is extremely important for the future of the European Social Model if it is to be preserved and further strengthened within the enlarged EU.

One final finding is that there is no single optimal institutional setting for any specific country, as all countries differ in such areas as their historical experience, culture and political orientation. Policy-makers should therefore have available a wide choice of combinations of employment, income

and employability protection to achieve efficient labour markets offering both flexibility and security. The social partners have an important role to play in governance in this respect through social dialogue, which is the best tool for testing the acceptability and efficiency of proposed changes and securing a broad basis of support for them.

4. *Strengthening the rights-based framework for managing migration*

4.1. *Introduction*

Migration has become a defining issue for all the countries in the region, and discussions about possible responses are occupying the attention of policy-makers at all levels and in almost every domain of state policy. Economically active migrants in Europe are estimated to represent some 26.5 million workers, or about 4 per cent of the region's total workforce. But their significance to the future of European economies and societies far outweighs their current numbers.

In the case of Eastern Europe, most migration flows are to the Russian Federation from Ukraine (36 per cent), Kazakhstan (12.6 per cent), Azerbaijan (3.6 per cent) and other CIS countries, and from China (3.1 per cent). In Western Europe, the origins of migration flows are more varied. For example, of the 7.3 million foreign nationals in Germany, most are from Turkey (2 million), followed by EU-15 countries (1.85 million), the countries of the former Yugoslavia (737,000), Poland (292,000), the Islamic Republic of Iran (116,000) and the United States (112,000). Of the 1.3 million foreign nationals in the United Kingdom, around one-third are from the EU, 11 per cent from South Asia and six per cent from the United States. In Italy, migrants from other EU countries account for only 11 per cent of foreign nationals, compared with 30 per cent from North African countries and Albania and over 27 per cent from Asia.

This chapter attempts to summarize the major issues on labour migration facing policy-makers in the region. At the outset, it should be recalled that any summary of issues on a subject as complex as migration is bound to oversimplify and gloss over many questions which may be of specific significance for certain countries. Moreover, the region is heterogeneous, comprising many nations that have evolved different approaches to migration, bound as they are by their different geographies and long traditions of cultural, political and economic links with other peoples, as well as current economic exigencies and the manner in which they define national identity. All of these differences shape and constrain their ability to address what may appear to be the common concerns and challenges that migration poses for the future of the region.

Migration raises issues that are fundamental to the ILO's mandate and concerns. The cross-border movement of workers permits a more efficient

allocation of labour and enables countries with labour shortages to raise their standard of living beyond what would otherwise have been possible. However, unless properly managed, it can, and often does, lead to denial of the fundamental rights and entitlements of workers. A number of important protection issues are identified below, some of which are rooted in national migration policies, others in gaps in labour standards and institutions, and still others in the apparent failure of social integration measures.

4.2. The main concerns relating to migration

Of the many concerns over migration that have emerged in the region, the following merit close attention:

- the growth of clandestine migration, including trafficking, which undermines labour and wages/incomes policies and creates a sub-class of workers whose human and labour rights are often violated;
- the conditions of employment of a significant number of foreign nationals who are in an irregular status for a variety of reasons, some not of their own making, such as the political changes in Eastern Europe, and others who have failed to obtain refugee status;
- the impact of migration on the employment and wages of unskilled workers, who include not only older native workers, but also earlier immigrants;
- problems of social integration and high rates of unemployment among immigrant youth;
- the migration pressures in some countries that arise from high levels of unemployment, especially among educated youth;
- geographic imbalances in employment due, among other reasons, to the low intra-regional mobility of European workers, even within the EU, despite the guarantee of free movement there; and
- the medium- to long-term implications of population ageing on productivity and the sustainability of social security systems.

The ageing of the population in the region (see Chapter 5), which is already expected to result in declining work forces in the not too distant future, has important implications for the management of migration. In view of the increase in the proportion of older persons and the estimated decline in the overall population, the ILO predicts that Western Europe may face a serious reduction in its standard of living unless labour migration is increased, people agree to retire much later, or there is a major technological leap to raise productivity. The situation is worse in Eastern Europe, which includes 11 of the 13 countries in the world that are experiencing the most serious decline in their populations.¹

4.3. Policy challenges across Europe

4.3.1. Western Europe

In Western Europe, migration flows, both legal and illegal, have been on the increase since the 1990s. According to official statistics, admissions of foreigners more than doubled in the United Kingdom, Belgium and Norway between 1984 and 2000, and increased at least threefold in Portugal

¹ <http://www.un.org/esa/population/publications/wpp2002/WPP2002-HIGHLIGHTSrev1.PDF> .

Table 4.1. Migrant and non-migrant workers in selected EU countries, 1995 and 2000

Country	Foreign workers (000s)		Total labour force (%)		Unemployment rate 2000-01 (%)				Unemployment ratios	
	1995	2000	1995	2000	Nationals (male)	Foreigners (male)	Nationals (female)	Foreigners (female)	Foreign nationals (male)	Foreign nationals (female)
Austria	366	377	9.7	9.8	3.9	8.4	3.9	8.6	2.2	2.2
Belgium	327	366	7.9	8.4	4.6	14.2	7.0	16.5	3.1	2.4
Denmark	54	78	0.2	2.8	3.6	12.2	4.9	7.2	3.4	1.5
Finland	18	34	0.8	1.3	10.0	24.2	11.2	29.9	2.4	2.7
France	1 566	1 571	6.3	6.1	7.1	17.1	10.7	23.9	2.4	2.2
Germany	3 505	3 429	9.1	8.8	7.2	13.4	7.8	11.7	1.9	1.5
Greece	71	163	1.7	3.8	7.2	7.6	16.2	17.6	1.1	1.1
Ireland	42	60	3.0	3.5	4.1	5.1	3.8	6.2	1.2	1.6
Italy	100	246	0.5	1.1	8.0	7.4	13.9	21.3	0.9	1.5
Netherlands	281	298	3.9	3.7	1.9	4.7	2.9	7.0	2.5	2.4
Norway	59	75	2.7	3.2	3.7	5.3	3.4	4.5	1.4	1.3
Portugal	21	104	0.5	2.2	3.1	8.4	5.1	9.6	2.7	1.9
Spain	121	227	0.8	1.4	9.3	12.9	19.8	17.2	1.4	0.9
Sweden	186	205	4.2	4.8	5.5	16.1	4.6	13.0	2.9	2.8
Switzerland	729	717	18.6	18.3	1.3	4.3	2.6	6.4	3.3	2.5
United Kingdom	1 011	1 220	3.6	4.2	5.5	16.1	4.4	7.9	2.9	1.8

Source: OECD (2003b), tables I.13 and I.14.

and Italy between 1997 and 2000. Although immigration subsequently declined in these countries, it has continued to rise in traditional European immigration countries, such as France, Switzerland and Austria.

Other countries in the region in which immigration is relatively more recent, such as the Czech Republic, Finland and Ireland, also saw a growth rate above 15 per cent between 2000 and 2001 (OECD, 2003b). However, these figures do not take into account irregular or clandestine immigration. According to INTERPOL, clandestine flows into the EU have risen significantly in recent years and may already have reached half a million a year.

Since the ending of guest worker programmes in the mid 1970s, migration into most of Western Europe has been dominated by family-related migration (family reunifications). The number of asylum-seekers grew rapidly in a number of countries in the early 1990s, owing in particular to the conflicts in the Balkans and later in the Caucasus, but these flows have since declined.

In terms of labour migration, the largest host countries are still Germany, France and the United Kingdom (table 4.1). However, there was a very dramatic rise in the numbers admitted to southern Europe, particularly in Greece, Italy, Portugal and Spain, between 1995 and 2000. Unskilled workers are usually admitted on a temporary basis for work in sectors such as agriculture, construction, health care, care of the elderly and other business and household services (for example, in Italy, Portugal and the United Kingdom).

Some countries have had to adapt their legislation relating to migration to meet the new needs of their labour market. But the major changes in migration policies have tended to be focused on the reinforcement of border controls, partly in response to the threat of global terrorism, but also to combat irregular migration. Several countries have reinforced measures to accelerate the processing of asylum applications (Switzerland) or have

adopted instruments to limit their admissibility (e.g. the Netherlands and the United Kingdom) (OECD, 2003b). However, these “control” measures have been accompanied by others to promote the labour market integration of regular immigrants, for example through language and vocational training programmes and measures to combat discrimination.

4.3.2. Harmonization of migration policies in Western Europe

There has been some progress in the harmonization of migration and asylum policies in Western Europe following the Amsterdam Treaty and the 1999 Tampere Agreement (EU, 1999). A first Communication from the European Commission at the end of 2000 emphasized the importance of establishing a clear definition of the conditions of admission and residence of third-country nationals, which “should be based on a common assessment of the economic and demographic development of the Union and of the situation in the countries of origin, and take account of the capacity of reception of each Member State as well as of their historical and cultural links with the countries of origin” (European Commission, 2000). The same Communication also recognized that the “zero” immigration policies that had dominated EU thinking over the past 30 years were no longer appropriate. Despite the fact that the 1992 Maastricht Treaty guarantees free movement, equal treatment and the portability of social security benefits for EU nationals (Molle, 1994), the intra-European mobility of EU citizens has remained low, representing on average only 2 per cent of the total population (table 4.2).

Table 4.2. Indicator of low intra-EU mobility, 1998

Country	EU foreigners as percentage of total foreign population	EU foreigners as percentage of total population
Luxembourg	89.0	31.0
Belgium	62.2	5.5
Spain	42.7	0.7
France	36.6	2.0
Sweden	33.9	2.0
Netherlands	28.0	1.2
Poland	26.3	0.5
Germany	25.1	2.3
Denmark	20.5	1.0
Finland	18.7	0.3
United Kingdom	18.5	0.7
Italy	13.7	0.3
Austria	13.0	1.2

Source: OECD (2001a).

While the EU has been advancing rapidly towards a common strategy and policy on areas such as readmission agreements, border control measures against undocumented migration and the treatment of third-country nationals who are permanent residents in EU Member States, policies on the admission of economic migrants of all skill levels are likely to remain a prerogative of individual Member States for some time to come.

Indeed, in the face of intensifying global competition, some EU governments have adopted a two-track strategy based, firstly, on encouraging the immigration of highly skilled workers and, secondly, on improving the

integration of their resident immigrant populations, and particularly second and third generation immigrants, who often have very high unemployment rates.

The national migration policies of Austria, Denmark and the Netherlands are based on integration before new admissions. At the same time, as Austria puts it, seeking “highly qualified workers with the relevant experience whose skills are particularly needed in the Austrian labour market (...) must be in the general interest of the country” (ILO, 2003a). Similarly, the United Kingdom launched a Highly Skilled Migrant Programme in 2003 to attract highly skilled workers who “help a country keep a competitive edge in the global economy”.

On the other hand, few countries have adopted measures for the legal admission of semi-skilled and low-skilled workers. Where legal avenues for their admission exist, these are only for temporary employment in sectors such as agriculture, construction and services and are largely governed by bilateral agreements, such as those between Germany and its eastern neighbours. Most bilateral agreements clearly define conditions of recruitment, employment and return, as well as working conditions and social security, and comprise an effective method of preventing the illegal hiring and exploitation of irregular migrants.² Among the OECD countries, 173 bilateral agreements are currently in force with countries from all regions of the world, a fivefold increase since 1990.³

Surveys of official attitudes to migration have periodically been conducted by the United Nations Population Division. In the 2000 survey, Austria, Denmark, France, Germany, Luxembourg, Netherlands, Switzerland and the United Kingdom indicated that immigration levels were considered to be too high and needed to be lowered.

4.3.3. *New European Union Member States*

Migration issues for Central and Eastern European countries are inextricably bound up with the recent enlargement of the EU. Full access by the nationals of the new Member States to the labour markets of the original EU-15 countries is, with a few exceptions, restricted to periods of between two and seven years. The fact that earlier fears of mass emigration have so far proven to be unfounded may lead to a revision of these restrictions, as happened with the earlier expansion of the EU involving Greece, Portugal and Spain. In the case of these latter countries, EU membership had the consequence of stimulating the economic growth and raising incomes to levels that rapidly drew the nationals of these countries back from migrant work in other European countries.

It should also be recalled that there had already been a large exodus from Central and Eastern Europe to Western Europe in the early 1990s. It is estimated that by 1998 there were over 550,000 citizens from Central and Eastern Europe living legally in Western Europe, with many more residing without proper documentation. As table 4.3 and figure 4.1 show, the heavy emigration of national populations in the early 1990s created negative rates of natural population growth and led to depopulation in some countries. Most of the new Member States have now turned into net immigration countries, with the exception of Lithuania, Latvia and Poland.

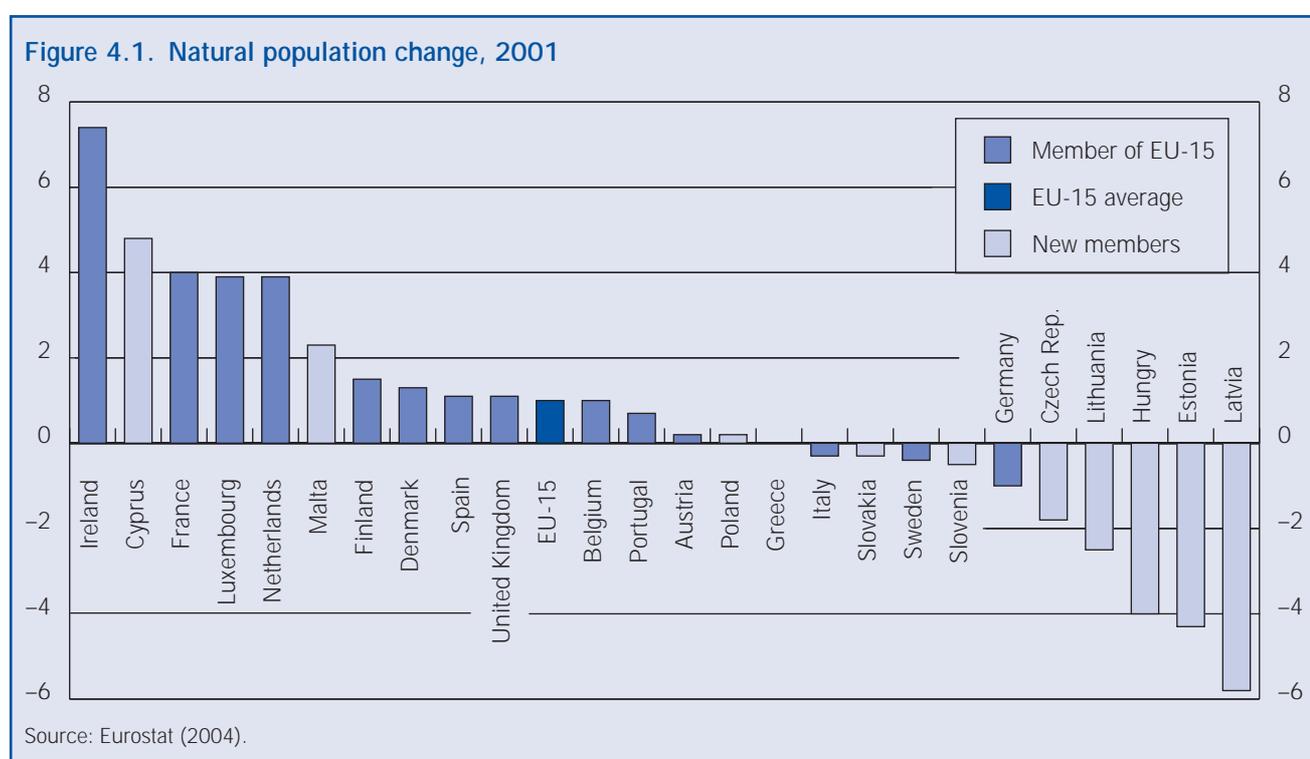
² Bilateral agreements following ILO and other international models have proven effective in the past. The 2003 International Migration Survey found that ILO Recommendation No. 86 has been widely used by States as a model for bilateral agreements, even by countries that have not ratified the relevant ILO instruments.

³ The International Labour Migration Survey also indicated a considerable use of bilateral agreements by Central and Eastern European States and by the Commonwealth of Independent States.

Table 4.3. Net migration rate, EU-10, 1991-2002

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Czech Republic	-5.5	1.1	0.5	1.0	1.0	1.0	1.2	0.9	0.9	0.6	-0.8	1.2
Estonia	-8.1	-27.1	-18.9	-14.2	-10.9	-9.5	-4.9	-4.8	-0.8	0.2	0.1	0.1
Cyprus	19.2	17.7	13.9	11.0	10.3	9.1	8.2	6.2	6.1	5.7	6.6	9.7
Latvia	-5.7	-20.5	-12.6	-9.0	-5.5	-4.1	-3.9	-2.4	-1.7	-2.3	-2.2	-0.8
Lithuania	-2.9	-6.6	-6.5	-6.6	-6.5	-6.5	-6.3	-6.2	-5.9	-5.8	-0.7	-0.6
Hungary	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.6	1.6	1.0	0.3
Malta	3.4	2.5	2.7	2.4	-0.5	1.6	1.6	1.1	23.7	3.4	5.9	4.7
Poland	-0.4	-0.3	-0.4	-0.5	-0.5	-0.3	-0.3	-0.3	-0.4	-0.5	-0.4	-0.3
Slovenia	-1.7	-2.8	-2.3	0.0	0.4	-1.7	-0.7	-2.7	5.4	1.4	2.5	1.1
Slovakia	0.0	-0.5	0.3	0.9	0.5	0.4	0.3	0.2	0.3	0.3	0.2	0.2

Source: Eurostat.



As the Central and Eastern European countries are likely to face deficits in their own labour forces in the near future, they and those lined up for accession in 2007 simply do not have the demographic potential for large-scale emigration to Western Europe (Münz, 2004). Indeed, estimates place the level of migration from the new Member States to the EU-15 as low as 1 per cent of the population of the new Member States over the next five years, or a little over 200,000 persons.

Although per capita income levels in the new Member States are still much lower than the EU-15 and unemployment rates are very high, migration is still expected to be modest if not low. Indeed, recent studies have shown that mobility in the new Member States is even less than in the EU-15 (Niebuhr and Stiller, 2004).

In contrast, the new Member States are experiencing significant inflows of migrants, with the nationals of CIS countries (especially Belarus,

Republic of Moldova, Russian Federation and Ukraine) and some Asian countries using them as a jump-off point for entering Western Europe clandestinely (Moreno-Fontes Chammartin and Cantú-Bazaldúa, 2004).

Faced with these strong migration pressures, the countries of Central and Eastern Europe need to establish policies and infrastructures to deal with the demand for and needs of third-country nationals. So far, they lack effective policies to counteract the problem of undocumented migration and legal systems to channel third-country workers into industries and sectors where they are needed.

4.3.4. South-eastern Europe and the Mediterranean countries

In the nine countries of south-eastern Europe and the Mediterranean, the main concern is emigration, rather than immigration. Six of these countries are worried that their emigration levels are too high (Bosnia and Herzegovina, Bulgaria, Croatia, Romania, The former Yugoslav Republic of Macedonia, and Serbia and Montenegro) (United Nations, 2002). Although their high unemployment rates had stabilized and even started to decline in some countries by 2002, continuing privatization and structural reforms are likely to put more people out of work, thereby providing strong emigration push factors (UNECE, 2004).

Box 4.1

Trafficking of persons

Since the beginning of the 1990s, the region has seen a rapid increase in the trafficking of persons for the purpose of sexual exploitation and forced labour. For example, women from Albania, the Republic of Moldova and Ukraine have been deceived about job opportunities abroad and forced into prostitution. Children are trafficked for various purposes, such as begging, street vending or prostitution. In southern Europe, a girl trafficked into sex work is reportedly worth between US\$500 and 2,500, while a trafficker who "owns" a young virgin from Albania is reported to command prices of up to US\$10,000 in industrialized countries.

A significant number of trafficking cases also affect male migrant workers, who are forced to work in such industries as construction or agriculture. While a decline in the number of victims receiving support in shelters has been identified during the past year in south-eastern Europe, this decline may be due to traffickers changing tactics, rather than a fall in the number of victims.

The ILO's response to the phenomenon is to address the labour dimensions of trafficking through a collaborative approach involving not only government institutions, but also workers' and employers' organizations and other stakeholders. The ILO, which is active on this issue through projects and policy dialogue in 13 countries in the region, bases its assistance on:

- the establishment of labour migration agreements and other forms of cooperation between countries of origin and of destination;
- the creation of a single system of labour market information for jobs at home and abroad;
- the monitoring of job placement agencies;
- the improvement of labour inspection; and
- the development of job opportunities for adults and of educational and vocational training opportunities for actual and potential victims.

Other activities include data collection, microfinance and the provision of entrepreneurial skills.

Political changes, and in some cases the redrawing of borders, have necessitated changes in migration policies and measures, and there has been concern over growing irregular migration and trafficking, especially of young women. The governments of the countries concerned have sought the cooperative management of migration through bilateral agreements with destination countries. Albania, for example, has concluded bilateral agreements with Italy and Greece on seasonal employment in agriculture for its nationals.

At the same time, the emigration of highly skilled nationals has become a serious concern, as it is perceived as reducing capacity for long-term economic development. Lack of opportunities drives many young professionals to emigrate. Nevertheless, there is a keen appreciation of the need to improve the governance of migratory flows to protect nationals going abroad and minimize their vulnerabilities. Many countries are setting up structures to facilitate the movement of their nationals and to encourage workers to migrate through established legal channels.

4.3.5. *The CIS countries*

The emergence of 15 new States following the collapse of the former USSR threw up enormous new challenges, not least in managing new migration movements. Millions of people were suddenly no longer citizens of the territories in which they had been living, sometimes for generations. Millions more were offered the possibility of returning to ancestral homelands from which their communities had been forcibly displaced. At the same time, legal and administrative structures for regulating international migration were either absent or were designed to manage movements of people under the rules of the old political order.

Nearly all the 12 members of the CIS, with the notable exception of the Russian Federation, have become countries of net emigration. Eight of these countries consider that their emigration levels are too high (Armenia, Georgia, Kazakhstan, Republic of Moldova, Tajikistan, Turkmenistan, Uzbekistan and Ukraine). Only three have reported net immigration (Belarus, Russian Federation and Turkmenistan). Migration flows in these countries are dominated by the emigration of workers to the Russian Federation

Contrary to trends elsewhere in the region, the Central Asian countries are experiencing population growth. Tajikistan, Turkmenistan and Uzbekistan also have among the youngest populations in the world, with nearly 40 per cent of their populations under 15 years of age. The CIS countries have also received significant refugee flows, and serve as important transit countries for nationals from Asia and the Middle East, many of whom intend to migrate to the EU.

The governments of Central Asian and Caucasus countries have identified their priorities on migration issues through the Issykul Dialogue, a mechanism established at the initiative of the interagency International Migration Policy Programme (IMP), of which the ILO is a sponsoring partner. Their key priorities are: improving the legislative framework for migration; assisting in the placement of their nationals in temporary work abroad; encouraging the return of their highly trained specialists; disseminating information on the dangers of irregular migration; and the provision of pre-departure training.

There is also keen interest in strategies to harmonize migration policies and promote the freer circulation of labour within the CIS. In view of the potential to generate development finance through migrant remittances, several governments are also designing financial regulations to facilitate the

efficient and transparent transfer of funds and improving the domestic financial infrastructure.

4.3.6. Russian Federation

Although the United Nations Economic Commission for Europe (UNECE) considers that the Russian economy has the potential to grow rapidly, provided that its resources are used more efficiently, it notes that its declining population could become a serious constraint on its ability to meet its ambitious growth target of doubling GDP over the next ten years (UNECE, 2004). The decline in the Russian Federation's population (currently 0.57 per cent per year, and estimated to reach 0.73 per cent by 2020 and 0.86 per cent by 2050) is expected to result in labour market shortages and increased dependency ratios (United Nations, 2002).

The Russian Federation is the main destination of labour migration from many CIS countries, and migration serves as a demographic "shock absorber" in many areas of that country. Between 1992 and 2000, net migration growth in Russia amounted to some 3.6 million persons, compensating for the depopulation affecting many regions. Many workers who lost their jobs as a result of restructuring have migrated westward in search of work, while the exploitation of natural resources in some areas, notably Siberia, has brought foreign migrant workers to these areas. Construction and service work have also absorbed large numbers of foreign workers in major urban areas, particularly around Moscow.

The migrant population in the Russian Federation commonly faces three major difficulties, namely: its concentration in hazardous and unprotected work; the lack of legal status and protection; and discrimination and xenophobia. In recognition of these challenges, Russian constituents have requested ILO assistance in designing legalization programmes, based on best practices elsewhere, with a view to regularizing the status of the estimated 5 million migrants living and working in the country without a proper legal status. Trade unions and employers' organizations have also called for action and challenged the widespread manifestations of xenophobia against migrants.

4.4. Key issues, sectors and trends

4.4.1. Irregular migration

Information obtained from regularization programmes and other sources suggests that between 10 and 15 per cent of migrants are in an irregular situation (Hatton and Williamson, 2002). According to various estimates, of the 22 million foreign nationals resident in Western Europe in 2000, around 3.3 million were in an irregular situation, while a figure of 5 million has been quoted (see above) for the Russian Federation. There are both supply and demand factors behind the growth of irregular migration, and broad differences in per capita incomes clearly lead to migration pressures. However, this is only part of the equation. There is also ample evidence that irregular migration is stimulated by the excess demand in Europe for unskilled labour and the lack of legal channels to meet such demand.

The official responses to irregular migration across the region generally, which have included the intensification of border controls, deportation procedures and an emphasis on policing, have had the undesired consequence of making people smuggling more profitable. The ILO's 2001

Global Report on forced labour noted that “the recent rise in labour trafficking may basically be attributed to imbalances between labour supply and the availability of legal work in a place where the jobseeker is legally entitled to reside” (ILO, 2001a, page 53). At the ILO Workers’ Consultation on Migrant Workers, the view was strongly expressed that legal migration should be facilitated as a means of combating trafficking and irregular migration movements (ILO, 2003a).

4.4.2. Working conditions

Migrant workers are often concentrated in low-skilled occupations, usually in jobs requiring long or irregular hours of work or subject to seasonal lay-offs, which are normally shunned by national workers. They work mainly in agriculture, construction and services, which are characterized by a large number of small producers, low technology and high firm turnover (Taran and Geronimi, 2003). Recent tragic incidents, such as the drowning of Chinese cockle pickers on the coast of Lancashire in the United Kingdom, may not be representative of their general conditions, but they illustrate the serious gaps in labour protection that exist even in the most advanced societies.

Equal treatment between regular immigrant and national workers is established in law in numerous countries in the region, eighteen of which have ratified the principal ILO Convention (No. 97) on this subject. However, while protection against discrimination and in relation to wages normally covers all workers, irregular migrants are not in a position to denounce violations, as this will draw attention to their lack of legal status.⁴

Temporary migrants may also be excluded from wage protection and social security programmes in some countries by stringent residence requirements, and the types of jobs occupied by migrants (see table 4.4), for example in agriculture and private households, may be excluded from full coverage under wage laws and benefit programmes. Moreover, the victims of trafficking are especially vulnerable to abuse, forced labour and slave-like conditions (Ramirez-Machado, 2003).

4.4.3. Agriculture

Every year, the EU’s agricultural sector employs close to 4.5 million seasonal workers, commonly under temporary contracts in the most labour-intensive agricultural seasons, although there is now a trend towards subcontracting. In Germany, the agriculture and construction union IG Bau has expressed grave concern at the growing trend for permanent jobs to be replaced by temporary contracts while, according to the British Trades Union Congress, many seasonal migrant workers sign contracts which include very high charges for transportation, housing and other services, so that their earnings are often far less than expected (Clark, 2003). Agriculture is also one of the biggest employers of irregular migrant workers, while anecdotal evidence indicates that similar situations occur in the agriculture sector in Central and Eastern European and the CIS countries.

4.4.4. Construction

The construction industry has undergone profound transformations owing to the rise in subcontracting, leading to a “race to the bottom”, making jobs “unattractive and underpaid for nationals and calling on foreign labour

⁴ ILC survey (ILO, 2004g). An interesting solution to the exploitation of migrant workers in the informal sector is found in the Netherlands, where a migrant worker who is employed illegally has the right to start a civil procedure against his employer, claiming that he should have earned at least the legal minimum wage for a period of six months. The employer has to prove that he actually paid the salary and/or the migrant worker has worked for a short period.

Table 4.4. Employment of foreign workers by sector, 2001-02 average (% of total foreign employment)

Country	Agriculture and fishing	Mining, manufacturing and energy	Construction	Wholesale and retail trade	Hotels and restaurants	Education	Health and other community services	Households	Administration and ETO	Other services
Austria	1.1	24.5	13.5	15.2	11.3	2.1	6.3	0.6	1.2	24.2
Belgium	0.9	21.4	9.0	16.0	7.9	4.3	8.0	0.9	8.3	23.3
Czech Republic	3.5	31.5	11.0	19.5	7.2	3.1	4.9	..	-	18.2
Finland	-	15.3	7.8	14.5	11.0	10.8	11.5	-	-	27.2
France	3.2	17.2	17.5	11.3	7.3	3.2	5.1	6.7	2.7	25.8
Germany	1.2	32.6	8.1	12.9	11.3	2.7	7.0	0.6	2.3	21.4
Greece	3.2	17.9	27.6	11.2	10.2	1.6	1.6	17.2	-	9.2
Ireland	3.2	17.2	6.9	10.2	13.8	5.4	10.3	-	-	30.1
Luxembourg	0.8	10.4	16.4	14.1	8.2	2.3	6.1	3.1	8.7	29.8
Netherlands	3.7	21.4	4.7	15.4	8.0	4.1	11.7	..	3.5	27.6
Norway	-	16.1	6.1	12.5	7.3	9.5	21.3	-	-	23.1
Spain	8.6	11.2	15.8	10.9	16.5	3.2	1.9	14.8	0.5	16.8
Sweden	-	19.3	3.3	10.7	5.9	8.2	19.2	-	2.8	29.6
Switzerland	0.8	22.9	10.2	17.9	6.9	5.0	11.6	1.2	2.5	21.0
United Kingdom	-	12.0	4.4	12.0	11.0	7.7	14.0	1.3	4.1	33.1

Note: Numbers in bold indicate the sectors where foreigners are over-represented (i.e. the share of foreign employment in the sector is larger than the share of foreign employment in total employment). The sign "-" indicates that the estimate is not statistically significant.

Source: OECD (2003b), table I.12.

to fill those gaps, including through irregular migration channels” (ILO, 2003a). The increased reliance on subcontractors has also had a profound effect on safety and health and has undermined collective bargaining and the provision of training (ILO, 2001b).

4.4.5. The services sector

The tertiary or services sector has become increasingly important for the employment of foreign workers. Migrant workers, including irregular migrants, are heavily present in the hotel, catering and tourism (HCT) sector in Western Europe, which is dominated by small and medium-sized enterprises, with frequent use of undeclared labour, including unauthorized foreign workers.

The demand for foreign health workers, especially nurses, has also grown substantially in recent years for a variety of reasons, including the growth of demand for health care by ageing populations. The problems that these workers encounter in the sector include the lack of recognition of skills and previous experience, leading to systematic de-skilling, channelling into “non-career” grades in unpopular specialties, and the “ethnic penalty” which results in restricted access to training and poorer career progression (Bach, 2003).

4.4.6. Domestic work

According to the latest SOPEMI report (2003), over 10 per cent of foreign workers in southern Europe are employed in household services, particularly in Greece, Italy and Spain, where regularization programmes have shown a large percentage to be irregular migrants. The demand in Europe for household and care workers has grown because of rising female employment rates, changes in family structures and an ageing population requiring care at home (OECD, 2003b).

Domestic work relies almost exclusively on women migrants, who are among the most vulnerable workers. Working conditions vary enormously, with some treated as members of the employer’s family, while others suffer from onerous working hours and other forms of exploitation. The very nature of domestic household work gives rise to complex protection issues, since labour, safety and other laws often do not cover domestic workers, who may in any case not be aware of their rights owing, in part, to language barriers (Ramirez-Machado, 2003).

4.4.7. Sweatshops

The reappearance of “sweatshops” in developed countries is attributed to the availability of cheap migrant labour. An ILO report on the footwear, leather, textiles and clothing industries described the labour practices in such clandestine workshops as “contrary to the most rudimentary principles of respect for human rights at work” (ILO, 2000b). In the case of southern Europe, an ILO study found that migrants are mainly employed in manufacturing jobs with the most arduous conditions, the longest hours and the highest risk of accidents (Reyneri, 2001).

Box 4.2**The role of the social partners**

Representation and voice at work are an important avenue through which migrant workers can improve their working conditions. Yet legal restrictions sometimes prevent migrant workers from holding trade union office, joining organizations or establishing their own unions. The ILO Workers' Consultation on Migrant Workers in December 2003 reiterated that organizing migrants was a paramount task for trade unions, and that legislation making it difficult for migrants to join unions should be repealed, as should provisions containing obstacles to the membership of migrants (ILO, 2003a).

Trade unions also have an important role in promoting the integration of migrants. For example, in Ireland, an Anti-Racist Workplace Week is held annually in collaboration with employers' and workers' organizations, to reflect cultural diversity and prevent racism. In 2002, the theme of the week was migrant workers. In the Czech Republic, workers' and employers' groups are involved in a common project to analyse the working conditions of migrant workers, with emphasis on discrimination, and to improve the skills of foreigners through targeted educational programmes.

4.4.8. Discrimination and integration

Migrant workers may perform less well in the labour market because of inherent disadvantages, such as language limitations, non-recognition of their qualifications, unfamiliarity with employment practices and lack of support networks. However, migrant workers are also frequently subject to unequal treatment and other discriminatory practices. ILO studies of immigrant workers in Belgium, Germany, Netherlands and Spain have found that out of every three applications by persons of immigrant background, more than one is rejected or not considered by employers, while those of identically qualified nationals are taken into account (Zegers de Beijl, 2000). Recent studies in Italy and Switzerland have found even higher rates.

The high levels of youth unemployment among second-generation immigrants and their general marginalization is a complex problem facing some immigration countries. In some instances, it may be the unfortunate legacy of past immigration policies, which assumed that labour immigration was temporary and therefore made no attempt to facilitate integration. Whatever the underlying reasons, the net effect has been to place a higher proportion of second and third generation migrants in an unfavourable position in the labour market, resulting in a vicious cycle of marginalization, with immigrant populations and their descendants being concentrated in areas with poor housing, limited access to schooling, poor public transport and other services. This in turn leads to an inevitable stereotyping of immigrants as prone to criminality, "welfare scroungers" and other negative images.

A number of steps are being taken by the EU to promote good practice to improve integration policy and combat racism. The European Commission is also reviewing the concept of civic citizenship as a means of promoting integration within the framework of the Charter of Fundamental Rights, of which most provisions are applicable to all persons, irrespective of their nationality.

4.4.9. Welfare implications of long-term demographic trends

Demographic trends are prompting a reconsideration of migration policies. In 2003, ten Western European nations (EU-25 plus Liechtenstein,

Norway and Switzerland) had higher mortality than birth rates. Net migration was positive in all these countries, except for Estonia, Iceland, Latvia and Lithuania (Münz, 2004). By 2050, Armenia, Czech Republic, Estonia, Greece, Italy, Latvia, Slovenia and Spain are projected to have median ages greater than 51 years (United Nations, 2002). It is clear that retirement ages will need to be raised and measures taken to maintain population levels if current levels of social security and standards of living are to be maintained (see Chapter 5).

These figures suggest that regulated immigration is likely to be one element in the careful policy mix required to sustain the workforces, productivity rates and levels of economic activity necessary to maintain the socio-economic welfare of resident populations. The key factors of such a policy mix will include adjusting the balance between accepting lower economic growth, accommodating replacement migration, and increasing labour force participation rates, including investment in the improved productivity of older workers.

4.4.10. Effects of migration on host countries

While the available evidence indicates that the economic effects of immigration on receiving countries are mainly beneficial, with newcomers rejuvenating populations and stimulating growth without inflation, many of the negative perceptions of immigration in receiving countries arise out of a concern at its presumed effects on unemployment, wage rates and social security.

While most available data are from Western Europe and North America, there is little evidence that outcomes are different elsewhere. A survey of literature in the United Kingdom concluded that the “overwhelming majority of empirical studies agree that there is essentially no statistically significant effect of immigration on labour market outcomes” in terms of employment and wages (Gaston and Nelson, 2000). OECD studies examining the correlation between unemployment and immigration in a number of countries have been inconclusive, while studies of both Western Europe and the United States indicate very little change in wages due to immigration. Other studies found very small negative effects (ranging from -0.3 to -0.8 per cent) on wages due to immigration, while others have suggested that native wages, especially of the highly skilled, increase slightly (see, for example, Hanson et al., 2002).

Other studies show that immigration can boost employment as a result of the expansion of production and that the admission of unskilled labour can lead to higher production of labour-intensive products and increased exports, thereby raising overall employment levels (Venables, 1999). Migrant entrepreneurs have also demonstrably boosted employment in host countries. For example, Turkish businesses set up in Germany are estimated to number over 59,000, creating employment for around 330,000 people (Gaye Erbatur, 2004).

The degree to which immigrants draw on or contribute to public finances remains uncertain. Across the EU, the fiscal impact is ambiguous. In a number of countries (Germany, Greece, Portugal, Spain and the United Kingdom), the use of welfare services by immigrants is similar to, and sometimes lower than, that of EU citizens (Brücker et al., 2002). In the United Kingdom, for example, one study showed that the foreign-born population contributed around 10 per cent more to public revenues than they took in benefits, and concluded that, were it not for the immigrant population, either public services would have to be cut or income taxes increased. The British Home Office carried out a more detailed analysis of the fiscal impact of the

immigrant population in the United Kingdom and estimated that in 1999-2000, migrants in the United Kingdom contributed £31.2 billion in taxes, while they consumed £28.8 billion in benefits and State services, resulting in a net fiscal contribution of approximately £2.5 billion (Gott and Johnston, 2002).

Much of the impact appears to depend on the age of the immigrants and the characteristics of welfare and tax systems. A study in Germany showed that immigrants arriving at the age of 30 make a net contribution to public finances during their lifetime, while those arriving as babies create a net burden over their lifetime. As immigrants into Western Europe tend to be of working age, their contributions probably well outweigh their cost.

Moreover, social security benefits are available only to migrants who are legally resident and to recognized refugees. Regular migration channels tend to grant authorization to reside and work only to higher skilled workers or migrants for employment in areas of labour shortages. Unskilled migrant workers are normally only authorized to enter for temporary work, and therefore do not have access to unemployment benefits, as they have to leave the country when their work contracts expire. Irregular migrants, on the other hand, are unlikely to seek benefits, even if they have paid contributions.

4.5. *Conclusions*

Just as policy choices will play a role in determining future levels of immigration in the region, they will also influence the social outcomes of migration. Similar levels of immigration can affect different countries in different ways, depending on their history, policies and national identity. The emergence of minority ghettos is not a natural result of immigration, but may signal a lack of attention to the need for integration. The degree of social mobility of immigrants also varies, despite similarities in the economic and educational backgrounds of newcomers in comparison with native workers. Government policies and public attitudes in host countries play an important role in determining immigration outcomes.

The complexity of migration means that a comprehensive approach has to be adopted to take into account multiple and diverse factors, based on a long-term view of economic and social considerations, and thereby avoiding short-term solutions for reasons of political expediency. It is axiomatic that policies based on consultations with all the sectors concerned are easier to sustain and implement. Transparency and consistency with other policy areas are the best starting points for sound governance (see Chapter 1).

At the 92nd Session of the International Labour Conference in June 2004, the Committee on Migrant Workers reviewed experience of various approaches to the protection of migrant workers around the world. The Committee concluded that effective rights-based management of labour migration is the key to better protection of migrant workers' rights. Such an approach to managing labour migration has to include a number of key elements. In the first place, migration policy has to be consistent with labour market conditions and realities. The cooperation of countries of origin has to be obtained through agreements. Migration policy has to be based on broad public support, especially through social dialogue.

The ILO's migration Conventions should be ratified and their principles applied, recruitment needs to be regulated and trafficking prevented, and measures are needed to promote decent work and ensure that migrant workers are covered by national labour laws and social security schemes. Policies

also need to be adopted for the integration of immigrant workers and to combat discrimination. For their part, countries of origin are urged to give employment high priority in their development strategies, promote decent work, supervise recruitment, reduce the cost of transferring remittances, promote the productive investments of migrants' savings and encourage the return and transfer of know-how.

The ILO now has the task of preparing a “non-binding multilateral framework for a rights-based approach to labour migration”, to be drawn from the best policies and practices of member States. This will provide guidelines for improving policies and approaches for the management of migration. A strategic partnership between the EU and the ILO was signed in July 2004 (see Volume I) to reinforce joint efforts to reduce poverty and improve labour conditions. The close collaboration fostered by this partnership in the field of development will include migration issues.

5. Ageing, labour market participation and pension reform

5.1. Introduction

The establishment of national pension schemes in the world's industrialized countries ranks among the great achievements of the twentieth century. These schemes have proved effective in alleviating poverty among the elderly and have brought the latter unprecedented security. Nevertheless, while Europe has the longest collective experience of pension provision and the most mature institutions, variations in national preferences and political and economic circumstances have shaped systems in different ways in terms of coverage, benefits and costs.

National pension schemes in Western Europe now protect most workers, provide favourable wage replacement rates and manage revenues and expenditures efficiently and transparently. The fact that self-governance mechanisms, together with supplementary coverage where needed, are generally well developed, gives pension schemes popular support and political stability.

In the former planned economies, where full pension coverage had been achieved, their schemes served to cushion economic shocks and absorb unemployment during the early 1990s. However, the costs proved high and reforms were required to adapt to the new environment. The redesign of pension schemes became a high priority in the late 1990s, with many governments adopting radical reforms, including the scaling down of social insurance in favour of privately managed individual savings accounts.

In the CIS countries, which had also enjoyed full social protection, each country followed its own direction after 1991. The management of economic shocks was the top priority, and reforms were postponed. Although hyperinflation reduced the real value of pensions until the mid-1990s, pension schemes were one of the most reliable means of preventing poverty in the early transition years.

In south-eastern Europe, political turmoil and armed conflict, combined with the loss of subsidized employment and heavy foreign debt, placed national pension schemes under financial stress, leaving millions destitute. The growth of the informal economy reduced contributions, and high inflation eroded the purchasing power of pensioners. Non-compliance continues

to limit coverage, and slow economic recovery has provided little latitude for the improvement of benefits.

Despite the differences, European pension schemes are all confronted by two common challenges: ageing and its impact on pension financing; and the need to redesign the benefit package to meet changing needs. Social dialogue has a key role to play in meeting these challenges.

5.2. *The ageing of the population*

The older population in Europe is growing rapidly. Over the past 50 years, life expectancy has increased from 63 to 73 years and is expected to rise to 80 years by the year 2050. Figures 5.1 and 5.2 show that Western European countries are the oldest, while those of south-eastern Europe and the Mediterranean are the youngest, followed by the CIS and the new EU Member States, although the latter three subregions are ageing faster.

Although longer life expectancy is a great achievement,¹ it has not been accompanied by longer working lives, particularly in the more economically advanced countries. Indeed, focusing the discussion on the impact of ageing on the financing of social security tends to obscure the key issue of the labour market, and particularly the large number of people, especially women, who are inactive or in the informal economy and therefore do not contribute to pension systems.²

5.2.1. *Redesigning pension schemes to meet new needs*

Pension systems will also have to respond to the major changes which are occurring in labour markets in the region related, among other factors, to the growth of the services sector and the emergence of new inequalities and insecurities, particularly through the development of non-standard forms of employment. They will also have to adapt to the shift in gender relations, especially in the more advanced economies, with changes in family structures and marriage patterns.

This chapter explores policy options for meeting these challenges and promoting decent work, based on an analysis of existing employment and pension systems, the various policy responses and the process of deliberation most likely to identify solutions that enjoy broad public support.

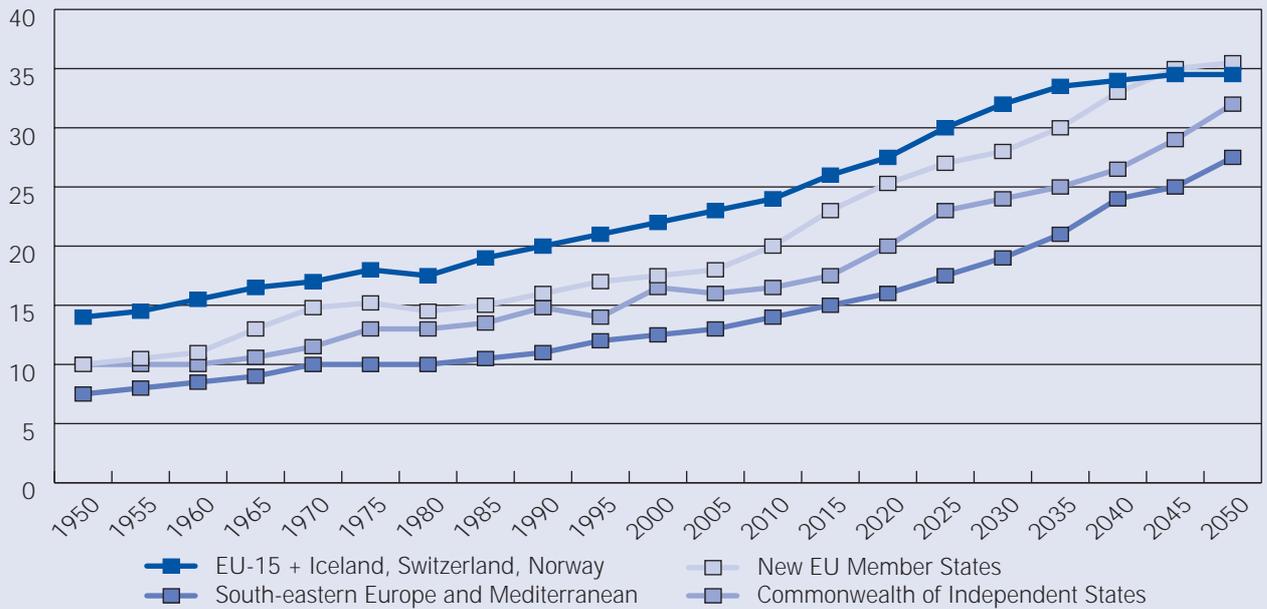
5.3. *The labour market situation of older workers*

As noted in Volume 1 of this report (Chapter 1), employment growth throughout the region has not generally kept pace with GDP growth, and unemployment has remained high, particularly among young people. While the pattern of activity has changed markedly, overall participation rates have not increased significantly. And although the participation rates of women have risen substantially, they are generally lower than those of men, while unemployment tends to be higher for women than for men.

¹ Despite aggregate improvements, some of the lowest life expectancies in the region are in the CIS countries, where life expectancy has been declining for the past two to three decades, with the steepest decline in the early 1990s. Two of the lowest figures are in Kazakhstan and the Russian Federation (66 and 65 years, respectively) (UN, 2002 and WHO European Health for All database www.euro.who.int/hfad).

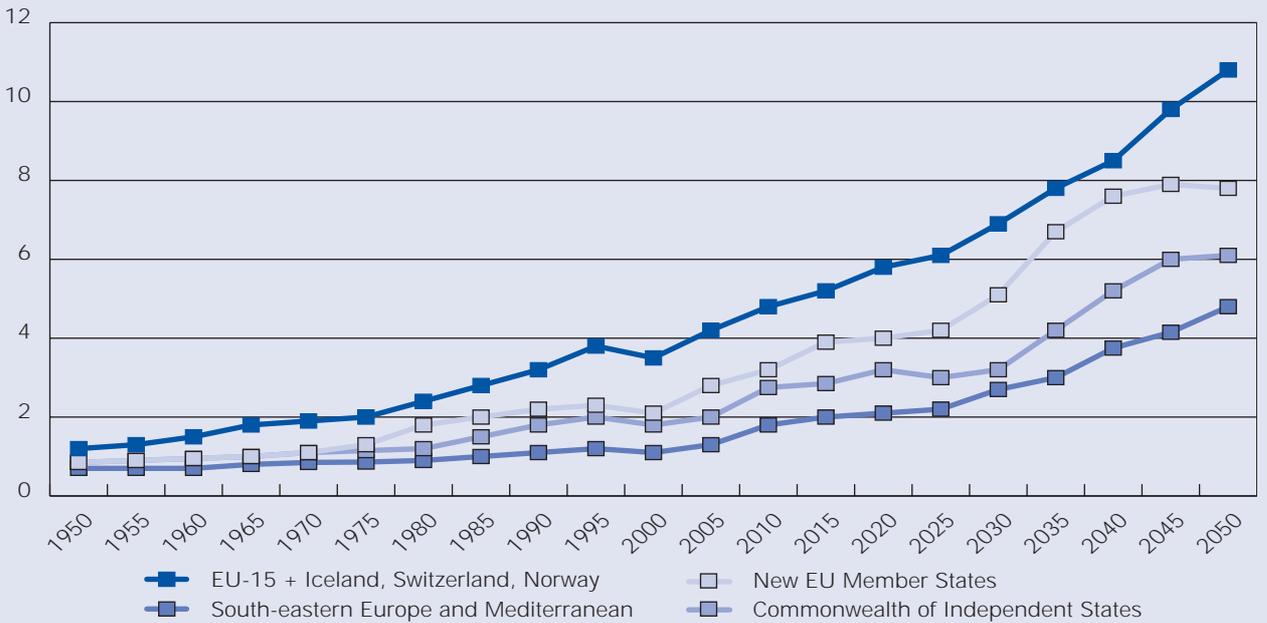
² See section on “The hidden debate behind demographic ageing”, in Hoskins, 2002.

Figure 5.1. Proportion of the population aged 60+ years (percentage)



Source: United Nations (2003), own calculations. Medium variant projections.

Figure 5.2. Proportion of the population aged 80+ years (percentage)

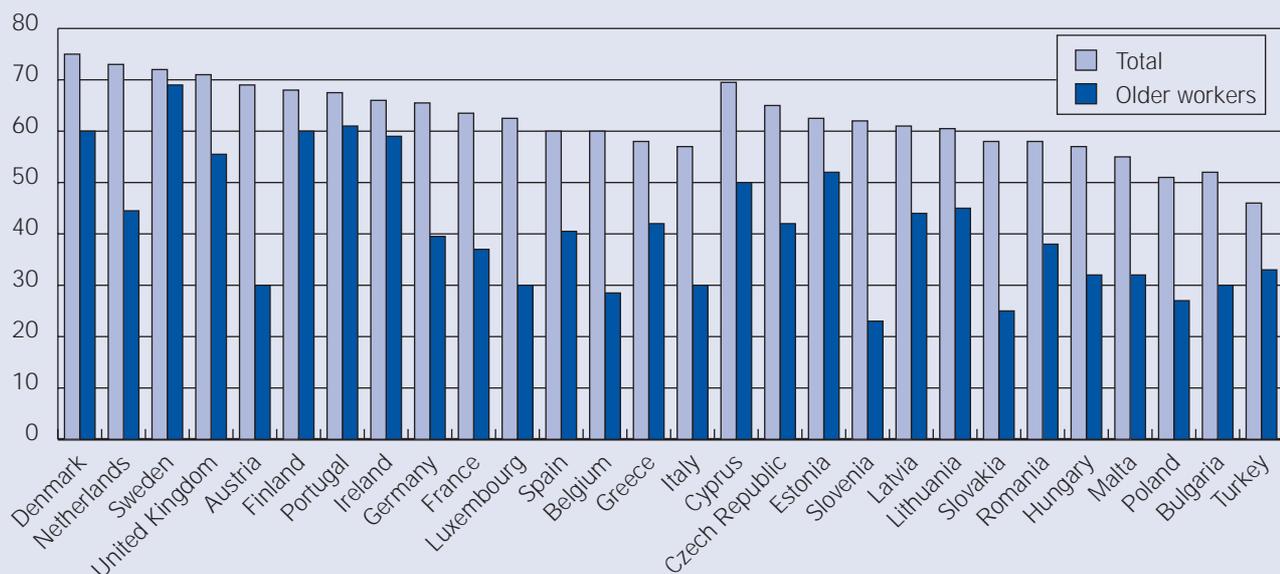


Source: United Nations (2003), own calculations. Medium variant projections.

The employment and participation rates of older workers, especially women, are low and have been declining for the past two decades, partly as a result of involuntary early retirement associated with economic restructuring and partly owing to the impact of early retirement schemes.³ Despite some improvements in recent years due to policies to increase the retirement age, the labour market exit age remains low. Figure 5.3 shows total and older workers' employment rates for 2003.

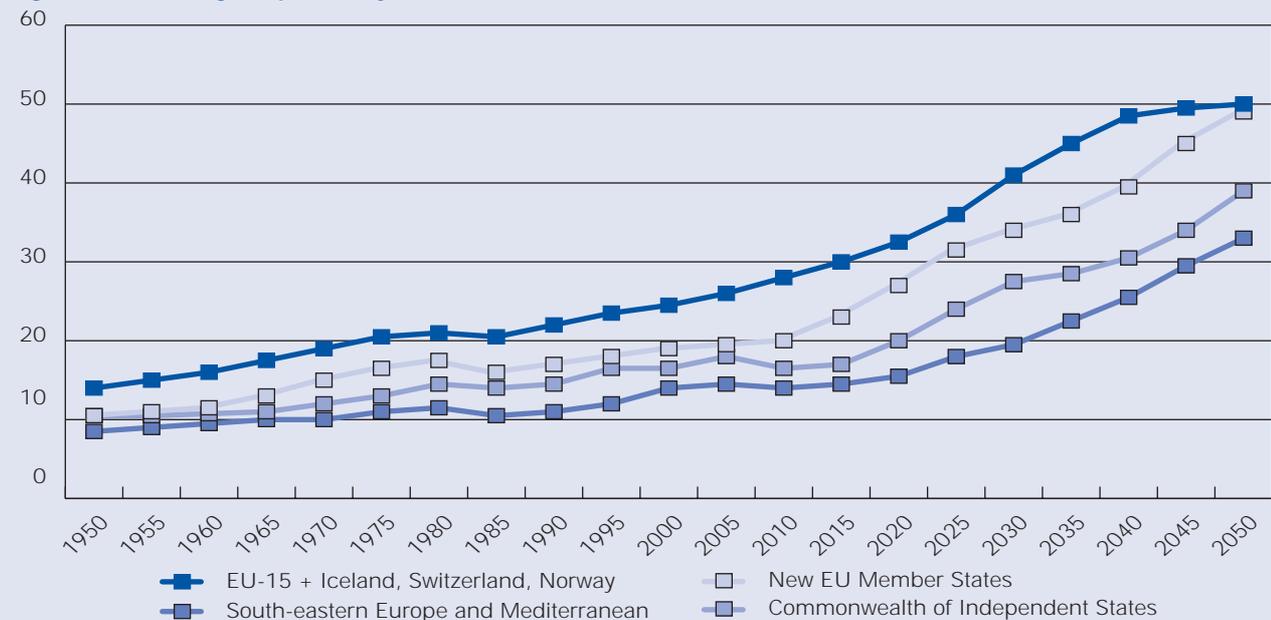
³ Report requested by the Stockholm European Council: "Increasing labour force participation and promoting active ageing", doc. COM (2002) 9 final, Brussels, available at europa.eu.int/comm/employment_social/news/2002/feb/com_2002_9_en.pdf.

Figure 5.3. Total and older workers employment rates, 2003 (percentage)



Note: Data for Turkey are for 2002. Source: Eurostat (2004).

Figure 5.4. Old-age dependency ratios

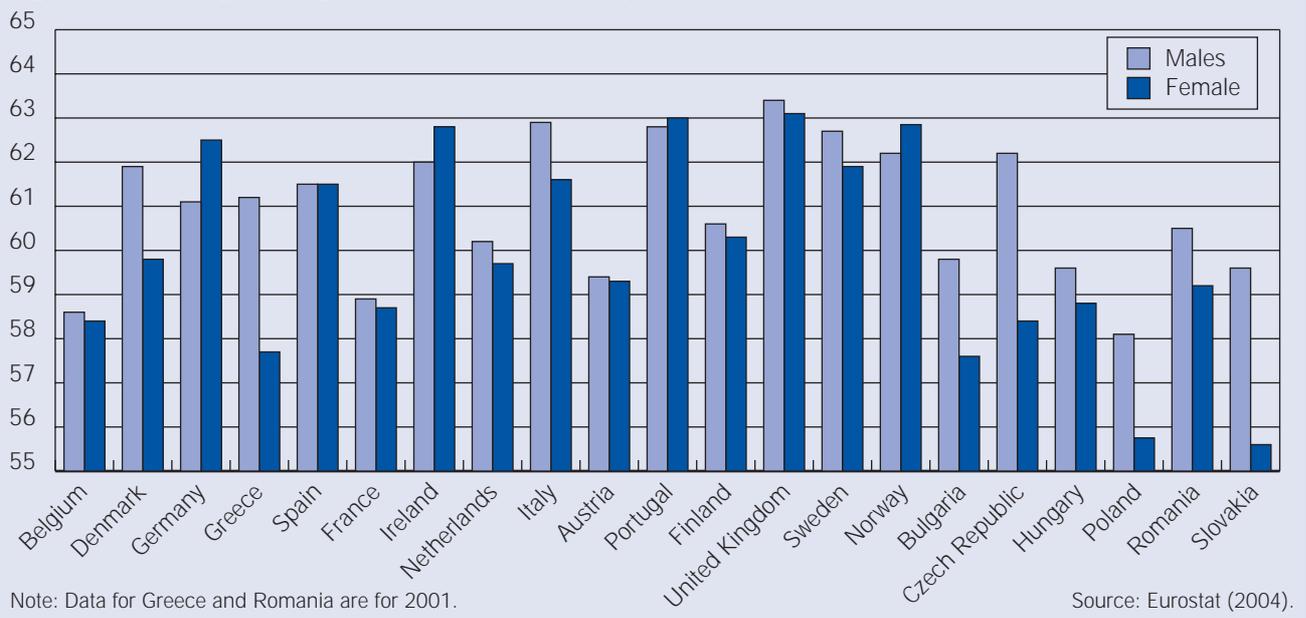


Source: United Nations (2003).

5.3.1. Rising old-age dependency rates

Over the past 20 years, early retirement or pre-pension benefits have been used to mitigate labour market tensions, leading to a substantial fall in average retirement ages, which were already low in most countries. The decline in employment rates and/or poor employment growth have exacerbated the problem of the financial sustainability of pensions. This situation is further aggravated by the demographic scenario, as shown in figure 5.4. Old-age dependency has increased substantially and will continue to do so, as a result of which many countries have raised the legal retirement age for men, and especially for women. However, as figure 5.5 and table 5.1 show,

Figure 5.5. Average exit age from the labour force by sex, 2002



the average exit age from the labour force is still low, especially when compared with life expectancy at age 60.

In the poorest countries in the region, low pensions incite many pensioners to return to work (often in the informal economy) to earn extra income. In contrast with the high rates of wage employment in the former planned economies, the initial period of the transition was marked by a dramatic increase in non-agricultural self-employment (Cazes and Nesporova, 2003).

The debate about the future of social security often focuses on the burden of the ageing of the population and the need to prolong employment in later years, rather than on the rising rates of inactivity and unemployment.

Table 5.1. Life expectancy at 60 and average exit age from the labour force, 2002

	Life expectancy at 60 years		Average exit age (both sexes)
	Male	Female	
EU-15 + Norway			
Austria	20.2	24.1	59.3
Belgium	19.6	23.9	58.5
Denmark	19.1	22.4	60.9
Finland	19.5	24.0	60.5
France	20.6 ^a	25.7 ^a	58.8
Germany	19.8 ^c	23.9 ^a	60.7
Greece	20.1 ^b	23.1 ^b	59.4 ^a
Ireland	19.2	22.9	62.4
Italy	20.4 ^c	24.8 ^c	59.9
Luxembourg	19.6	24.2	59.3
Netherlands	19.5	23.5	62.2
Norway	20.2	24.0	62.5
Portugal	19.4	23.3	62.9
Spain	20.3 ^c	24.9 ^c	61.5
Sweden	20.9	24.3	63.2
United Kingdom	19.4 ^c	23.0 ^c	62.3

Table 5.1. (cont.)

	Life expectancy at 60 years		Average exit age (both sexes)
	Male	Female	
New EU Member States			
Cyprus	19.5 ^d	22.7 ^d	61.4
Czech Republic	17.3	21.5	60.2
Estonia	15.4	21.3	61.6
Hungary	16.1	20.9	59.2
Latvia	15.2	20.8	62.4 ^a
Lithuania	16.1	21.7	58.9 ^a
Poland	17.1	22.0	56.9
Slovakia	16.4	21.0	57.5
Slovenia	18.0	23.1	61.5 ^a
South-eastern Europe and Mediterranean			
Bulgaria	16.1	19.7	58.6
Romania	16.1	19.7	59.8 ^a

^a = data for 2001. ^b = data for 1999. ^c = data for 2000. ^d = data for 1997.

Source: Eurostat (2004).

5.4. Regional pension reforms

In Western Europe, pension systems have been under review since the early 1980s. During the 1990s, attention was focused on the merits of two financing methods, namely “pay-as-you-go” and advance funding, and their respective sensitivity to population ageing. Some argued that only the former would suffer and that advance-funded schemes would be immune. It is now widely agreed that both methods of financing are affected by population ageing and that the increase in costs cannot be resolved by switching from one to the other. In the case of mature pension systems, the main policy challenge posed by ageing concerns distribution: how to allocate the rising cost of pensions within and between generations?

Three main policy objectives have been determinant in the reform process, namely: limiting the level of public expenditure; extending working life; and establishing closer links between benefit and contribution levels.

5.4.1. European Union

In the EU, the reform debate is taking place in the context of strong self-imposed constraints on public spending and a climate in which mainstream economists are advocating tax cuts to promote growth and employment in the globalized economy. For example, Germany is committed to maintaining the contribution rate at below a fixed level – 20 per cent by 2020 and 22 per cent by 2030. However, this is reducing flexibility to address the distributive challenge, and trade unions and other stakeholders in several countries argue that there should not be a fixed upper limit on the GDP-share of tax and social contributions. There is nevertheless broad agreement in the EU that social protection is a social investment and a productive factor, and that a lack of adequate social protection has a high cost for individuals and society.

To stabilize public finances, EU countries are making efforts to shift pension costs from the public budget to supplementary provision (occupa-

Box 5.1**Open coordination on pensions in the EU**

In 2001, the EU extended the open method of coordination to the area of pensions “to help Member States progressively develop their own policies so as to safeguard the adequacy of pensions whilst maintaining their financial sustainability and facing the challenges of changing social needs”, based on the following objectives:

Adequacy of pensions

1. Preventing social exclusion
2. Enabling people to maintain living standards
3. Promoting solidarity

Financial sustainability of pension systems

4. Raising employment levels
5. Extending working lives
6. Making pension systems sustainable in a context of sound public finances
7. Adjusting benefits and contributions in a balanced way
8. Ensuring that private pension provision is adequate and financially sound

Modernization: responding to changing needs

9. Adapting to more flexible employment and career patterns
10. Meeting the aspirations for greater equality of women and men
11. Demonstrating the ability of pension systems to meet the challenges

Member States are invited to prepare national strategy reports on pensions describing how they are trying to meet these objectives. The first set of reports was submitted in September 2002.

Source: Based on *Quality and viability of pensions*, Joint report on objectives and working methods in the area of pensions, Council of the European Union, Brussels, Nov. 2001.

tional pensions and individual accounts). Many countries (Denmark, Ireland, Netherlands, Sweden and the United Kingdom) have well-developed supplementary schemes, while others (Germany, Greece, Italy, Portugal and Spain) have taken measures to develop them. But shifting costs to the private sector does not solve the distribution problem. Public debates on the tax and contribution burden show that the total pension budget, including both public and private costs, has to be taken into consideration. It should also be noted in this respect that the development of favourable tax regimes for private schemes should have explicit social goals so that they do not benefit only those who are less in need of support.⁴ Tax expenditure is another important means of financing pensions and should be a key component of the pension debate.⁵

The second policy objective is to extend working life. There is broad agreement that postponing retirement is a logical response to longevity. However, in view of the strong expectations relating to retirement, this is politically difficult in the EU. Moreover, the goal is not only to increase the

⁴ The resolution concerning social security adopted by the ILC in 2001 notes that “Governments should consider that any support or tax incentives for these schemes should be targeted towards low- or medium-income earners.”

⁵ The amounts involved could be far from negligible. The German Government considers that government-supported arrangements introduced to compensate for the planned reduction in the statutory scheme could cost 12.7 billion euros annually in tax deductions and direct grants in 2008 when the reform is in place (Germany, *National strategy report on old-age pension provision*, 2002: 8).

legal retirement age, but also to increase the *actual* retirement age, as in many countries a significant proportion of workers (for example, 45 per cent of men and 42 per cent of women in France) are no longer in regular employment when they reach retirement age. The majority are covered by various schemes (early retirement, unemployment, invalidity), or have left the labour force (*Conseil d'orientation des retraites*, 2003).

Third, many governments have sought to establish closer links between benefit levels and the contributions paid. For example, Italy and Sweden have introduced defined contribution schemes in which the pension depends strictly on the contributions accumulated over a worker's entire career, while Finland, France, Portugal and Spain have extended the reference period for calculating pensions. This approach is in line with the goal of improving transparency of redistribution mechanisms in statutory pension schemes. The key issue is to find a balance between benefits which depend on the contributions paid and those that do not, in other words, between contributions-based and solidarity benefits. The decisions to be taken concern the extent of solidarity and its financing, with particular reference to circumstances and activities which give rise to "free entitlements" (such as unemployment, maternity, childcare and caring for persons with disabilities).

The concern to increase transparency raises the political issue of how much redistribution, for whom and financed by whom. The policy choice relates to the extent and form of solidarity to be achieved by the pension system and the role of the State, employers and workers in supporting such solidarity.

5.4.2. *Central and south-eastern Europe*

In Central and south-eastern Europe, the general pension environment contrasts with that of Western Europe in three ways: job losses during the 1990s were higher; governments relied more heavily on national pension schemes to absorb their human impact; and pension schemes have undergone more far-reaching restructuring.

During the first decade of transition, employment declined by over 20 per cent in most of these countries, and by over one-third in some (UNECE, 2003b, appendix table B-5). Governments responded with new forms of social security, including liberalized conditions for early retirement. In just a few years, the number of pensioners rose by about 20 per cent on average, and by 40-60 per cent in some countries, such as Poland and Romania (Palacios et al., 1999). These policies were costly, and when stability was regained most countries moved to curtail pension expenditure, often by reducing inflation adjustments and, in virtually all countries, by increasing the minimum pensionable age by about two to three years for men and three to six years for women (tables 5.2 and 5.3). Some governments have also taken measures to improve the collection of contributions, particularly through so-called unified collection systems, under which a single agency collects contributions for several social insurance schemes (for example, pensions, health care, unemployment, sickness, employment injury) and may also collect income tax.

Table 5.2. Pensionable ages in new EU Member States, 2003

	Year of adoption	Men	Women
Cyprus	1995	65 (early retirement at 63)	65 (63 for those born before 1 January 1935)
Czech Republic	1995, 2003	Rising to 63 by 2013	Rising to 59-63 (depending on number of children raised)
Estonia	1998, in force 2000	63	Rising to 63 in 2016
Hungary	1996	62	Rising to 62 in 2009
Latvia	1998	62	Rising to 62 in 2008
Lithuania	1994, 2000	62.5	Rising to 60 in 2006
Malta	1987	61	60
Poland	1998 (in force, 1999)	65, with early retirement eliminated beginning in 2007 ^a	60, with early retirement eliminated beginning in 2007 ^a
Slovak Republic	2003	60 for men, rising to 62 in 2006 (by 9 months per year)	53-57 (depending on number of children raised), rising to 62 (by nine months per year). Fully effective in 2014 for those with five or more children.
Slovenia	1999	63 ^b	61

^a For those born after 1948, with exceptions for a narrow list of occupations to be specified by regulation. These pensions will be financed separately, not through the social insurance system. ^b Retirement before the age of 63 for men and 61 for women entails penalties (exceptions exist for certain groups of insured). Bonuses (higher accrual rates) may be paid for careers of over 40 years for men and 38 years for women.

Source: ILO compilation.

Table 5.3. Pensionable ages in the Stability Pact countries

	Current law, year of enactment	Men	Women
Albania	2003	61 in 2004 with 35 years' contributions, gradually rising to 65	56 in 2004 with 35 years' contributions, gradually rising to 60
Bosnia and Herzegovina	1998 and 2001, Federation of Bosnia and Herzegovina	65 in 2004 with 20 years' contributions, or any age with 40 years' contributions ¹	Same.
	2000, Republika Srpska	Same as Bosnia and Herzegovina, with option of early retirement at 63 in 2004 and 64 in 2005	Same as for men, with option of 60 with 20 years' contributions or any age with 35 years' contributions
Bulgaria	1999	62.5 in 2004, rising to 63 in 2005	57.5 in 2004, rising to 60 in 2009
Croatia	1998	63 in 2004, rising to 65 in 2008	58 in 2004, rising to 60 in 2008
The former Yugoslav Republic of Macedonia	2000	64 in 2004	60.5 in 2004, rising to 62 in 2007
Moldova Republic of	1998	62 in 2004 with 30 years' contributions ²	57 in 2004 with 30 years' contributions
Romania	2000	62 years, 5 months in mid-2004 with 35 years' contributions, rising to 65 in 2014	57 years, 5 months in mid-2004 with 30 years' contributions, rising to 60 in 2014
Serbia and Montenegro	2003, Serbia	63 with 20 years' contributions, 65 with 15 years' contributions and 53 with 40 years' contributions	58 with 20 years' contributions, 60 with 15 years' contributions and 53 with 35 years' contributions ³
	2003, Montenegro	60.5 in 2004 with 40 years' contributions, rising to 65 in 2013	55.5 in 2004 with 35 years' contributions, rising to 60 in 2013

¹ The law also provides for bonuses for individuals employed in difficult and hazardous works and for war veterans (for example, one year of work counts as 1.5 or two years). ² A gradual increase of six months a year has been under way since 1999. In 2003, the process was suspended for five years, leaving the age at 62 for men and 57 for women. ³ In addition to earlier retirement for certain professions, including miners, transport workers, work underwater and ballet dancers.

Source: ILO Budapest email survey of regional labour ministries.

Later in the 1990s, when the initial shocks of transition had subsided, most governments took steps to redesign the pension benefit package. As in Western Europe, a major thrust of these efforts was to individualize pensions. Some countries adjusted their defined benefit pension formulas to reduce redistribution towards low-income workers (Hungary, Slovakia). Others replaced defined benefits with new notional defined contribution systems under which each worker receives a benefit at retirement that depends exclusively on the contributions paid, adjusted to reflect the life expectancy of the individual's age cohort (Latvia, Poland).⁶

A more extreme reform involves the partial privatization of pension schemes, generally involving a reduction of the benefits paid by public pension schemes and the creation of new systems of privately managed individual savings accounts. Although the original rationale, that it could avert a pension crisis caused by ageing, has since been abandoned by all analysts,⁷ privatization has proven popular and has been adopted by more than half the new EU Member States⁸ and by Bulgaria, Croatia, Serbia and Montenegro, The former Yugoslav Republic of Macedonia and Ukraine.

Early experience points to several problems with this approach. First, the new individual savings accounts are built up by diverting a portion of existing pension contributions to the privatized tier.⁹ This creates a "hole" in the financing of public pension schemes, which must continue to meet the benefit obligations acquired in earlier periods. The size of this hole ranges between 0.5 and 2.5 per cent of GDP a year over the next half century.¹⁰ Who will bear this burden?

Second, although privatization was promoted as a way of reducing State involvement in pension provision, experience points to the need for governments to perform many new and complex tasks. The main difficulties involve: establishing individualized record systems for contributions; coordinating the new individual savings systems for retirement with pre-existing social insurance systems for disability and survivors' benefits; defining the benefit package to be provided through the new individual savings accounts; and ensuring that private administrative charges are kept at reasonable levels which do not erode savings. The latter is crucial, as such administrative charges are high in Central Europe, in some cases consuming one-quarter of investment earnings, and in others even one-quarter of career pension assets.¹¹

Third, privatization requires stable financial markets which offer productive investments. Experience in the region shows that such markets must exist before the pension system is privatized and that pension reform cannot be expected to bring them about. This is illustrated by the heavy investment of private pension funds in government bonds across Central Europe. The proportion of such investments exceeds 60 per cent in Bulgaria, 65 per cent in Poland and Hungary and 80 per cent in Croatia (Chłoń-Domińczak, 2004). This use of savings provides neither the higher yields that private

⁶ There are exceptions to this trend. The Czech Republic has enacted major reforms that have retained redistributive effects benefiting low-income workers, and Slovenia has enacted reforms narrowing the allowable difference between the highest and lowest pensions.

⁷ This argument was put forward by the World Bank in a 1994 publication, *Averting the old-age crisis*.

⁸ Estonia, Hungary, Latvia, Poland and Slovakia.

⁹ One country, Estonia, also increased the contribution rate paid by participants in the mixed pension system.

¹⁰ In Poland, the long-term costs of pension privatization were projected using a social budget model developed by the Gdansk Institute for Market Economics in cooperation with the ILO and the Labour Ministry. The results show that these costs will total about 2 per cent of GDP a year for 50 years (Chłoń-Domińczak, 2002, chart 22).

¹¹ In Hungary, the large international pension funds charged their members 23.8 per cent of the gross return on investments in 1990 (Augusztinovics et al., 2002, table 15). In Croatia, Chłoń (2004) has estimated that management fees will reduce workers' assets by 26.8 per cent over their career.

securities can offer (although they are more risky), nor the diversification of pension risks and assets sought by advocates of privatization.

5.4.3. *The Commonwealth of Independent States*

In the CIS countries, the pension systems prior to transition also had low retirement ages, high levels of redistribution and non-transparent financing systems. However, the economic contraction of the early 1990s was more severe in these countries, as was the impact of high inflation – compressing the range of benefit levels and eroding the purchasing power of pensioners. In many countries, tight fiscal constraints also led to pension arrears. However, the measures taken to protect the poorest pensioners gave rise to a situation in which minimum pensions exceeded minimum wages, with impoverished families looking to the pensions of their elderly members as a vital source of income.

In the late 1990s, many CIS countries started to restructure their pension systems with, as in Western and Central Europe, a trend towards more individualized pensions and, in some countries, the replacement of social insurance schemes with privately managed individual savings. In 1998, Kazakhstan became the subregional leader in this respect by adopting a Chilean-style full replacement of social insurance. In 2001, the Russian Federation adopted a three-pillar system, while Azerbaijan and Kyrgyzstan have adopted legislation providing for individualized pension accounts. The obstacles to the successful implementation of these systems include: small and undeveloped private financial markets; high administrative costs; and the absence of a source of revenue to cover the high transitional costs of moving to advance-funded systems. In addition, the public pension schemes in CIS countries continue to encounter difficulties in collecting the contributions due in economies with a large informal economy.

5.5. *Policy responses*

As noted above, there has been a major shift in understanding the ageing challenge and the policy options available. The approach that claimed worldwide attention a decade ago (the replacement of social insurance with individual savings) has been displaced by a realization that all pension schemes, no matter how organized or funded, will be affected by ageing. At the same time, the crucial roles of the labour market and employment policy in raising employment rates and extending working life are increasingly widely recognized.

5.5.1. *Increasing employment rates*

Employment promotion is a powerful means of mitigating the effects of population ageing on social protection schemes, especially where there is a large informal economy. A key challenge, as indicated in the ILC's 2001 conclusions concerning social security, is to increase the employment and participation of all population groups, with particular reference to women, youth, migrants and older workers. The European Councils in Lisbon (2000) and Stockholm (2001) set targets for 2010 for raising employment rates in the EU to close to 70 per cent for the working age population as a whole, over 60 per cent for women and 50 per cent for older workers. These targets imply an increase in employment of about 20 million overall in the EU-15.

Box 5.2**Impact of increasing labour force participation**

ILO model calculations show that in a rapidly ageing EU country with a de facto retirement age of 60 and a female participation rate similar to that of the Netherlands, the combined unemployment and old-age pensioner dependency ratio was around 62 dependants per 100 employed persons in 1995. If the de facto retirement age were to be raised to 67 by 2030 and female participation to the current highest European levels (Sweden), the combined dependency ratio would amount to about 68 per 100 employed persons in 2030. Under status quo conditions (an unchanged de facto retirement age of 60 and unchanged labour force participation of women), the ratio would be 80 to 100, or about 18 per cent higher.

Source: ILO (2001c, p. 50).

The main reason for women's limited participation is the fact that they have to assume most of the caring and household responsibilities. The European Council in Barcelona (2002) called upon Member States to remove disincentives to female labour force participation and strive by 2010 to provide childcare to at least 90 per cent of children aged between three and the mandatory school age and to at least 33 per cent of children under three. Leave arrangements are of course important in reconciling work and family responsibilities. However, it might be more efficient to reallocate some resources from full-time leave to combining care and work and developing childcare services. Immigration is another important potential means of improving labour force participation rates.¹² For example, Spain and Greece expect that immigrants will generate an important extra supply of labour.¹³

In most countries, one of the reasons for the promotion of early retirement was the hope of improving the job prospects of young people. However, it is doubtful whether it has had this effect, in part because the entry and exit flows in the labour market do not usually occur in the same sectors, companies or occupations. Moreover, as emphasized in the ILO's Older Workers Recommendation, 1980 (No. 162), the employment problems of older workers should be dealt with in the context of a strategy of full employment, and policies should ensure that employment problems are not shifted from one population category to another.

5.5.2. Extending working life

Extending working life is an important way of increasing employment rates. The European Council in Barcelona set a target for a progressive increase of about five years in the average exit age by 2010 (European Commission, 2003b). However, any measures taken for this purpose have to take into account the needs and rights of older people, especially those who have experienced poor working conditions, contributed for long periods or suffer from health problems.¹⁴ The extension of working life also requires com-

¹² See "Case study of ageing and migration in Europe", in ILO (2004e).

¹³ The Spanish national strategy report emphasizes the contribution of foreign workers to the favourable financial situation of the social insurance system. The number of foreigners covered by the system more than doubled from 332,000 in 1999 to 792,000 in 2002 (Council of the European Union, 2003).

¹⁴ Within the EU, among today's 55-64 year olds, low-skilled workers started work on average at the age of 18, three years earlier than their higher skilled counterparts. In France, those with less than upper secondary education started working life on average eight years earlier than those with tertiary education (European Commission, 2003b).

plementary measures that provide real freedom of choice for older workers as to whether they continue working or retire.

There is a strong relationship between the education and employment levels of older workers. In 2001 in the EU-15, the employment rate of higher skilled workers aged 60-64 years was double that of low-skilled workers (European Commission, 2003b, table 4), with the rest of the region facing similar trends (Fortuny et al., 2003). Older workers do not, however, represent a significant proportion of the recipients of employment and training programmes, even though they are an increasingly important target group. In the EU-15 and the new Member States, lifelong learning has been the subject of policy discussion for years. Stereotyped attitudes towards older people are still the main obstacle to their employment, the role of employers being crucial in this respect.

Box 5.3

The Employers Forum on Age (EFA): The business case for age diversity

The EFA promotes an all-inclusive workforce across ages by emphasizing the advantages for business in terms of the wide range of skills available, the avoidance of skill vacuums caused by the departure of experienced employees and adaptation to new markets. By abandoning prejudices about age, companies gain competitive advantage and financial benefits:

Employers: reduced costs as a result of improved employee retention and access to a wider labour pool;

Market: opportunities to become closer to customers from different age groups;

Reputation: good corporate citizenship contributes to stakeholder commitment and brand loyalty.

Source: www.efa.org.uk.

An effective solution also requires measures to combat age discrimination. The adoption of Council Directive 2000/78/EC of 27 November 2000 establishing a general framework for equal treatment in employment and occupation, which includes age among several other grounds not previously covered by EU texts, was therefore important in this respect.¹⁵ The Slovak Republic has also adopted legislation prohibiting age discrimination.

Box 5.4

Slovak legislation prohibiting age discrimination

Act No. 387/1996 prohibits employers from advertising jobs with age limits. The National Employment Plan (2000) contains measures to eliminate discrimination and monitor the exercise of the right to employment by groups at risk. The new Labour Code (2002) provides that natural persons shall have the right to work and the free choice of employment, the right to fair working conditions and protection against unemployment without any type of discrimination on a series of grounds, including age.

Source: Fortuny et al. (2003).

¹⁵ The Directive requires all Member States to introduce legislation over the next five years prohibiting direct and indirect discrimination at work based on age and other grounds.

With a view to facilitating a gradual transition from work to retirement, some countries have introduced flexible retirement schemes, including abolishing the statutory retirement age and allowing flexible part-time work. Finland is introducing a flexible retirement age of between 62 and 68 years as from 2005 and offers higher accrual rates of pension rights at this age. Spain has allowed the combination of pensions and work after 65, with a pension increment being awarded for each additional year worked. However, in many countries retirement remains inflexible and those working longer do not receive adequate reward (Council of the European Union, 2003, page 60).

5.5.3. Pension reforms

Pension reforms can only be effective in coping with demographic pressures in so far as employment levels rise and older people have viable options to continue working. In this respect, the reforms required across Europe are similar: stronger incentives within pension systems to delay retirement; rules which facilitate gradual retirement; incentives for workers to save for their retirement; and public information measures to improve awareness of the options available. In addition, there is a need to redesign the pension benefit package to reflect the changes under way in Europe and, in the transition economies, to strengthen the governance of pension schemes in anticipation of the financial stresses of demographic ageing.

Current social and economic transformations mean that tomorrow's retirees will have very different career profiles and family patterns to those of today. In redesigning the benefit package, there is a particular need to address gender issues, as women are often major losers in current pension reforms. In addition, there is a strong call in many countries for the introduction of an adequate minimum pension to respond to the consequences on future retirement income of rising job insecurity and the development of non-standard forms of employment.

The emergence of private provision is tending to increase inequalities, and raises concerns regarding the adequacy of future pensions. An appropriate regulatory framework is needed and administrative costs must be reduced.¹⁶

One option that is being followed in Denmark, the Netherlands and Sweden is the development of industry-wide schemes based on collective agreements. These schemes are managed jointly by employers' and workers' organizations and ensure high coverage, as they apply to all workers in the sectors concerned. Belgium, Germany, Italy and Spain are also either following this approach or considering doing so.

In Central Europe, important gender issues also arise in countries that have replaced social insurance with individual savings accounts, many of which (for example, Bulgaria, Poland and The former Yugoslav Republic of Macedonia) have deferred important decisions on the new private benefit packages. One major uncertainty concerns the conversion of savings into an annuity upon retirement, as the use of separate life expectancy estimates for women and men would cause women to receive pensions that are approximately 20 per cent lower than those of men with equivalent work histories and earnings. Gender equality requires the use of unisex estimates for compulsory or subsidized private provision, as in all publicly managed statutory schemes.

¹⁶ The OECD estimates that the administrative costs of private pension schemes range between 10 and 35 per cent of contributions, seriously limiting the real rate of return on the contributions paid (Council of the European Union, 2003, p. 85).

Second, the individualized pension systems introduced in Central Europe give rise to concerns relating to low-income workers, who are at greater risk of poverty in old age in countries where redistribution has been severely curtailed. The situation is especially worrying with regard to women. While the retirement ages of women and men have been equalized in some countries, differences continue to exist (see European Commission, 2003b, tables 2 and 3). The continuity of such differences takes on new significance in the context of the individualization of pension benefits since, given the gender wage gap, they will result in lower pensions for women. In these circumstances, equalizing the retirement age may be the only viable way of limiting this risk.

Third, Central Europe faces the need to improve the efficiency of pension schemes by plugging leaks through which resources are lost, and by addressing weak points that might spring leaks under demographic pressures. These include the collection of pension contributions. The main solution adopted (unified collection systems) only deals with certain forms of evasion, namely partial compliance, which can be detected by comparing the records of different government agencies. It is of less use in dealing with the main problems of the chronic under-reporting of workers' wages, the informal economy and government tolerance of non-compliance by certain large firms. Initiatives are needed at the highest levels, including campaigns to raise awareness of non-compliance and its negative consequences. The new approaches adopted need to be tailored to specific contexts, with the active involvement of the social partners. For the informal economy, priority should be given to unregistered firms with the capacity to pay contributions. Governments should lead by example, by applying zero tolerance of non-compliance to state-owned and parastatal firms.

Another issue involves the high administrative fees of private pensions, which are eroding pension savings. Such fees are unjust in any context, but they are particularly threatening when resources for retirement are under pressure. Some governments are reluctant to intervene, in the hope that fees will be pushed down by competition. Yet ageing limits the time available for market forces to kick in, and the domination of these markets by a few large firms raises doubts that this will occur soon. This leaves no alternative to regulation if workers' savings are to be protected.

Finally, Central European governments need to face the transition costs of privatization in the context of ageing. The diversion of pension contributions to privately managed individual savings accounts is creating large and enduring deficits. Long-term actuarial projections need to be undertaken in consultation with the social partners to review the timing of planned diversions of revenues in the light of the pressures of ageing. For those countries that have enacted privatization laws but have not yet implemented them, such projections provide an opportunity to review the overall strategy and/or the size of the second tier. There are no easy solutions, but the sooner the problem is confronted, the greater the chances of avoiding a major erosion of benefits.

5.6. Conclusions

Although pension systems have received broad attention, and certain measures have been taken to address the problems associated with the ageing of the population, much still needs to be done in most countries in the region. Emphasis is normally placed on the technical aspects of pension reforms, while the actual process of defining and implementing reforms tends to be overlooked. Yet this is a key factor, as there is no standard solution to the

policy issues involved (Reynaud, 2000). Each country needs to define its own response to the distributional challenge posed by ageing and to formulate a new social contract on pensions. Furthermore, path dependency is particularly important in this field, with previous choices strongly influencing current policy options.¹⁷ The quality of the reform process is crucial. Long-term guarantees have to be provided for pensions, which are a major aspect of people's security. To avoid conflict between long-term perspectives and short-term political expediency, it is essential to develop collaboration between political and social forces. The involvement of the social partners is crucial in this respect.

The experience of Western Europe shows that, beyond the reform issue, there is a need to monitor and manage pension systems so as to guarantee their long-term viability. The current adaptation process, which is often perceived as a "crisis", is actually illustrative of the adaptability of mature pension schemes, which is a vital characteristic if long-term commitments are to be assured. Moreover, particularly in industrialized democracies, pension systems are a good way of making agreed decisions on income distribution and old-age security. However, it is crucial to provide the ways and means to reach these collective policy choices. An approach that has proven its worth in this respect (for example in Germany, Japan, United States and, recently, in France) is the establishment of an advisory body composed of the social partners, academics and qualified experts.

The need for solutions that combine employment, social protection and the promotion of workers' rights and well-being in a context of consensus-building points to the key role that the ILO can play in reform processes, and corresponds to the philosophy of the Decent Work Agenda. Indeed, pension reform is a perfect example of an entry point for the development of an integrated approach at the national level. ILO action in this field is threefold.

First, it provides a normative framework and policy guidelines that have been agreed on a tripartite basis. The Social Security (Minimum Standards) Convention, 1952 (No. 102), is especially relevant in the region in this respect.¹⁸ In addition, the ILC's 2001 conclusions concerning social security reflect a new international consensus among governments and the social partners and provide the ILO with a new vision of social security adapted to today's needs. The ILC's 2004 resolution concerning a fair deal for migrant workers in a global economy also provides guidelines for the improvement of immigration policies in the context of ageing.

Second, the ILO's tripartite approach is important in facilitating consensus-building on a viable combination of labour market and pension reforms that meet the needs and expectations of society. This tends to be overlooked by international financial institutions and some governments, which seem to be more concerned by the financial sustainability of pension systems than their social sustainability. The involvement of the social partners in this process is important in reaching a broad-based national consensus, and the ILO is active, especially in Central and Eastern Europe, in supporting their well-informed participation in decision-making and the governance of pension schemes and labour market institutions.

Finally, the ILO provides international expertise on the whole spectrum of work-related issues, including social and labour protection, employment creation, social dialogue and workers' rights, all of which are relevant to

¹⁷ The World Bank pension model, the so-called "three pillars" model, had little impact in the pension reform process in Western Europe, as its relevance in a context of well-established and well-functioning systems has been limited by its "one-size-fits-all" and "tabula rasa" approach.

¹⁸ The European Social Charter refers to the Convention in defining the minimum level of protection, and the European Code of Social Security reproduces its substantive provisions.

ageing. In this respect, the Decent Work Agenda provides a comprehensive response that is well adapted to the broad nature of the problem of population ageing.

The importance of promoting productive and decent employment pervades this analysis as the most effective means of ensuring that the demographic pressures affecting social security schemes are manageable and of guaranteeing a minimum of social welfare and income for people in their later years. The ILO's Global Employment Agenda is a response to this need and is a key contribution to the Decent Work Agenda. Consistent with the Millennium Development Goals, it promotes the quantitative objective of increasing freely chosen high-quality employment as a central requirement of poverty eradication.

To address the issue of the inadequacy of social security coverage in many countries, the ILO has launched the Global Campaign on Social Security and Coverage for All, with the aim of promoting and supporting the extension of social security coverage to those who are not covered or are poorly protected by existing schemes. The ILO also actively participates in the multilateral system's initiatives on ageing. For example, it contributed extensively to the Ministerial Conference on Ageing (Berlin, 2002), organized by the UNECE,¹⁹ which adopted the Berlin Ministerial Declaration and the Regional Implementation Strategy.²⁰ The ILO is making extensive use of the Strategy in support of its work on ageing in the region.

¹⁹ The Conference was convened as a follow-up to the Second World Assembly on Ageing (Madrid, 2002).

²⁰ The Strategy includes ten commitments which aim, inter alia, to: adjust social protection systems to the consequences of ageing; enable labour markets to respond to the economic and social consequences of ageing; and promote lifelong learning ([www.unece.org/ead/pau/age/beri/berl list docs.htm](http://www.unece.org/ead/pau/age/beri/berl%20list%20docs.htm)).

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