Beyond the measurement of unemployment and underemployment

The case for extending and amending labour market statistics

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Abstract:

The report of the ILO Working Group on Labour Underutilization entitled "Beyond Unemployment: Measurement of Other Forms of Labour Underutilization" (ILO 2008d) revisits the appropriateness of the current international standards concerning the statistical measurement of employment and unemployment. It suggests that the standard indicator of unemployment is maintained, while at the same time it calls for the introduction of supplementary indicators of various dimensions of underemployment.

Based on this document, this report attempts to provide both theoretical and empirical rationales for complementing and ameliorating the present standards of labour market and employment statistics applied in industrialized and transition countries. It demonstrates how the measurement of the rate of unemployment and the broader concept of underemployment is influenced by the institutional and regulatory context of national labour markets affecting the international harmonization of the relevant indicators. It draws attention to the vast degree of change in the forms and structure of employment and labour markets, and also the evolution of the employment policy framework that occurred in industrialized and transition countries in recent decades. In light of these developments, it calls for an extended set of statistical measurement focussed not merely on the quantity of labour underutilization, but also on the quality of employment and work in order to better reflect the contemporary performance of labour markets.

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Preface

Unemployment is by far the most frequently reported indicator of the labour market in the mass media of virtually every country in the world. Nevertheless, unemployment statistics are often criticised – in developed and in developing countries alike - for failing to reflect the 'true' extent of the employment problem. Such criticisms are not new. They have been expressed for more than 50 years. In response to them, various attempts have been made at the national and international levels to revise the statistical definition of unemployment, or to supplement it with other concepts such as visible and invisible underemployment, time-related underemployment and inadequate employment, expanded or hidden unemployment, labour reserve, etc. However, until now none of these concepts has obtained sufficient attention, and unemployment continues to be the only headline indicator of the labour market.

The purpose of this Working Paper is to contribute to the discussion on the need for extending labour market statistics. The paper was prepared by Werner Sengenberger (former Director, Employment Department, ILO) in consultation with Ralf Hussmanns (Chief, Household Surveys Unit, Department of Statistics, ILO). Virginie Woest provided the secretarial support for the publication of the paper. The ideas developed in the paper were presented to the Technical Workshop on Measures of Labour Underutilization, which was held at the ILO in Geneva on 7-9 December 2009.

Working papers of the Department of Statistics are meant to stimulate discussion. The ILO will therefore welcome comments and suggestions concerning the contents of this paper. They should be addressed to the Department of Statistics, International Labour Office, CH-1211 Geneva 22, Switzerland, fax no. + 41 22 799 6957, e-mail: statistics@ilo.org

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1. Foreword

Labour market statistics has greatly evolved during the last half century. New indicators have been developed and existing ones refined. Nevertheless, criticism has been launched against some of the measurements. Undoubtedly, it is the unemployment statistic – the number and rate of jobless workers – that is at the centre of controversy and debate. While the unemployment indicator has always been questioned by some observers, attacks levelled against it have become more numerous, intense and vocal in recent years.

Indeed, the unemployment rate as a key labour market metric has reached serious limits. In several regards, it is an ambiguous proxy of labour market outcomes. It tends to either over-estimate or under-estimate the true magnitude of labour force underutilization, depending on a country's social policies and institutional arrangements. It can irritate and mislead analysts and politicians alike as a guide to the analysis and assessment of a nation's labour market performance and as a tool for forming labour market policy prescriptions.

Disconcerting questions about the political and social dimensions of measured unemployment and under-employment may be raised. To some extent, they do not concern the statistical definition of these indicators as such, but rather their unqualified use and assessment: As a rule, news about a reduction of the unemployment rate is interpreted as good news for the economy and the labour force. Yet, in fact, a reported lower unemployment rate may not be an unequivocally positive event or an unambiguous sign of improved labour market outcomes. For example, would we want to hail without qualification a lower rate of joblessness if it came at the expense of an increased rate of low pay or working poverty and if these cause more workers to put in excessively long hours of work? Is it desirable to have workers drop out of the labour force, thereby disappearing from the unemployment roster, because the wage of the jobs they are offered is less than the statutory minimum and insufficient for their family's subsistence? Should we really welcome diminished unemployment if it were solely accomplished by lower unemployment benefits, or a reduction of the share of workers eligible for them? Is it sufficient to aspire to a "full-employment- economy"? Or are there other objectives of importance to be pursued through employment and labour market policies? Is it acceptable that bad news from the labour market (signalled by massive job loss or an increased unemployment rate) is considered good news for the stock market?

Similar issues can be raised about the employment rate, i.e. the share of the population at working age that is employed. What exactly does it mean if a country has managed to attain a rate of employment of 70 per cent of its working-age population which is the strategic target set by the Lisbon European Council in 2000 over the decade 2001-2010? Does it not make a big difference whether this employment relates to full-time or part-time jobs and, if it concerns part-time work, to what extent this is voluntarily or involuntary? Is a higher rate of employment preferable to a lower one if it results from an increased number of older workers at pensionable age who are forced to continue working because their pensions are insufficient to meet living expenses?; and if they postpone retirement, they may make it all the harder for younger people to find jobs, or advance in careers? Should we subscribe to the view of politicians who claim that "any policy that generates jobs is better than having no job, and should therefore be seen as socially beneficial", regardless of the quality of the jobs created?

The foregoing questions signal that the statistical construct of unemployment is politically heavily charged. In nations that rely mainly or exclusively on registered unemployment for measuring worker idleness, there is the temptation to manipulate the unemployment statistic. It can affect a government's destiny by influencing the outcome of

elections. Not surprisingly, rates of unemployment conforming to national definitions and those measured according to international statistical standards have diverged. Furthermore, the statistical definition of unemployment does not necessarily fit people's perception of joblessness. It captures exclusively the economic dimension of labour slack. It tells us something about the quantity of people without employment and nothing about the quality of work. It is mute on the individual hardship afflicted on those who are affected by joblessness, and the distress for the society as a whole. Nevertheless, in spite of all these shortcomings, the unemployment rate remains the most widely used and the most popular measure of the state of the labour market. Often it is the only measure of labour market performance that meets the eye or is put to the public in the media.

The unemployment rate is by no means the only key economic indicator that has come under scrutiny. A parallel controversy has surrounded the "Gross Domestic Product" (GDP), which is the most important and most widely used statistical measure of national welfare. The basic assumption that a higher GDP would in all circumstances mean a higher rate of well-being has been disputed. For example, a rise in the number of traffic accidents and the related sickness expenses and repair activities, or traffic jams resulting in increased fuel consumption, or certain activities causing severe ecological damage, add to GDP, but obviously not to the standard of living. This is why both economists and politicians have called for a review of the statistical indicators of welfare and eventually come up with new or better measurements. In analogy to the employment statistic that does not include non-market work, GDP does not take the value of non-market and honorary activities into account. It tells us nothing about the time spent at work, or about the distribution of national output. Furthermore, again parallel to labour market statistics, it has been suggested to complement GDP by indicators of the quality of life, such as health, life expectancy, education, income distribution and pollution of water and air in order to obtain at better measure of human welfare. It has been revealed that measured net disposable income is substantially lower than GDP in some countries, while it is higher in others. Also, an increase of the average per capita income of say three per cent in poor countries may have a different meaning for national welfare than the same per cent increment of income in prosperous countries. In 2008, the President of the Republic of France, unsatisfied with the state of statistical information about the economy and society, created a "Commission on the Measurement of Economic Performance and Social Progress", headed by economists Stiglitz, Sen and Fitoussi. The recently published report by the Commission concluded inter alia that "the time is ripe for our measurement system to *shift emphasis from measuring economic production to measuring people's well-being"* (Stiglitz et. al. 2009, p. 12).

2. The Aim of this Report

The point of departure of this report is a document entitled *"Beyond Unemployment: Measurement of Other Forms of Labour Underutilization"*, prepared by an ILO Working Group [henceforth: Working Group] for the 18th International Conference of Labour Statisticians (ICLS) in Geneva in December 2008 (ILO 2008d). The document revisits the current international statistical standards on employment and unemployment within the so-called labour force framework defined by the Resolution adopted by the 13th ICLS in 1982 (ILO 1982). It summarizes attempts made at the national and international level to refine the concept of unemployment and supplement it with other concepts reflecting underemployment and inadequate employment.

According to the Resolutions adopted by the ICLSs in 1982 and 1998, the employed labour force comprises persons of working age who are either in paid employment or self-employment for at least one hour during the reference period. The standard definition of unemployment covers persons at working age who during the reference period are "without work", "currently available for work" and "seeking work", i.e. taking specific steps to find employment. Under-employment refers to the underutilization of the productive capacity of the employed population. While this may take various forms, the present international standard is limited to time-related underemployment, indicated by involuntary part-time work and short-time work. The internationally recognized concept of inadequate employment comprises employment below a worker's level of occupational skills, low pay jobs and jobs requiring excessive hours of work from which workers seek to escape.

The document summarizes a number of studies that have used a broader concept of labour underutilization and estimated the size of its various components. Labour underutilization encompasses unemployment and other forms of labour slack, including time-related underemployment, discouraged workers and other inactive persons with labour force attachment; employees receiving low earnings, be they full-time employed, less than full-time employed, or over-employed; and skill mismatch, meaning employment in jobs with skill requirements below the worker's level of qualification.

Based on the analysis of the labour force framework and, in particular, the extended scheme of underutilization of labour, the Working Group recommended that "the standard definition of unemployment is essentially sound and the resulting data meaningful. The concept should be maintained and continued to be measured as precisely as possible. But, at the same time, the statistical community should devote serious efforts to introduce, at a par with unemployment, a supplementary concept which measures the employment problem as experienced by individual workers. Thus, the measure should be able to reflect not only total lack of work as measured by unemployment, but also other insufficiencies in the volume of work and deficiencies in its remuneration, as well as incompatibilities between education and occupation, and perhaps also other forms of mal employment" (ILO, 2008d, p. 2).

The present report which covers industrialized and transition countries takes a position that is largely consistent with the basic stance taken by the Working Group. In view of the deficiency and ambiguity of the unemployment rate, efforts should be directed to complementing it by other measures of labour force underutilization. Among the latter, indicators that calibrate the quantity of underutilization ("underemployment") can be distinguished from those that measure underutilization in qualitative terms. They may be termed "undervalued employment". In addition, efforts should be geared to developing and agreeing on internationally standardized composite measures of under- and undervalued employment. Composite measures have the beauty of expressing in a single aggregate indicator

(a single figure) the total proportion of measurable labour market deficiency and, thus, have a greater a chance of broad and popular perception than laying along side a series of indicators.

This report will, in addition, draw attention to, and elaborate on, another problem in the use of the standard unemployment rate. Dissatisfaction, up to the point of annoyance, about measured unemployment has not only arisen for 'technical' reasons' of measurement, but also because of the sensitivity of the level and the characteristics of unemployment to the normative framework of employment and labour markets. The unemployment rate is subject to political decision making relating to the overall framework of objectives, strategies and policies of the labour market. Specifically, as a country or the international community pursues multiple goals through its labour market regulation, rather than just reducing unemployment, a higher rate of joblessness may be tolerated if it is compatible with the realization of other important objectives. Or it may be accepted because the policies or measures that result in higher joblessness today are deemed justifiable by sustained lower joblessness tomorrow. Hence, regulation will attempt to balance various objectives, or balance short term against long term objectives. To illustrate this point: A somewhat higher rate of unemployment may appear preferable if it means the use of wider or better opportunities for the jobless of searching for employment in their occupation, at their previous, or even better, a higher level of wages and in their area of the worker's residence, even though this search may lengthen the unemployment spell. Strict rules of suitability of work for job seekers and excessive downward concessions that the unemployed may have to incur to qualify for unemployment compensation may not be seen as compatible with existing normative standards of employment, nor with labour market efficiency and economic competitiveness. The contingencies of the level of unemployment on labour market regulation and other factors will be discussed in detail below.

The rationale for the position taken here is derived from the analysis of employment and labour market developments during the last half century. New forms of employment and unemployment – in interaction with shifts in the policy framework at the micro- and macro level of the labour market – have emerged. They have profoundly altered the labour market landscape. They have thus entailed a need for adjusting the statistics to adequately reflect the new labour market realities. They may help to explain empirical findings of the report of the Working Group, such as the expansion of low paid labour over the recent past.

Finally, this study will present a broader historical perspective on unemployment. It will compare present-day unemployment and underemployment in industrialized countries with features of unemployment prior to World War II. It will examine whether there are parallels of contemporary labour market development with those identified in the first half of the 20th century. At that time, unemployment was primarily a social concept reflecting individual and social hardship. The notion of worker distress caused by unemployment is conspicuously absent in the labour force framework where employment, unemployment and underemployment are exclusively seen as categories of the degree of utilizing a nation's labour resources. A wider and more comprehensive set of labour market statistics that complement the unemployment rate by measures of under-employment, under-valued employment and otherwise inadequate employment, helps to re-emphasize the measuring of the dimension of distress. It will have to focus on dimensions such as the level and distribution of wages and incomes, poverty, social exclusion, worker qualification, and various forms of labour market insecurity. As hinted in the report of the Working Group, it will bring labour market statistics more closely into line with people's perception of labour market deficiencies.

3. On the Role and Impact of Labour Market Statistics

We measure what we see and we see what we measure. We tend to equate the reality of economic and social life with the image drawn from statistical figures. Statistics has come to be of eminent importance for our perception and understanding of labour market processes and labour fallouts. It has pervaded ever larger realms of the labour market including characteristics of employment and work which previously were considered immeasurable. Leading annual international reports on the labour market and employment, including ILO's Statistical Yearbook, ILO's Key Indicators of the Labour Market (KILM), OECD's annual employment reports, and the EU's annual reports "Employment in Europe", have swollen in content and volume over the years. They have responded and adapted to the rise of new theoretical concepts, new policy objectives and new policy instruments and measures.

Statistical indicators of the labour market are instrumental in identifying policy objectives, setting normative standards for action, choosing among strategic options, assisting in making policy decisions and controlling policy effectiveness. Conversely, the choice of the policy framework and the use of policy measures guide the statistical measurement of policy outcomes. In this regard, labour market statistics is both as an input to and an output of labour market dynamics.

Labour market statistics, furthermore, interacts closely with labour market theory which itself is interlinked with the policy framework. Data generation and data collection follow theoretical constructs. Conversely, measured labour market outcomes, such as the level and structure of employment and un- and underemployment, have informed the formulation and currency of various labour market theories. As we shall see below, the choice of statistical indicators, and the reading of statistical data, has been used to lend credibility to particular theoretical paradigms, or to discredit rival theories. In turn, this has tilted the choice of labour market strategies in one or the other direction.

On balance, labour market statistics has served to enhance our understanding of labour markets. However, it has also given rise to biases and misjudgements. In part, this arises from the fact that we reduce our perception of labour market reality to the "numerical reality", i.e. the component of reality which is accessible to and manifested in statistical figures. For example, the measurement of labour market flexibility has been frequently reduced to handsome indicators of enterprise external flexibility, such as the rate of change of labour market status, the turnover of the stock of unemployed persons, or to employment categories, including the change of employers, of wage categories, occupations, industry, location, etc. For these indicators, data are easily available. Countries with a high degree of such external worker mobility were deemed flexible. Countries that show low rates of change of employment status, but had instead a high rate of enterprise internal numerical flexibility, i.e. adjustment to demand fluctuations without a change of the employment status, have been rated inflexible. Internal adjustment can be accomplished by the change of job content, flexible working hours, enterprise internal worker training, change of work organization ("functional flexibility"), change of products or services, and the like. These represent a kind of "micro-flexibility" that is much more difficult to measure, or resists measurement altogether. While the incidence of internal labour flexibility has been found to vary significantly across EU-countries (see European Commission, 2007, Chapter 3), its numerical importance for labour adjustment exceeds that of external flexibility by a large margin in every EU-country (Seifert and Tangian, 2008, p. 630). Internal modes of adjustment tend to be more significant in countries or industries with a high rate of employment stability, induced inter alia by legal provisions of

employment protection. Failure to pay attention to internal flexibility because of the absence of statistical data has led to erroneous policy guidance.

FIGURE 3.1: A MODEL OF THE INTER-LINKAGES OF LABOUR MARKET STATISTICS

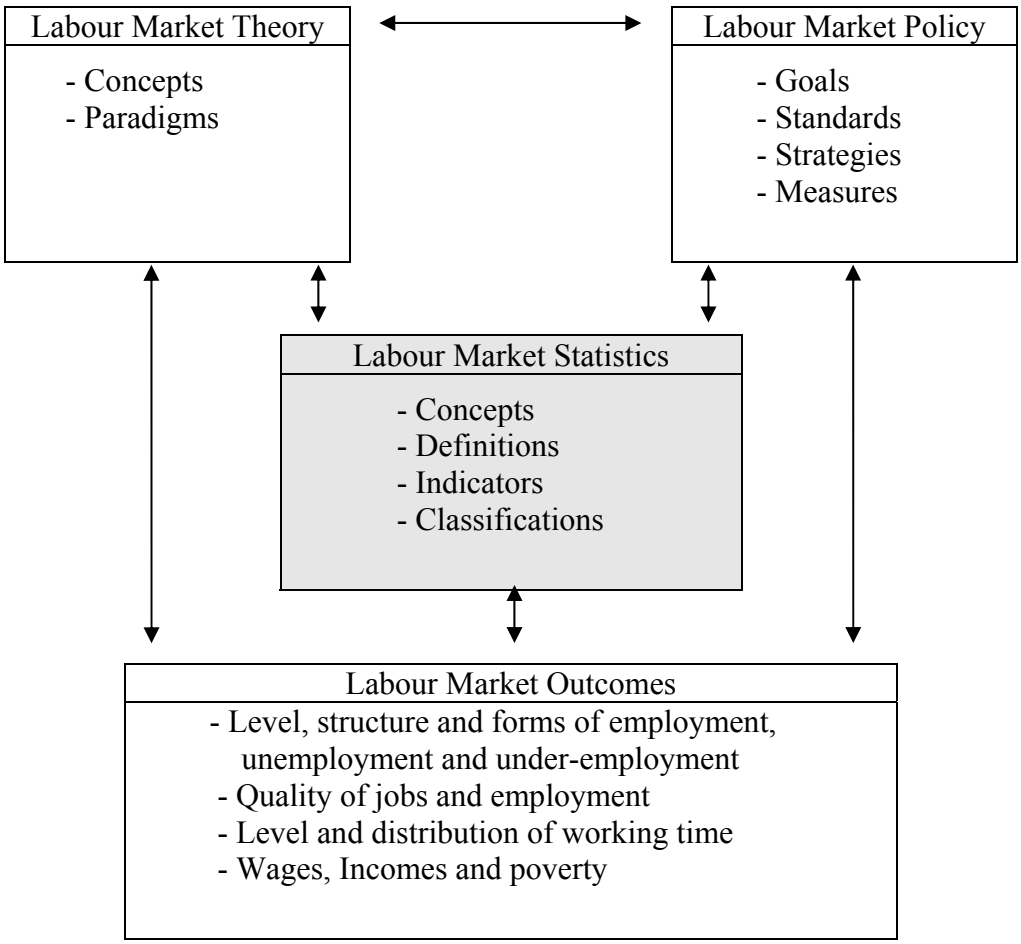


Figure 3.1 visualizes the interplay of labour market statistics with labour market theory, labour market policy and labour market outcomes. The model of linkages of labour market statistics sets the framework for the subsequent analysis conducted in this report: Chapter 4 investigates how labour market statistics has unfolded in interaction with labour market theory and the national and international labour market policy framework over the last century, and how policy regimes converge and diverge across countries. In chapter 5, labour market developments in industrialized and transition countries will be portrayed using the main statistical indicators. Finally, chapter 6 is aimed at analyzing the implications and challenges posed by labour market developments and the received labour market policies for statistical measurement, followed by some proposals on desirable future directions of labour market statistics.

4. The Evolution of Labour Market Theory, Policies and Measurement

4.1. A Brief History of Concepts, Policies and Standards

To portray the history of labour market theory and policies over a century is a rather daring endeavour. In this essay, the evolution can be painted only with a broad brush, trying to capture some of the landmark developments and events (for a more comprehensive recapitulation of the evolution of employment policy, see Rodgers et. al. 2009, chapter 5).

Evolution of basic policy goals: from full employment to decent work

The term "unemployment" has come into being not much more than one hundred years ago. Earlier on, classical economists used the terms "surplus labour" and "industrial reserve army" (Karl Marx) when they referred to the unutilized or underutilized labour force.

At the international level, the use of the concept of unemployment and the enunciation of the goal of a "full employment" economy can be traced to the first decades of the early 20th century. In the ILO, the commitment to the objective of full employment became institutionally enshrined in the Preamble to its 1919 Constitution, which refers to the "prevention of unemployment", recognizing that it was urgent to improve the working conditions of "large numbers of people". In the same year, the first International Labour Conference meeting in Washington, adopted the Convention No. 2 (1919) on Unemployment, which deals mainly with the communication of statistical information and of measures taken in this area, the setting up of public employment agencies and the establishment of insurance schemes against unemployment. In 1927, the World Economic Conference called for "special attention to measures of a kind calculated to ensure the individual the best, the healthiest and the most worthy employment, such as vocational selection, guidance and training" (League of Nations, 1927, p. 42). Also in 1927, Albert Thomas, ILO's first director-general, was explaining that concerning unemployment, the policy imperative "is not that unemployment should be alleviated, compensated and cured, but rather that it should be foreseen, forestalled and prevented " (Thomas, 1948, p. 116). The 1944 Declaration of Philadelphia, annexed to the Constitution of the ILO, recognized again forcefully the objective of full employment and the obligation of the ILO to set up programmes to achieve it.

FIGURE 4.1: A CHRONOLOGY OF LANDMARK CONCEPTS, POLICIES, STANDARDS, AND MEASUREMENT ON LABOUR MARKETS AND EMPLOYMENT

Time	Concepts	International normative standards	Measurement
1896			1896: French population census covers unemployment
1919	Marginalist theory (Marshall etc.) up to the 1930s	1919: Preamble of ILO Constitution "Prevention of Unemployment" 1919: ILO-C No. 1: Maximum hours in industry 1919: ILO-C No. 2 Public employment agencies Insurance against unemployment "Public works" to relieve unemployment	1919: Inauguration of the International Conference of Labour Statisticians (ICA) 1919: ILO-C No. 2: Labour Statistics
1930s	1934: Keynes' General Theory: "Deficient Demand" "Macro-economic demand Management"	1934: ILO-C No. 44 Unemployment provision "suitability of work" 1935: ILO-C No. 47 40 hour work week	
1940s	1944 F. von Hayek "The Road to Serfdom" 1946: W. Beveridge: "Full Employment in a Free Society"	1944: ILO Declaration of Philadelphia: "goal of full employment" 1948: UN Universal Declaration of Human Rights "Right to work" 1948: ILO-C-Nr. 88: Employment Services	1940: US-CPS Monthly report on unemployment 1947: Labour Force Concept: Integrated Measurement of Employment and Unemployment
1950s	1950-73: Golden Age of full employment 1953: M. Friedman "Positive Economics"	1952: ILO-C-No 102: Social Security Standards 1958: ILO-C No. 111 Anti-Discrimination	
1960s	1962: M.Friedman "Capitalism and Freedom" "Monetarism" G. Rehn and R. Meidner Active labour market policy policy Universalist welfare state	1962: ILO-R No. 116 40 hours standard work week 1964: ILO-C-122 Full, productive and freely chosen employment	1968: US-BLS "discouraged workers"

1970s	Workfare Natural rate of Unemployment NAIRU	1970: ILO-C- No. 131 Minimum Wage Fixing 1975: ILO C-142 Human Resources	
1980s	Eurosclerosis Labour market flexibility	ILO-C- No. 156 Workers with family responsibilities 1982: ILO-C No. 158 Termination of Employment	1982: 13th ICLS: Resolution on employment statistics 1985: ILO-C No. 160 Labour Statistics
1990s	Employability 1994: OECD "Jobs Study" Flexicurity	EU Employment Strategy 1994: ILO-C-No. 175 Part-time work 1996: ILO-C No. 177 Home work 1997: ILO-C Nr. 181 Private employment agencies	1994: ILO-C No. 175 Definition of part-time work 1997: OECD Definition of part-time work 1998: 16th ICLS Resolution on Labour Market Statistics
1999: ILO *Decent Work* Agenda			1999: ILO Key Indicators of the Labour Market, 1st ed.
2000s		2000: EU Lisbon strategy "More and better jobs for all" 2003: ILO Global Employment Agenda 2006: ILO-R No. 198 "Employment relationship"	2001: Laeken European Council Job quality indicators 2002: ILO decent work indicators 2004: World Bank: *Doing Business* reports *Employing Workers* Index

ILO Convention No. 122 of 1964, which is ILO's principal standard on employment policy, calls on member states to pursue "active policies to promote full, productive and freely chosen employment: There should be work for all who are available for and seeking work; such work should be as productive as possible; and there should be freedom of choice of employment and the fullest possible opportunity for each worker to qualify for, and to use his skills and endowments in a job for which he is well suited, irrespective of race, colour, sex, religion, political opinion, national extraction or social origin".

The Universal Declaration of Human Rights, adopted by the United Nations General Assembly in December of 1948, had set more ambitious objectives. Unlike the ILO which in its main employment Convention expresses full employment merely as a policy goal, the Declaration enunciated the "right to work". Article 23 of the Declaration states that, "everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment". The right to work had already been written in the constitution of Italy in 1947, and it was gradually enshrined in the constitutions of some 30 state socialist countries in Europe and elsewhere that had adopted central planning for their

economies. In the ILO, no consensus has been reached on the right to work, except in its 1975 Declaration on Equality of Opportunity and Treatment for Women Workers.

Since World War II, there have been numerous affirmations of the goal of full employment at national and international forums. Yet, doubts have been raised as to whether this goal has in fact always been rigorously pursued. Governments have pondered whether a full employment economy would serve other goals, such as competitiveness in international markets. Some countries actually may have preferred a high unemployment rate as an inducement to investors (Charnovitz 1995, p. 230). There have also been concerns that full employment would shift the power equation in the labour market in favour of workers which in turn would end up in wage cost push inflation. In the 'shirking model' of wage determination it is implied that there must be sufficient unemployment in order to curtail worker bargaining power and to act as a worker disciplining device on wage demands (Shapiro and Stiglitz, 1984).

From the beginning of the history of social policy, the pursuit of good conditions of work and employment was as salient among the employment objectives as the goal of full employment. In fact, objectives and measures to protect workers from hazardous types of work precede the notion of full employment. The very first ILO Convention in 1919 set a maximum to the daily and weekly hours of work in industry, followed by similar standards in other sectors, such as mining and services, in the course of the 1920s and 1930s. International standards for the protection against dangerous substances had already been established prior to World War I.

International standards to protect workers against various risks, including over- and underemployment and wage dumping, and to promote their employability, were adopted in the second half of the last century, notably in the 1970s and 1980s. Among the most important ILO instruments were: the 40 hour work week (ILO Convention No. 47 of 1935), employment services (ILO Convention No. 88 of 1948), social security (ILO Convention No. 102 of 1952), minimum wages (ILO Convention No. 131 of 1970), human resources development (ILO Convention No. 142 of 1975), collective bargaining (ILO Convention No. 154 of 1981), employment protection (fair dismissal) (ILO Convention No. 158 of 1982). These ILO instruments were preceded by equivalent national regulation in a number of member countries.

From the 1980s, standard setting activity on employment and other social policy fields subsided, mainly for two reasons: Firstly, the end of the cold war and the systems competition between capitalist countries and socialist (or centrally planned economy) countries ceased in 1990 so that policy makers felt less of a need to promote social objectives. Secondly, social policy came increasingly under attack from major sections of the research and policy communities. They depicted labour market and social regulation as impediments detrimental to economic growth, economic dynamism, market efficiency and also full employment (see details below).

A new concern with employment emerged just before the turn of the century. It was explicitly focussed on the quality of work. The ILO espoused its *Decent Work Agenda* in 1999 and has elaborated and refined it since then. The European Union followed suit rapidly by launching a "*quality of employment*" campaign. The Lisbon European Council in 2000 set an ambitious target for the Union over the decade 2001-2010, to become "the most competitive and dynamic knowledge-based economy in the world, capable of sustained economic growth with more and better jobs and greater social cohesion". These new quality-centred objectives, and the related policy initiatives, were inter alia motivated by the expansion of non-standard

forms of work, and precarious ones in particular, documented in chapter 5 of this report. Labour market reforms to reduce employment regulation and facilitate the use of non-standard employment had increasingly been undertaken in Europe during the 1990s. They led to segmented labour markets with increasing numbers of workers trapped in temporary contracts with little chances of moving to more secure jobs. It resulted in a widespread perception of higher job insecurity and precariousness (Boeri, 2008).

There had been antecedents of the decent concept at the national level, notably in the Nordic European countries, such as the 'humanization of work' campaign originating in Norway in the 1970s and spreading to Germany, or the "good work" policy of the Swedish trade union federation LO in the 1980s. Moreover, the improvement of employment opportunities for women and equal treatment of men and women has been an important ingredient to the drive to better and more equitable labour market outcomes.

The history of standard setting on employment and labour markets, and the formation of policies and measures associated with them, has had implications for the evolution of statistical standards on labour and labour markets. It is probably fair to say that in most instances, the design of statistics, including concepts, classifications, definitions and indicators, trailed the development of policies by some margin. For example, with the exception of France that pioneered the measurement of unemployment in the late 19th century, the regular measurement of joblessness in most industrialized countries came not before the year 1940, way after the promulgation of the full employment objective. The statistical account of new forms of employment also arrived some time after these forms had expanded and had reached some significant levels. To some extent this is not surprising given that such forms must show up as mass phenomena to arouse the preoccupation of statisticians. On the other hand, the attempt to measure decent work came fairly rapidly after the birth of the decent work concept at the turn to the 21st century. Concurrently with the ILO, indicators to monitor job quality were developed in the European Union and adopted by the Laeken European Council in 2001 (see also section 6.3 of this report).

Shifting paradigms of economic thought: from deficient demand to supply side policies

Up to the 1930s (and again from the 1980s), marginalist micro-economic theory (developed and refined by Alfred Marshall and others) dominated professional economic thinking and teaching. The experience of the Great Depression in the late 1920s and 1930s had led to revolutionary new thought on unemployment. At its origin was the seminal study by John Maynard Keynes entitled "The General Theory of Employment, Interest and Money", published in 1936 both in Britain and the United States. According to Keynes, unemployment is caused by the endemic uncertainties of profits and economic rigidities in capitalist market economies which entail insufficient demand for labour, not only at business cycle downturns, but permanently. To remedy it, aggregate demand needs to be stimulated by expansionary macro-economic policies up to the point of full employment. Wage reductions would not increase employment. In conjunction with other changes, they might merely reduce aggregate demand. Instead, full employment could be accomplished by supplementing private expenditure with public spending. Already in 1934, Keynes had pressed on President Roosevelt the need for higher public expenditure financed by loans. Yet, it was not before 1939 that high labour surplus in the US was cured by a vigorous expansion in aggregate demand.

Keynes turned the prior understanding of the roots of unemployment, and the policy prescription to overcome it, upside down. In the Great Depression, the collapse of the money supply and the lack of monetary stimulus during contraction aggravated the economic fall.

Throughout much of the 1920s, the cure applied to high joblessness had been either to cut wages and consumption power along with it, or reduce government spending. As we know today, the effects of these measures were counterproductive. In Germany, for example, every government between 1929 and 1932 tried desperately to fight unemployment taking ever deeper cuts in the state budget, only to earn higher numbers of unemployed each time.

Keynes defined full employment as the level of employment at which there is no involuntary unemployment. In 1944, William Beveridge went further. He incorporated the notion of adequacy, or acceptability, of jobs in the definition of full employment which he characterized as the "situation in which there were more vacant jobs than unemployed men", and where there were "jobs at fair wages of such a kind and so located that the unemployed men could reasonably be expected to take them" (Beveridge, 1944, p. 18). For Beveridge at the time, full employment was reached at the rate of three per cent unemployment, corresponding to the rate of "frictional unemployment" due to normal job changing. In fact, this was about the level of unemployment that the industrialized countries experienced on average during in the 1960s and early 1970s.

The ideas of Keynes gave birth to the "Keynesian School" of economics which dominated economic thinking and a good deal of policy design until the early 1970s. In the Keynesian paradigm, expansionary macro-economic (monetary and fiscal) policies and counter-cyclical demand management had to ensure full employment, whereas micro-economic policy had to control inflationary pressures and promote efficiency, through regulations, anti-monopoly institutions and measures, and incomes policy.

The commitment to full employment was successfully translated into reality in the Golden Age of the World Economy (1950-1973), in which labour shared the fruits of progress with stable growth and full employment. In this period, the macro-economic growth path was compatible with the behaviour of individual economic agents – firms, workers and consumers. This compatibility was ensured by a broad consensus around institutional arrangements in respect of the setting of wages and prices, the distribution between wages and profits , and the state fiscal, credit and welfare policies which guaranteed minimum living standards and maintained aggregate demand (Singh 1994). In this period of large social consensus, important labour standards were set and statutory regulations and institutions were created or strengthened at the national level, as well as at the international one. Among them were the international standards on freedom of association and the right to organize (ILO Convention No. 87 of 1948), and free collective bargaining (ILO Convention No. 98 of 1949), income protection and social security, and employment services. The Swedish economists Gösta Rehn and Rudolf Meidner pioneered the concept of *"active labour market policies"* designed to reduce structural unemployment and serve as a counter-cyclical device in periods of low labour demand. Vocational training and retraining and subsidies for worker relocation were to promote the occupational and spatial mobility of workers and jobs, thus preventing or mitigating mismatch in the labour market. *Frictional unemployment* was to be kept to a minimum through public employment services including labour market information systems, worker and employer counselling, and a public employment exchange. Wage drift and rising unit labour costs showing up since the mid-1960s was attempted to be monitored and controlled by wage guidelines, governmental interventions such as wage and price freezes, and official or tacit efforts to restrain trade union collective bargaining power through some kind of bipartite or tripartite social contract (for an overview of national approaches, see Flanagan et. al. 1983). In some countries, this was combined with policies for increasing productivity.

The counter-revolution to Keynesianism set in the 1970s. With the renaissance of the *neo-classical paradigm* of economic thought, views on unemployment altered profoundly. Supply-side economics and micro-economics advanced in theory and practice. The *monetarist* school of economics rejected Keynesian lines of expansionary demand management and recommended instead that the money supply is to grow steadily at a rate equal to the rate of aggregate supply plus any target rate of inflation. The shift in the macro-economic paradigm was fuelled by the observation of the concurrent rise of unemployment and inflation and an upward shift of the Beveridge-curve which plots job vacancies against unemployment rates.

The intellectual foundations of the neo-classical paradigm had been established long before Keynesianism. The new impetus came from the writings of Friedrich Hayek and Milton Friedman and other economists of the "Chicago School" who promulgated the virtues of free market liberalism. The main works of Hayek (1944) and Friedman (1953; 1962) had been written between the 1940s and 1960s, but it was not until the 1970s that their ideas started to gain prominence and to successively become the new economic orthodoxy. The dominance of the neo-classical school of economic thought during the remainder of the 20th century is reflected in the fact that between the mid-1970s and the mid-1990s, ten nobel prizes in economics were awarded to scholars attached to the Chicago school. Nearly all of them heralded the free market economy and depicted regulations as impediments to economic freedom, dynamism, growth and full employment.

A central neo-classical dogma holds that free market economies which are efficient and in which individuals act rationally have an in-built tendency towards generating full employment. If permanent unemployment in excess of the level of frictional unemployment occurs, this will largely be of a *"voluntary"* nature. Workers are said to be freely making decisions on participation in employment, on the search of employment, on the choice of hours of work, or the duration of unemployment. The observed swings in unemployment are, then, the outcome of the voluntary optimizing decisions by workers and employers in efficient markets. Furthermore, workers may choose to work less and consume more leisure in response to temporarily depressed real wages or low real interest rates, or "more drastically, they would withdraw indefinitely and change their lifestyle to one of living on benefits and casual, possibly undeclared, earnings on the assumption that real wages are never likely to be sufficiently attractive" (Minford, 1983, p. 214).

Involuntary unemployment, it is argued further by neo-classicists, could not occur permanently in a free market economy. If it does persist, this would be due to governmental regulation or collective action causing labour market imperfections and inhibiting economic growth and market clearance. Unemployment that exceeds the market clearing (equilibrium) rate of unemployment would be *'structural'*. The term structural unemployment was given a new meaning compared to the connotation (of educational, skills and spatial mismatch of supply and demand) it had in the Keynesian paradigm. Structural unemployment would be caused by deliberate public or private interventions into the free operation of the labour market resulting in market distortions, high bargaining power for workers, and excessive wages and labour costs in its vein. New theoretical approaches, such as "insider-outsider" or "rent-seeking" theorems squarely blamed labour unions' monopoly power for undue rises of wage income, mounting income inequalities and unemployment. Wage increases that are unwarranted by commensurate productivity gains would feed inflation. The rate of unemployment that keeps wage increases in line with productivity increases has been termed the *"non-accelerating-inflation rate of unemployment* "(NAIRU). From the mid-1970s, all European countries showed a sizeable increase in the level of the NAIRU, with France, Italy

and the United Kingdom sticking out by particularly strong margins. By comparison, the rates of increase were minor in the US and in Japan (see ILO 1996, p- 49-51).

The refined neo-classical theorems offered a new interpretation of the "Phillips Curve" which asserts a short-run, non-linear, inverse relationship between unemployment and inflation. The trade-off between the two was said to result from money illusion and incomplete information on the labour market. In periods of rising inflation, workers would mistake higher nominal wages (in spite of simultaneously rising consumer prices) for higher real wages. They would be more inclined to take job offers, thus spending less time on job search. Conversely, they would mistake expected deflation for a real wage cut and, therefore, they would extend their job search. This behaviour would show up in an inverse statistical link between inflation and (voluntary) unemployment. As soon as workers recognize the monetary illusion, they would change their behaviour and the Phillips-curve trade off would vanish. Job search related unemployment would return to its *'natural'* rate reflecting frictions and mismatch on the supply side of the labour market (on the theory of search unemployment, see Phelps 1970).

For neo-classical economics, the main candidates for market distorting policy instruments have been generous unemployment benefits, minimum wages, employment protection, and any other interventions which would drive the wages above the level of market clearing (equilibrium) wage, or create inflexibilities that prevent market clearing. The policy prescriptions resulting from this view were accordingly: Remove labour market rigidities and promote flexibility; and lower the real price of labour (wages, fringe benefits, etc.) to the point where a balance of supply and demand of labour is restored.

The tenets of the causes of unemployment held by the new orthodoxy did not remain unchallenged. The viewpoint according to which the high unemployment from the 1970s was largely voluntary was ridiculed by one commentator who asked "Unemployed people – do they really exist?" (Rothschild 1990). Recently, the viewpoint provoked Paul Krugman to ask: "Was the Great Depression the Great Vacation?" (Krugman, 2009, p.5). Indeed, one may ask why workers should voluntarily inflict upon themselves the hardship associated with unemployment. It is also questionable to interpret frictional unemployment in terms of a "natural rate" of unemployment. It would be essential to examine whether the spell of frictional unemployment – i.e. the time lapsing between the loss of a job and the commencement of a new job – is caused by a (voluntary) quit by the worker or, on the contrary, by (involuntary) dismissal or layoff. Only in the first instance may one speak of job search related voluntary unemployment. Furthermore, unemployment should not be termed 'voluntary', if the spell is lengthy due to an unfavourable labour market situation or deficient employment services (Rothschild, 1990, p. 22). No overall empirical evidence was found that European trade unions exerted a pernicious influence on unemployment and the wage distribution as claimed by insider-outsider theories (Watt and O'Farrell, 2009, p. 359).

Contrary to the theorem of search unemployment, it is well known that in times of low labour demand when wages stagnate workers for fear of unemployment are more inclined to take jobs more quickly. If spells of job search are longer it is because jobs are more difficult to find. Numerous studies questioned the notion that unemployment would be the workers' own fault, or the empirical validity of the neo-classical concepts, or offered alternative explanations to the 'structuralist' views of supply constraints to account for the persistently slow growth and high unemployment (for an overview, see the World Employment Report 1996/97, ILO 1996; and Lee 1997, p 35-54). In fact, many empirical findings did not square with the predictions of the neo-classical theory. Among other things, it was found that the actual unemployment rate in Europe was way above equilibrium unemployment; and the elasticity of labour demand in

OECD countries did not decline as one would have expected according to the 'structuralist' view. Quite the contrary, labour demand became more responsive to shocks between 1980s and 2002 (OECD, 2007, p. 133). It was pointed out that the prolonged mass unemployment tends to generate a tendency towards *"hysteresis"*- the self-reinforcement of high unemployment. It implies that the NAIRU automatically follows in the path of the actual unemployment rate. Hysteresis transforms a proportion of the unemployed into a permanently marginalized or excluded class of workers. As they lose their skills, the long-term unemployed are no longer considered potential candidates for recruitment; they therefore cease to exert any pressure on wage negotiations and real wages (ILO 1996, p. 56). Others emphasized the impact of the two oil-price shocks in the 1970s, or the restrictive fiscal and monetary policies (with the effect of high real interest rates) run by European governments, respectively central banks, as a major cause of high unemployment in Europe.

Perhaps, the evidence that is most disconcerting for the 'structuralist' model of unemployment comes from the Scandinavian countries. Although there the welfare state has been most advanced, wage bargaining most centralized, and income support for the unemployed given most generously, macroeconomic performance, taken from 1970s, was mostly superior to practically all other countries. Except for some periods, such as the crisis in Sweden in the early 1990s, average unemployment in these countries was among the lowest in the industrialized world, and their rates of inflation of less than four per cent were only matched by Austria, Switzerland and Japan (Schmid, 1995).

Minimum wages and wage compression, another culprit of supply side economics, need not inevitably displace workers with low qualifications from jobs, but could serve as incentive for firms to innovate and as an inducement to remove the poorest performing firms from the market. In this way, economies could enhance productivity and gain competitiveness. As Winston Churchill noted already before World War I, in the absence of a minimum floor to wages, "the good employers are driven out by the bad and the bad by the worst".

Lacking convincing empirical support notwithstanding, the simplistic neoclassical paradigm proved to gain currency in the academic world and became the "conventional wisdom". Its policy prescriptions have found a positive echo among many policy makers whose vested interests and ideologies are favourable to an unregulated private market economy.

Shifts in labour market policy: From statutory regulation to reliance on market forces

From the 1970s when macro-economic performance worsened, virtually all industrialized countries resorted to some kind of labour market policy to fight increasing unemployment. The policies and measures adopted varied from country to country and over time. The menu of policies and corresponding measures covers the following:

- Reducing labour supply, e.g. through early retirement schemes, reduction of weekly working hours, higher disability pensions, and increased redundancy payments;
- Providing incentives for raising the level of employment through wage-cost subsidies, low wage subsidies and employment subsidies (see ILO 1996, p. 96 on benefit transfers);
- Revising regulation on passive labour market policies of income support, either to improve the social protection, or to "activate" the unemployed and underemployed labour force;

- Expanding active labour market policies, including measures such as direct job creation, labour market training and relocation subsidies to promote greater occupational and geographic mobility and to enhance the employability of the labour force;
- Introducing or expanding legal provisions for non-standard types of employment and working hours, such as part-time employment, work sharing, fixed term contracts, and agency work, designed to increase labour market flexibility;
- Reforming public and private employment services, transforming them into more efficient, decentralized, and performance-oriented instruments, partly by turning over the public employment exchange functions to private agencies.

Indicated by the level of spending on *public labour market policies*, the importance of these measures varied with the level of unemployment. Thus, the average percentage of total spending in OECD countries rose in the 1970s and 1980s to reach its maximum of three per cent of GDP in 1993 when the average unemployment rate was at its peak. In that year, 0.86 per cent of GDP was spent on active labour market programmes, and 2.14 per cent on passive measures, the payment of unemployment benefits being its most important component (OECD, 2001, p. 21-24). By 2006, with a rate of 1.52 per cent of GDP, average spending was cut into half of the 1993 level. Excluding the countries in Central Europe which had very low rates of expenditure one comes up with a rate of 1.71 per cent. One may conclude that in terms of spending the industrialised countries lowered their commitment to labour market policies during the 1990s and the 2000s.

By 2006, the average level of expenditure on labour market policies in OECD countries was down to 0.62 per cent for active measures and 0.87 per cent for passive ones (see Table 5.3 section 5.2 below). So, spending had fallen by a greater proportion than the decline of the unemployment rate. One reason for the relatively strong decline of expenditure for passive programmes is the tightening-up of the rules of eligibility for the receipt of unemployment benefits (OECD 2001, p. 23).

In the following the focus of the discussion will be on major reforms of labour market policies from the end of World War II to the present. The evolution may be characterized by a shift from statutory labour market regulation in the three post-war decades to increasing reliance on market forces aimed at fostering numerical labour market flexibility. The process is often referred to as ‘deregulation’, inasmuch as it concerned the retrenchment of provisions of statutory worker protection. The term is somewhat of a misnomer, however, because it falsely suggests the abolition of rules. In reality, what happened was re-regulation designed to provide greater scope for adjustment mediated by market forces, e.g. by the substitution of private for public employment services.

The post-WW-II era was the heyday of regulating the employment relationship through the advancement of labour law. To be sure, national and international norms governing the work place, and employment and unemployment, had been established in the industrial countries in earlier decades. However, it was the thirty-year period from 1945 to 1975 that saw unprecedented intensity and latitude in the creation of statutory labour market regulation, as well as the spread of collective labour agreements. In that period, the “standard” or “typical” employment relationship was firmly established, worker protection advanced and the welfare state more fully developed. Western and Northern European countries took the lead in regulating the labour market. As indicated above, in most instances, setting national labour market standards preceded, and paved the way to, the formation of international standards.

The basic objective behind the regulatory efforts was the reduction of the vulnerability of the employment status of dependent workers, and the diminishing of the asymmetry in the power relation in the labour market: Workers tend to be in an intrinsically weaker position in the labour market than employers because they depend more or less exclusively on paid work to secure their livelihood, while employers have (more) alternative sources of income at their disposal. Worker rights and income protection are means of providing a degree of security and for narrowing the resource and power gap.

There were at least three reasons why the post-war years were favourable for achieving these objectives: First, the Great Depression had demonstrated that mass unemployment and economic plight provoke social instability and political extremism; second, unprecedented economic growth, full employment and partly severe labour shortages had shifted bargaining power in favour of labour. The situation could be used to establish labour friendly legal arrangements. Third, the cold war between East and West and the subsequent rivalry between capitalism and state socialism induced policy makers on each side to maintain system stability by trying to secure the loyalty of the working class.

From about the mid-1970s, the favourable predicaments for labour market regulation were gradually eroded. Unemployment began to rise, weakening labour in general and particularly that of organized labour. The rates of trade union density and the rate of coverage by collective labour contracts declined in nearly every industrialized nation. Fear of job loss spread. It became a worker 'disciplining' device (Stiglitz and Shapiro, 1984). 'Extensive' economic growth gave way to 'intensive' growth: Productivity growth ceased to produce commensurable employment growth, but led to massive job saving instead (Appelbaum and Schettkat, 1994). The systems contest between East and West ended in 1990 after the fall of the Berlin wall and the collapse of state socialism. Following successive trade liberalization from the 1960s, international commerce increased (showing up in higher exports and growing import penetration). Production was relocated (off-shoring). International financial capital flows expanded from the 1980s. Each of these features of globalization entailed more intense economic and labour market competition. With the end of the Bretton-Woods regime of fixed exchange rates, the increasingly open economies were exposed to exchange rate fluctuations and other economic shocks.

While the trend rate of unemployment was rising everywhere in the industrialized world from the 1970s, the scale of that rise was highly disparate between countries, notably between the United States and Western European economies. Until 1983, the official average rate of total unemployment in 11 states of Western Europe (Austria, Belgium, Denmark, France, West Germany, Italy, Netherlands, Norway, Sweden, Switzerland and United Kingdom) was below that of the US (Gordon, 1988, pp. 273-274). Thereafter, European mean unemployment was nearly persistently higher. The gap was even bigger for long-term-unemployment. The Nordic countries apart, European rates of long-term unemployment came to be in excess of the US rate by a factor of three to six. Average European GDP growth rates were above those in the US until 1973 and below US rates thereafter. Finally, European inflation was higher than in the US in most years from the 1960s.

The shift in the measured differential economic and labour market performance of the United States and Europe led analysts to speak of '*Eurosclerosis'*. Taking a 'structuralist' view, mainstream economists blamed European labour market rigidities and welfare state arrangements for the observed European inferiority. Specifically, they stressed the restriction of labour market flexibility due to excessive government regulation, such as worker protection in case of plant closing and dismissal, overly generous unemployment insurance benefits and

excess real wages, and the related issues of capital-labour substitution and capital bottlenecks as main explanations for the comparative European weakness (Lindbeck, 1985, p. 153; Nickell and Layard, 1999). Even though thinking and writing on labour markets in the OECD has become gradually more nuanced, the 1994 OECD "Jobs Study" also attributed European unemployment to lacking wage flexibility and saw low measured unemployment in the United States as the outcome of more flexible labour markets. "Both theory and empirical evidence suggest that lower labour costs stimulate employment in the private sector, and all measures which reduce wage pressures at a given level of unemployment ultimately show up in better labour market performance" (OECD 1994, p. 51). The OECD Jobs Study set out a menu of some 60 policy recommendations within nine broad headings for generating employment growth. Some of the recommendations were geared to wage and labour cost flexibility, cuts of employment protection and the reduction of unemployment and related welfare benefits. In place of such 'negative' labour market flexibility measures, the trade unions proposed a programme of 'adaptability' for the labour market involving trade unions in discussion and action with governments at the macro-economic level and with employers at the sector and plant level. Appropriate measures suggested included working time and workplace reorganization, training packages to foster life-long skills, active labour market policies and negotiations aimed at modifying collective bargaining levels and adjusting taxation and labour costs (OECD-TUAC, 1995, pp. 11-31).

The proposition of 'eurosclerosis' left its mark on policy making. It moved the free market model of the United States into central focus. It engendered a shift in the basic thrust of labour market policies, away from the traditional European welfare state model. Among mainstream economists and large parts of the business community, worker rights were equated with excessive labour costs. Labour law was weakened, either directly through the downscaling of protective provisions, or indirectly through a more relaxed compliance with the law. The policy reforms have come to be broadly called "deregulation", even though in many instances they were aimed not so much at the removal of legal standards, but at "re-regulation" involving the lowering of social standards or substituting public employment services for private ones. Labour market deregulation in Asia and the Pacific, at least with respect to standard working protection, has not primarily taken the direct form of reduction or removal of protective standards, but instead it has taken shape through the expansion of the number of workers from the reach of legislation or subject to lower levels of protection (Lee and Eyraud, 2008, p. 97).

The United States were the first country to revise its labour market policies resulting in new parameters for employment and unemployment, including new rules of eligibility for state benefits. From the late 1960s onwards, under the so-called "Welfare-to-work" concept, aimed at the large-scale substitution of work for welfare, the government started to induce those on the margin of the labour force to take jobs, and oblige the unemployed to take and remain in jobs. At the core of workfare initiatives was the Federal Work Incentive Program (WIN). By the mid-1990s, most states were operating some form of workfare. If welfare recipients did not want to forfeit all or part of their welfare checks, they had to choose between taking the stipulated non-contractual job, i.e. one without an employment contract providing normal employment, attending 'job hunting classes', and returning to school or undertaking full-time training. Another landmark in this direction was the "Personal Responsibility and Work Opportunity Act" of 1996. The rationale for workfare schemes was to reduce not only unemployment, but also the non-inflationary rate of unemployment (NAIRU), based on the idea that unemployment would be voluntary (Standing 2004, pp. 314 and 330).

In Europe, changing the rules and standards of welfare provisions came at a later stage. Initially, the Western European countries attempted to combat rising unemployment by taking

some labour force groups out of the labour market, assuming that this would provide the opportunity for bringing the unemployed back into jobs. For example, France and Germany provided incentives for early retirement and introduced the 35-hour work week to reduce labour supply. The Netherlands ran a programme of disability pensions ("WAO Wet Arbeidsongeschiktheid"). Britain widened the scope for redundancy payments. The Nordic countries, on the other hand, stepped up the range of measures and the spending on active labour market policies.

The thrust of Europe's turn to labour market workfare policies came when unemployment attained higher levels in the 1980s and early 1990s. In Western Europe, higher rates of joblessness, and particularly disproportionately rising long–term unemployment, were increasingly blamed on labour market rigidities and overly "generous" income support for the unemployed. Similarly, in Central Europe and some countries of South-East Europe, rigid labour markets and "excessive" social benefits were made responsible for the incidence of "jobless growth", i.e. low elasticity of employment to GDP growth observed between 1991 and 2003 (Rutkowski and Scarpetta 2005, p. 172). Consequently, the cure was sought in making work arrangements more flexible and reducing social security standards. Even though it was rarely made explicit, the lever to achieve these reforms was to curtail the individual and collective negotiating power of workers. To induce more unemployed workers to take jobs (assuming that work was available), unemployment benefit levels were downscaled, and/or the benefit payment duration shortened, and/or the rules of eligibility tightened. One may call this approach 'negative activation'. The measures were taken on the assumption that generous unemployment benefits discourage the unemployed to return to work, or lengthen the period of job search and drive up wages. The disincentive effect on the jobless to look for work was assumed to be the greater, the higher the level of unemployment benefits in relation to income in work (the replacement rate). If the wage replacement rate and the duration of time over which benefits are paid are lowered, the worker's *reservation wage*, i.e. the lowest wage at which she/he would be willing to accept a particular job, will also decline. Lowering the reservation wage would be especially important if workers were to accept low paid, dirty, dull, and otherwise unattractive or undesirable jobs, because in these instances the worker's reservation wage tend to be higher and the level of rewards offered by the prospective jobs may be lower than the unemployment benefit.

More recently, amble calls for policies of labour market deregulation can be found within the *international financial organizations (IFIs).* The main instruments used by the IMF and the World Bank in promoting labour market reforms have been the *Doing Business Report* by the Bank's Private Sector Development Department, and the *Employing Workers Index* as one of its sub-components. The basic approach of *Doing Business* is that any labour law or labour market regulation that is perceived to be an obstacle to the unfettered rights of investors should be removed. Through its *Employing Workers* index, the Bank assesses the amount of flexibility that exists in national labour legislation in relation to the use of employment contracts, working hours, minimum wages, employment protection, annual leave and non-wage labour costs. High social and protective standards are rated as detrimental to good economic and labour market performance. Conversely, poor legal worker protection indicated, for example, by working days of 12 hours or more, unlimited weekly hours and unrestricted night work were rated positively, as it happened in Asian countries (Lee and McCann, 2008). The report has been used by both IFIs to make specific recommendations for labour market deregulation and in some cases they are used as a condition for lending by the Bank or the Fund. Next to developing countries, transition countries in Central and Eastern Europe and CIS countries have been strongly affected by this policy.

The *Employing Workers* Index has been sharply criticized for its untenable theoretical premises, methodology, lacking empirical validity and doubtful policy implications (Berg and Cazes, 2007). Assumptions behind the Index were at odds even with the Bank's own research findings, as for example those on the investment climate in South East Europe in the mid-2000s. Among the constraints for investment in that region, senior management regarded labour regulations by far as the least severe, compared to policy uncertainty, corruption, legal insecurity, crime, taxes and finance (World Bank, 2006, Table 2.4). Persistent external criticism led the World Bank to announce in 2009 that it would discontinue the use of the Employing Workers index.

In order to make low pay acceptable to workers and to avoid working poverty, the OECD began to advocate policies "to make work pay". This was to be achieved through public transfer payments to "top-up" low earnings that are inadequate to meet family income needs (OECD, 2001, p. 9). This policy advice was regarded as a logical prescription given the (questionable) neo-classical assumptions about labour market behaviour: that excessive wages would feed inflation and generous unemployment benefits would keep the unemployed from actively seeking employment. Public subsidies to supplement poor pay would secure the minimum necessary income without running the risk of enticing workers to idleness; they would allow to keep wage costs for firms sufficiently low to remain internationally competitive; and they would permit to keep occupational wage differentials sufficiently large to avoid disequilibrium between pay and productivity, especially at the lower end of the productivity spectrum.

Make-work-pay policies in OECD countries came in different forms and at different points in time. Ahead of others, far reaching reform in the unemployment benefit system was introduced in Britain, including the reduction of benefit levels and the tightening of eligibility criteria (ILO, 1996, pp. 94-95). In Germany, the thrust of downscaling provisions of income support came during the 1990s and the first half of the 2000s, when the entitlement to unemployment benefits was made dependent on active search and the participation in active labour market policy measures, such as training. "Passive" receivers of benefits were to be turned into "active" actors in the labour market, not merely to reduce unemployment, but to raise the employment rate. Lower earnings resulting from lower benefits levels and more stringent eligibility rules were to be topped up by state subsidies ('Kombilöhne') to ensure minimum income levels.

Table 4.1 shows widely differing duration of unemployment benefit payment and vastly disparate wage replacement rates in OECD countries in the 1980s and 1990s. Many OECD countries kept the duration of benefit payment, or were even raising the duration, during the 1980s, but shortened the maximum duration during the 1990s and 2000s. The replacement rate was increased in the majority of countries during the 1970s, but retrenched in a number of countries from the 1980s. In the United States, for example, unemployment benefits presently pay about a third of the lost salary, up to a cap. Generally, the requirement for the benefits is to have worked full time on the last job for at least a year. But more than half of the unemployed do not qualify because they had been in their jobs for less than a year before the axe fell; or worked part-time; or were independent contractors. Only 43 per cent are eligible for unemployment benefits. Even for them, the anxiety is intense: 61 per cent worry their benefits will expire before they find a job. This is driven home by the dramatic increase in those dependent on food stamps (Financial Times, October 19, 2009, p. 9).

TABLE 4.1: MAXIMUM DURATION OF UNEMPLOYMENT BENEFIT PAYMENT AND WAGE REPLACEMENT RATES

Country	Maximum duration		Net replacement rates (in per cent)*			
	1981	1989	1980	1990	2000	2007
Australia			…	…	…	42
Austria	30 weeks	30 weeks	55	57	57	59
Belgium	indefinite	indefinite	83	73	...	63
Canada	50 weeks	50 weeks	…	37	47	22
Czech Rep.	…	…	…	…	…	15
Denmark	2.5 years	2.5 years	...	60	47	56
Finland	100 weeks	100 weeks	32	50	61	43
France	3 years	2.5 years	34	41	…	45
(West)-Germany	1 year	1 year	74.	64	42	45
Hungary	….	…	…	…	…	20
Ireland	15 months	15 months	…	43	35	50
Italy	6 months	6 months	11	14	8	7
Japan	26 weeks	30 weeks	31	36	20	11
Korea	….	…	…	…	…	6
Netherlands	…..	36 months	18	32	39	28
Norway	40 weeks	80 weeks	…	93	75	72
Poland	…	…	…	…	...	16
Slovak Rep.	…	…	…	…	…	9
Sweden	60 weeks	60 weeks	31	49	64	37
Switzerland	36 weeks	50 weeks	…	…	…	24
Spain	2 years	2 years	…	39	40	39
Turkey	…	…	…	…	…	9
United Kingdom	1 year	1 year	43	28	16	28
United States	39 weeks	26 weeks	36	36	36	6

Source: OECD National accounts; OECD Employment Outlook 1991

*Calculations consider cash benefits (excluding for instance, employer contributions to health or pension insurance for workers and in-kind transfers for the unemployed) as well as income taxes and mandatory social security contributions paid by employees. For details see OECD, 2007.

In the 1990s, legislation in OECD countries on the *eligibility criteria* for unemployment benefits normally covered the following items: valid reasons for quits, availability for work, suitable work, obligations to enter labour market programmes, requirements for reporting independent steps of job search and requirements to co-operate with the public employment service (e.g. by taking a PES training course). Failure to attend an interview or comply with requirements can lead to general ineligibility for benefits. But following quit without a valid reason, refusal of suitable work and labour market programmes can lead to sanctions including a benefit stop of a defined duration. In the second half of the 1990s, refusals of paying unemployment benefits and sanctions were comparatively frequent in Australia, the Czech Republic, Japan, Switzerland and the United States (OECD, 2000, p. 129 ff).

From active labour market policy to the 'activation' of the labour force

From the 1990s, strategies to "activate" the unemployed went beyond encroachments into the unemployment benefit system. They were extended with the help of so-called "high quality employment services" designed to encourage job seekers to become even more active in their efforts to find work and/or improve their employability. Pertinent measures included (OECD, 2007, p. 208 ff):

i) Early intervention by the Public Employment Service (PES) in the unemployment spell and a high contact density between jobseekers and employment counsellors;
ii) regular reporting and monitoring of work availability and job-search actions;
iii) direct referrals of unemployed "clients" to vacant jobs;
iv) the setting-up of back-to-work agreements or individual action plans;
v) referral to active labour market programmes (ALMPs) to prevent loss of motivation, skills and employability as a result of long-term joblessness.

The activation strategy has been geared to raising the "willingness" of individuals to work. By adopting the principle of "mutual obligations", a close link has been established between the rights and responsibilities of benefits recipients, or between the worker and the state. In particular, this meant to closely monitor benefit recipients' compliance with eligibility conditions and implementing, when necessary, temporary sanctions and benefit exclusion. However, as was rightly remarked by a critic, a complementary element of activation was missing: No reciprocal obligation has been put on governments to ensure that there were enough jobs for all those wanting work or to be moved off benefits (Schneider 2009, p. 8).

The case of France illustrates the extended intervention regime by the Public Employment Service to follow up on the unemployed through the requirement of intensive interviewing, coaching and profiling of worker employability and the setting up of individual action plans (Box 4.1).

BOX 4.1: INTENSIFIED PUBLIC EMPLOYMENT SERVICE INTERVENTION IN FRANCE SINCE 2001

In France, the *Plan d'aide au retour à l'emploi* (PARE) agreement in 2001 introduced an individual action plan (*Projet d'action personalise,* PAP) through an interview at the start of the unemployment spell, with further interviews taking place at least every six months thereafter. Under the agreement, the unemployment insurance organization (UNIDEC) financed new staff in the placement agency (ANPE) to implement 1.5 million PAPs annually for unemployment insurance beneficiaries at a total cost EUR 200 million. UNIDEC also funded increased provision of specialized counselling and guidance service, implemented largely by external providers, at the cost of EUR 250 million. Further, the French state financed similar services for other registered unemployed, many of them on unemployment assistance or social assistance benefits. With a total staff of 28.000 in 2004, compared to 16.000 in 2001, ANPE was able to conduct 8.2 million jobseeker interviews from July 2001 until December 2002, an enormous lift compared to the 1.8 million interviews in the previous 18 months period. Additional services were provided through workshops and skill assessments of the job seekers.

An evaluation of the various job search support measures showed that the rate of job entry increased particularly during the first three months of participation in the programme. After 12 months, the employment entry rate of participants was 30 per cent compared to 22 per cent for non-participants. The programme also had a large estimated impact on unemployment recurrence. Recurrence rates were lower for receivers of employment support a year after initial entry to a job. Another evaluation study found that the rate of stable exits from unemployment in the 18months period was even lower than would be expected on the basis of previous cyclical experience. It was concluded that, despite the apparent impact of certain search support services, the PAP did not seem to have increased the overall average rate of return to work among registered jobseekers (OECD 2007, pp. 234-235).

International rules on *suitability of work* in relation to the payment of unemployment compensation had already been fixed under ILO Convention No. 44 in 1934. According to Article 10 of the Convention, "a claimant may be disqualified for the receipt of benefits or for an allowance for an appropriate benefit if he/she refuses an offer of suitable work". It is specified in this Article that employment shall not be deemed suitable, firstly if suitable accommodation in the location of the offered job is not available; and secondly, if the wage rate is lower, or the other conditions of employment are less favourable "than those which he might reasonably have expected to obtain, having regard to those which he habitually obtained in his usual occupation in that district or would have obtained it if he continues to be so employed". In other words, for claiming benefits the unemployed worker can apply standards for job search comparable to the standards of employment prevailing in his occupation and his location (Note that the term "he" was used throughout the Convention. It indicates that at the time the labour force was considered to be exclusively male).

The actual criteria of eligibility set by national law or regulation have greatly varied across countries. For example, as far as suitable work is concerned, Norway has been very strict: the unemployed must generally accept shift and night work; they must be prepared to work anywhere in Norway; they must be ready to accept any job they can do without reference to their previous occupation or wage level; and they cannot refuse a job on religious or ethical grounds. Other countries have specified milder requirements on geographical mobility. The Netherlands and the United Kingdom require for acceptance of placements two hours travel daily, whereas Switzerland and Belgium require four hours travel daily (OECD, 2000, p. 133). Sanction provisions in case of non-compliance with the benefit eligibility rules also differ greatly across OECD countries. For instance, there is a large variety in temporary or permanent stop or exclusion from payment if a requirement for benefit payment is not respected. During the 1990s, for reasons of failing the requirements, benefit payments were frequently refused in the United States and Switzerland, and rarely refused in Japan, New Zealand and Germany (OECD, 2000, pp. 135-136). According to German labour market law, an unemployed worker is not required to take up a job, if during the first three months of the unemployment spell the wage of the job offered is 20 per cent less than the previous wage used for the calculation of the unemployment benefit rate. In the subsequent three months of unemployment, the wage offer that has to be accepted amounts to 30 per cent. After seven month of unemployment, the wage of the job offer has to be at least at the level of the unemployment benefit (Deutscher Taschenbuch Verlag, 2009, p. 261).

The general rationale behind each of the various changes in the public support programmes in the OECD countries has been to entice, or even coerce, the unemployed to seek work as quickly and efficiently as possible. Sticks and carrots have been used for ensuring expeditious re-employment. Lowering the level and/or the duration of benefit payment and tightening the eligibility rules has formed the negative (or "low road) variant of activation. The positive ("high road") variant of activation has been to promote worker capability by investing in worker skills, health and other dimensions of employability, complemented by improved information, placement and counselling services. To the extent that unemployment levels have been affected by the activation programmes, or have been affected variably because of different national support programmes, this has clearly compromised the inter-temporal, respectively the international, comparability of unemployment rates.

The effects of the various schemes and measures of policy reform on employment and unemployment tend to be ambiguous. Adequate income protection for the unemployed will alleviate fears of job loss, whereas insufficient wage replacement tends to cause insecurity which, in turn, may set adverse predicaments for productivity and competitiveness. Lowering

rates and shortening the duration of unemployment benefits, as well as tightening criteria on eligibility, can go some way to reduce unemployment as it forces workers to shorten job search, or accept jobs with inferior rewards. Such moves are sometimes justified by policy makers by advancing slogans such as "Better a poor job than no job at all". But, next to the immediate short-term effects, there are longer-term secondary adverse effects. For example, if due to meagre wage replacement for the unemployed the scope for low pay employment is enlarged, this may have negative repercussions on national competitiveness because it allows poorly performing firms to stay in the market. Low pay diminishes the incentives for enterprises to raise investment in human or capital resources, productivity and product and process innovation. In other words, inferior income support in case of unemployment is detrimental to economic efficiency and dynamism. The negative effects may be cumulative if, for example, smaller productivity increases entail a reduced scope for future wage improvement; or minor profitability diminishes the scope for investment in worker training which in turn may narrow the scope for reducing skill match; or a lower profit rate cuts down the latitude for improving the physical work environment which may then lead to adverse knock-on effects on productivity, work satisfaction and occupational health and safety. Each of these factors impinges on the matching of supply and demand and, consequently, on future levels of employment and unemployment. It implies that the policy prescription of the slogan "Better a poor job than no job at all" is short sighted because it ignores the longer-term, dynamic effects of income support on economic and labour market performance (on the economic dividends of labour standards, see Sengenberger, 2005, pp. 63-84).

Overall, the labour market reforms designed to increase labour market flexibility in the industrialized countries and to bring the unemployed or inactive back to work through activation policies had limited success in reducing unemployment. In a summary evaluation of the British Job Seeker's (JSA) Allowance, it was concluded that "it remains unclear whether the move from the unemployment benefit and income support system to the JSA was beneficial, either in terms of reducing benefits or helping more people into work (Petronglo, 2008, p.6). What is clear, however, is that the labour market reforms led to the growth of non-standard and partly precarious forms of employment (e.g. low-paid part-time and temporary jobs) and to more segmented labour markets**.** This applies also to transition countries (see Cazes and Nesporova, 2007). An ILO study concluded that the policies were based on a misunderstanding of the origins of the employment problem. The labour market difficulties of low-skilled workers in all advanced industrial countries arose not from the inflexibility of labour markets, but from structural change - deindustrialisation, skill-biased technological change and growing specialization in skill-intensive products induced by globalization. These factors have been steadily reducing the demand for low-skilled labour despite the dwindling number of low-skilled workers and increasing the demand for high-skilled labour despite the rapidly increasing number of high-skilled workers. Policies designed to increase labour market flexibility have only succeeded in pushing some low-skilled workers into non-standard and involuntary part-time employment (Ghose et. al. 2008, chapters 6 and 7).

In conclusion, one may speak of two types of labour market policies of "activating" the labour force in order to combat unemployment and underemployment during the past decades. They were pursued in varying combinations by governments during the last half century. The 'low road' activation policy (Schneider, 2009, p. 10) draws from the principles of "welfare-to-work", or "making people hungry" in order to induce, or coerce, the unemployed to seek employment and also to accept less satisfying work. The main tools under this approach have been limitations or cuts of cash benefits for the unemployed, shortening the duration of benefit payment period or changing the rules of eligibility for benefits, such as the suitability of work. In contrast, the 'high road' version of activation is directed to increasing workers' capabilities

for employment, or 'employability'. It covers all instruments of active labour market policies, including the provision of employment services for information and placement, training and retraining, vocational rehabilitation and measures of direct job creation or setting up enterprises.

4.2. Policy Diversity Across Countries

In spite of common features of labour market development, and a degree of convergence of the labour market policy framework in the developed economies during the last half century, major differences in the characteristics and the performance of national labour markets persist. They are indicated by the disparate level and structure of employment, unemployment and underemployment. They are also reflected in the degree and method of 'activation' of the labour force for employment. Even within the European Union, we observe significantly different trajectories in the working of labour markets although the Union has adopted common labour market regulation through directives and guidelines and has used the European Structural Funds to alleviate regional development gaps. In 2003, the Union chose the so-called "open method of coordination" which is used to identify best national practices and induce member countries to adopt them in national action plans. The technique has been applied also by the member countries of the Stability Pact for South-East Europe under the Bucharest Process. Earlier on, the Luxembourg European Council had agreed upon the coordination of macro-economic policies. Common regulation and policy coordination notwithstanding, EU countries continue to compete against each other through individual national policies and action. Intensified international competition fuelled by liberalized trade leads national policy makers to seek opportunities for gaining national advantages. This produces new divergence in labour market outcomes, and counteracts efforts of attaining international convergence.

Variation in labour market outcomes are largely generated by policy packages that differ in respect of their

- Macro-economic policies (monetary, fiscal, trade and incomes policies);
- Public labour market policies (passive income maintenance and active labour market measures for integrating the unemployed, underemployed and those looking for better jobs; employment protection; protection of weak groups of labour; gender policies);
- The industrial relations framework (labour law; collective organisations of workers and employers; collective bargaining on wages and other terms of employment and work);
- The significance of extra-labour market institutions, such as sickness and health insurance, and markets other than the labour market, notably the financial market, for income generation and consumption smoothing.

Drawing on these systemic elements, analysts have identified various basic labour market and employment models. These are integral components of different configurations of capitalism such as welfare capitalism and market capitalism, or the more refined typology of three distinct European welfare state models (Esping-Andersen, 1990; Esping-Andersen 1999; Bertola et.al., 2002). They differ according to the 'decommodification' of labour, i.e. the degree to which the welfare state weakens the cash nexus by granting entitlements independent of labour market participation. Thus, it emancipates the labour force through governmental or collective interference from the forces and risks associated with free, unregulated or self-regulating, capitalist labour markets.

i) The *Nordic ('social-democratic') welfare model* is characterized by full employment policies and universal welfare based on comprehensive coverage of social risks; generous income replacement for the unemployed (passive labour market policies); a very important role of active labour market policies (including job creation in the public sector); comprehensive collective bargaining on wages and other terms of employment, but medium to moderate protection against termination of employment. The model affords comparatively far-reaching uncoupling of labour from market forces;

ii) The *conservative ('corporatist' or 'Bismarckian') welfare model* of continental European countries, such as Belgium, France and Germany, features stringent employment protection legislation and fairly high levels of income support for workers included in contributory pension, health and unemployment insurance programmes, but weaker active labour market policy regimes; and more or less centralized wage bargaining, albeit with limited worker coverage;

iii) The *liberal ('Beveridgian') welfare model* of the United Kingdom and other Anglo-Saxon countries featuring low rates of income replacement, heavily based on social assistance and financed by general taxation; limited active labour market policies; and comparatively light regulation of wage determination and employment relationships.

The original typology has been complemented by variants, namely the *Southern-European (Mediterranean)* and the *Central- and Eastern European* models, which show relatively low levels of income replacement (based on social assistance) for the unemployed, sick and inactive population; a modest emphasis on active labour market policies; varying degrees of protection from dismissal; and moderate or low degrees and worker coverage of collective bargaining on wages and other terms of employment. In the Mediterranean countries, the family has remained an important locus of social aid. East Asia (Japan, the Republic of Korea, and Taiwan) developed a unique type of welfare regime characterized by highly regulated internal labour markets, compressed earnings and relatively egalitarian distribution of incomes (Esping-Andersen, 1999, p. 90).

Data shown in Table 4.2 provide numerical evidence that particular institutional labour market models and corresponding policy inputs generate particular labour market outcomes. Four different regimes of outcomes and related policy packages have been identified within the OECD area, based on statistics from the beginning of the 2000s. Measured by the rates of employment and unemployment and the rates of inequality and poverty, the Northern European countries generate superior labour market outcomes resulting from above average employment protection, high unemployment benefit levels, an average tax wedge, high trade union coverage and high degrees of union co-ordination, and below average product market regulation. The Anglo-Saxon countries, showing low values on all policy inputs, achieve relatively good performance in terms of the level of employment and unemployment, but their income inequality and poverty rates are on the high side (which means that rating these countries among the high employment performers is only partly true). Compared to the Anglo-Saxon countries, the continental and southern European countries show less favourable results on employment and unemployment, but lower levels of income inequality and poverty. Among their peculiar policy inputs are stringent employment protection and high tax wedges. The countries in Central Europe stand out for having comparatively light protective and promotional labour market policies, minor roles of trade unions, and high product market protection. They produce below-average labour market outcomes, except for the rate of poverty which is lower than elsewhere. Generally speaking, the results tell us that the extensive use of labour market policies do not stand in the way of, but on the contrary are conducive to, good

labour market performance. The result would have been even more clear- cut, had the researchers chosen somewhat different country groupings with less borderline cases (see notes a) in Bassanini and Duval, 2006, and OECD 2006, Table 6.3). For example, along with the typology of welfare models presented above, it would have been more appropriate not to lump together the continental Western European and the southern European countries.

TABLE 4.2: LABOUR MARKET POLICY REGIMES AND LABOUR MARKET OUTCOMES AT THE BEGINNING OF THE 21ST CENTURY (1)

		High employment outcomes		Low employment outcomes	
	OECD Unweighted Average	English-speaking countries mainly(2)	North European countries mainly (3)	Countries of continental and southern Europe mainly (4)	Countries of eastern Europe(5)
Employment protection legislation	2.01	1.38	2.13	2.71	1.83
Generosity of unemployment benefits (6)	27.81	18.23	39.86	36.17	9.69
Active labour market programmes (7)	29.25	15.76	64.14	25.84	3.46
Total LMP expenditures(8)	1.86	0.98	2.68	2.60	0.82
*of which:*ALMP expendit.	0.76	0.39	1.31	0.94	0.25
Tax wedge (9)	27.10	18.54	27.42	34.33	32.43
Union coverage	59.96	30.75	83.33	82.57	38.33
Union coordination	2.88	1.88	3.92	3.79	1.33
Product market regulation	1.42	1.20	1.28	1.55	1.97
Employment rate	67.11	70.92	71.91	62.54	58.00
Unemployment rate	7.47	5.30	4.79	8.97	15.12
Income inequalities (Gini index) (10)	29.35	31.50	25.58	29.85	31.35
Relative poverty rate (11)	9.64	11.78	7.77	9.86	7.05

Source: Bassanini and Duval (2006)

(1) This country classification is derived from OECD's Principal Component Analysis.
(2) Including Australia, Canada, Japan, Korea, New Zealand, Switzerland, the United Kingdom and the United States.
(3) Including Austria, Denmark, Ireland, the Netherlands, Norway and Sweden.
(4) Including Belgium, Finland, France, Germany, Italy, Portugal and Spain.
(5) Including the Czech Republic, Poland and the Slovak Republic.
(6) Average unemployment benefit replacement rate across two income situations (100 % of APW earnings), three family situations (single, with dependent spouse, with spouse in work), over a five-year period of unemployment.
(7) ALMP expenditure per unemployed worker as a percentage of GDP per capita.
(8) ALMP expenditure as a percentage of GDP.
(9) Tax wedge between the labour cost to the employer and the corresponding net-take-home pay of the employee for a couple with a dependent spouse and two children earning 100% of APW earnings.
(10) Gini index for population. Not available for Korea and the Slovak Republic.
(11) Calculated as the proportion of the population with income below 50% of the current median income. Not available for Korea and the Slovak Republic.

One of the best indicators of systemic institutional differences is provided by the rate of *public expenditure on public labour market policies*. Table 4.3 reveals a very large inter-country differential of total expenditure and on active and passive labour market programmes,

ranging from 4.51 per cent of GDP in Denmark to 0.38 per cent, respectively 0.37, per cent in the United States and the Republic of Korea in 2006. Most Anglo-Saxon countries spent less than one per cent of GDP on labour market policies that year, whereas all Nordic European countries except Norway spent more than two per cent of GDP. Table 4.3 includes also the rate of unemployment for 2006, and the ratio of total expenditure on labour market programmes and the unemployment rate. One might expect that countries with high unemployment rates spend comparatively more on labour market policies in order to combat unemployment. In fact, the data tend suggest the quite the opposite: High unemployment economies spend a smaller fraction of their GDP on labour market programmes. In CEE countries, this may be due to their low state budgets. Conversely, countries such as Denmark, the Netherlands and Austria with low unemployment are the biggest spenders on labour market programmes. It may be concluded that labour market programmes are effective in keeping joblessness low, albeit there are also countries like the United States and Australia that achieve low unemployment without significant spending. One may infer that public labour market programmes are one avenue to low unemployment, but not the only one.

TABLE 4.3: PUBLIC EXPENDITURE ON LABOUR MARKET PROGRAMMES IN OECD COUNTRIES AS A PERCENTAGE OF GDP, 2006

Country	Total	UE-rate	Total/ UE rate	Expenditure Active* Measures	Passive** Measures	Worker Training***
Australia	0.85	4.8	1.77	0.34	0.50	0.01
Austria	2.10	4.7	4.47	0.71	1.39	0.40
Belgium	2.90	8.3	3.49	1.09	1.81	0.20
Canada	0.90	6.3	1.43	0.31	0.60	0.08
Czech Republic	0.49	7.1	0.71	0.26	0.23	0.01
Denmark***	4.51	3.9	11.56	1.85	2.66	0.54 (2004)
Finland	2.58	7.7	3.35	0.89	1.69	0.37
France	2.32	9.2	2.25	0.92	1.39	0.31
Germany	2.97	9.8	3.03	0.88	2.09	0.33
Greece	---	8.9	---	---	0.40	0.04 (2005)
Hungary	0.64	7.5	0.85	0.28	0.36	0.06
Ireland	1.48	4.4	3.36	0.61	0.86	0.24
Italy	1.32	6.8	1.94	0.53	0.79	0.22
Japan	0.59	4.1	1.44	0.19	0.40	0.04
Korea	0.37	3.5	1.06	0.13	0.24	0.05
Luxembourg	1.18	4.8	2.46	0.49	0.59	0.12
Netherlands	2.68	3.9	6.87	1.22	1.46	0.13
New Zealand	0.72	3.8	1.89	0.38	0.34	0.18
Norway	1.08	3.5	3.09	0.58	0.50	0.26
Poland	1.18	13.8	0.86	0.45	0.72	0.10
Portugal	….	7.6	….	….	5.83	0.25
Slovakia	….	13.4	….	0.23	0.34	0.01
Spain	2.24	8.5	2.64	0.80	1.43	0.16
Sweden	2.32	7.0	3.31	1.36	0.96	0.33
Switzerland	1.42	4.0	3.55	0.67	0.75	0.23
United Kingdom	0.61	5.3	1.15	0.42	0.19	0.02
United States	0.38	4.6	0.83	0.14	0.24	0.05
OECD Unweighted Average	1.52	6.1	2.49	0.62	0.87	0.17

Source: OECD Employment Outlook 2008, Table J, pp. 360-366.

*Active measures include: public employment services, training, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives.
** Passive measures include: Out of work income maintenance and support; full-time UE benefits, partial and part-time unemployment benefits, and redundancy and bankruptcy compensation.
*** Worker training covers institutional training, workplace training, alternate training and special support for apprenticeship.

Gender policies form a critical dimension of differential labour market performance. They affect the level and structure of employment, unemployment and underemployment.
In the course of the 20th century, as countries developed from agrarian to industrial and service societies, gender relations were profoundly transformed. Earlier, men and women cooperated in the family farm or craft business. With the share of dependent employment increasing, two distinct models emerged: the more traditional "male breadwinner/female care" model and the "dual breadwinner/state care" (Esping-Andersen, 1990 and 1999).

The *dual breadwinner/state care model* is geared to the full integration of both sexes in the employment system. Both men and women earn income to support themselves and their families. It shows up in high rates of labour force participation and employment of both men and women. Nowadays, this model is most advanced in the Scandinavian countries, the Netherlands and in the United States and the other Anglo-Saxon countries, all of which show total employment rates (relating to the population of age 15 and over) close to, or over, 60 per cent in year 2006, and women employment rates of more than 50 per cent and in several cases more than 55 per cent (Table 5.4). In the Scandinavian countries, rising women employment came along with the expansion of universal family services – in particular child care, residential homes, and home help for the elderly.

In the alternative *single breadwinner model*, men earn the family's income while women take responsibility for domestic work at home and caring for the children. A modernized version of this model sees women as part-time workers as long as there are no dependent children in the household. This model prevails in Austria, Belgium, Germany, and the predominantly Catholic countries of Southern Europe. In these countries, family services were also developed (e.g. 'kindergardens' and 'maternelles'), but coverage remained limited. In 2006, the total employment rates in these countries were in the range between 50 per cent and 60 per cent, and the rates for women in the order of 40 per cent to 50 per cent. Shares of part-time work in these countries were small for men but high for women, leaving room for the latter for family care activities (see Table 5.10 on part-time employment). The percentage of women who for family reasons do not work is 66 per cent in Germany, 33 per cent in the United Kingdom, 21 per cent in France, but only 3 per cent in Sweden (Eurobarometer, March 2009). The Netherlands represent a somewhat unique case. Its rates of part-time work have been by far the highest in Europe, resulting from a deliberate government policy of fighting unemployment and balancing work and family life concurrently, by granting large public subsidies to workers on part-time.

TABLE 4.4: EMPLOYMENT RATES OF THE POPULATION AGED 15 AND OLDER, BY SEX AND COUNTRY GROUP, IN 1995 AND 2006

	1995			2006		
	MF	M	F	MF	M	F
EU-15						
Austria	56.6	68.0	46.2	55.1	62.7	47.9
Belgium	45.7	56.6	35.4	47.5	55.6	39.9
Denmark	60.7	68.9	52.9	61.0	66.5	55.7
Finland	50.9	55.6	46.4	56.3	60.5	52.3
France	48.0	56.3	40.3	49.2	55.6	43.2
Germany	53.4	64.5	43.2	51.6	58.0	45.4
Greece	46.5	61.9	31.6	49.7	61.1	38.3
Ireland	47.1	59.8	34.8	60.2	68.7	51.9
Italy	42.0	57.0	28.1	45.6	57.5	34.5
Luxembourg	48.7	64.6	33.7	51.5	61.3	42.1
Netherlands	55.0	66.6	43.8	60.9	69.1	53.0
Portugal	54.8	64.5	46.1	58.2	65.7	51.3
Spain	39.3	53.7	25.7	51.2	63.2	39.7
Sweden	57.8	61.6	54.2	59.3	63.1	55.7
United Kingdom	56.4	64.3	49.1	59.1	65.6	53.0
EU-12						
Bulgaria	47.0	50.4	43.8	41.2	46.6	36.3
Cyprus	60.8	76.7	45.3	58.5	66.8	50.8
Czech Republic	59.1	60.0	49.9	55.2	63.5	47.4
Estonia	56.6	64.7	50.0	53.5	59.5	48.6
Hungary	44.5	52.8	37.1	45.7	52.9	39.3
Latvia	53.7	61.8	47.1	51.0	58.1	45.2
Lithuania	52.3	59.3	46.4	52.5	58.2	47.6
Malta	44.4	67.7	22.1	48.2	64.5	32.3
Poland	50.7	58.4	43.7	46.2	52.9	39.9
Romania	61.8	68.8	55.2	51.5	56.9	46.4
Slovakia	52.0	60.3	44.4	51.7	59.3	44.6
Slovenia	54.6	61.0	48.6	56.5	63.0	50.4
Western Europe (Non-EU)						
Iceland	72.0	77.2	66.9	74.3	79.8	68.8
Norway	60.5	66.8	54.5	65.8	70.0	61.7
Switzerland	65.0	77.0	53.7	64.9	72.3	58.1
South-East Europe						
Albania	56.2	67.0	45.4	50.6	60.0	41.6
Bosnia&Herzegovina	56.3	64.6	48.3	55.4	59.5	51.6
Croatia	49.7	59.9	40.4	45.2	52.7	38.3
Serbia&Montenegro	49.2	59.9	38.8	50.7	59.2	42.6
FYR Macedonia	37.1	45.9	28.4	33.0	40.8	25.3
Turkey	50.8	72.3	28.9	46.9	68.5	25.0

	1995			2006		
	MF	M	F	MF	M	F
North America						
Canada	58.3	65.3	51.6	62.3	67.5	57.2
United States	62.6	70.4	55.2	63.1	69.5	57.0
Other Developed Countries						
Australia	57.9	66.9	49.1	59.9	66.4	53.6
Israel	49.7	58.5	41.3	49.7	54.0	45.7
Japan	61.4	75.3	48.3	57.5	69.9	46.2
New Zealand	60.4	69.5	51.8	64.7	71.0	58.7

Source: ILO-KILM 2008, 5th edition, KILM 2.

Quoting statistical figures on employment rates in this context is not to suggest that employment rates for men and women are solely determined by gender relations. They are certainly also affected by macro-economic policies (which have been more expansionary in North America and Northern Europe than in the Western European continental countries in recent decades).

Government policies to encourage and promote the combination of paid work and family life have been advanced during the last two decades, inter alia by tax policies that provide financial incentives in support of dual breadwinner employment patterns. In addition, more private firms have come to commit themselves to family-friendly work arrangements. The initiatives include policies for child care and for maternity and child-care leave. The policies facilitate the opportunity for both women and men to enter a part-time employment relationship which, in turn, helps them to engage more actively in child care for young children and/or in care for the elderly.

National approaches to reconcile work and family, and levels of providing public financial support, vary considerably. For example, the Nordic countries, and to some extent France that pioneered extensive legislation on maternity/paternity/parental leave, and publically funded child care, rely heavily on the public sector to help parents balance family and employment. The Netherlands and Germany rely much on the social partners to negotiate family friendly policies. The former planned economy countries have drastically changed their respective policies during the transition period. They cut subsidies, reduced enterprise child care facilities, and shifted responsibilities for child care from the state to the family resulting in an increase of unpaid work. The process has produced adverse effects for women's careers. Anglo-Saxon countries rely on the flexibility of their labour markets and on private enterprises to provide family friendly work places (ILO, 2009, p. 65)

In countries with relatively well developed systems of work-family reconciliation, women tend to have comparatively high employment rates. This holds most of all for mothers in their thirties (when their employment is most likely to be affected by child rearing). Furthermore, it is striking from Table 5.10 that in countries with family friendly employment policies, in particular the Nordic countries, the differences in the rates of part-time work between men and women appear to be smaller than in countries that are still more favourable to the single breadwinner/female care model. In fact, one should expect this to be the outcome of

the pursuit of policies that provide support for both sexes for leave periods from employment for purposes of family care activities. Moreover, the levels of part-time work under the dual breadwinner model may be lower because of the enormous expansion of caring institutions. In the Scandinavian countries, these have been the source of increasing female employment in the public sector, and an avenue for occupational advancement of women to higher level job positions. Finally, transition countries catch the eye through their very low part-time work for women and men. This could be explained by preferences for full-time employment due to lower average income levels, but it could also be due to less family friendly public or private employment policies.

4.3. Conclusions

The review of the labour market policy framework points to both convergent and divergent factors shaping the level and characteristics of employment, unemployment, underemployment and other dimensions of labour market developments. Two influential, rival schools of economic thought, Keynesianism and neo-classicism, laid the principal intellectual foundations during the last century. They provided profoundly different conceptual views on the labour market: the one seeing it as a market like any other market, the other regarding the labour market as a peculiar institution. Consequently, the two approaches have put forward utterly disparate policy prescriptions which have been put to practice by the relevant policy makers. On the macro-economic side, the recommendations focussed on expansionary versus restrictive monetary and fiscal policies and on the liberalization of trade; on the micro-level, the controversy centred on the constructive versus the destructive role and impact of labour market regulation and labour market institutions. To combat high unemployment, the one school of thought recommended positive activation for employment through investments in worker skills, employability and adaptability, whereas the latter school focussed on lowering transfer payments to force the unemployed to take the (assumed) vacant jobs, with less or no concern for the quality of jobs.

Historically, two major consecutive phases of labour market regulation can be distinguished. The first phase of regulation reached its climax from the 1950s to the mid-1970s, coinciding with the era of full or near full employment. In this period in which labour unions reached their maximum organizational density and held a relatively strong bargaining position, the bulk of the important national labour law provisions and international standards on the use of labour were put in place, or were augmented or extended as far as there had been antecedent regulation. International standards on the participation, protection and promotion of workers followed suit more or less closely to national action. Passive and active labour market policies and public employment services including labour market information, counselling and placement services were fully developed. Thereafter, while regulation efforts did not cease, pressures for the deregulation and flexibilization of labour markets started to gain momentum and became even dominant in part of the industrialized world. Towards the end of the century, when non-standard forms of employment and precarious work had become widespread, new initiatives were taken for improving the quality of employment within a broader conceptual and policy framework of ‘decent work’.

However, the international standardization of labour market policies has not gone that far as to produce strong convergence in the structure and performance of labour markets. Rather, significant diversity of national policy regimes and policy outcomes persists. It is inter alia manifested in different gender policies reflected in greatly disparate inter-country rates of employment and part-time work.

5. A Synopsis of Labour Market Developments

Labour market statistics, including the definition and measurement of employment, unemployment, underemployment, working time, worker education and skills, wages and earnings, etc., is designed to reflect labour market realities. From the outset of measuring labour market development, and also since the creation of international statistical standards, vast changes in the level and the characteristics of employment and underemployment have occurred. It should be useful to capture the main facets of the shifts before analyzing and assessing the adequacy of the present-day statistical instruments.

5.1. Employment

According to the international standard definition, the *employed* comprise all persons who reported in a labour force survey that they worked as paid workers or self-employed workers for at least one hour during the reference week. The most important statistical indicator of employment is the *employment-to-population ratio*, or employment rate in short, defined as the proportion of a country's working age population that is employed. Working age is variably defined as the population of age 15 years and older (as for example in ILO's Key Indicator of the Labour Market No. 2), or the population of age 15-64 years (as in pertinent OECD and EU publications).

TABLE 5.1: EMPLOYMENT-TO-POPULATION (AGE 15-64) RATIOS IN DEVELOPED ECONOMIES, IN SELECTED YEARS

	1973	1990	2000	2007
EU-15				
-Total	…	61.6	63.6	66.6
-Men	…	74.6	73.2	74.0
-Women	…	48.2	53.9	59.1
OECD-Europe				
-Total	65.1	61.2	61.3	63.2
-Men	81.7	75.2	72.0	72.4
-Women	43.2	48.4	53.9	54.0
Total OECD				
-Total	66.0	65.2	65.7	66.6
-Men	85.8	78.2	76.3	75.9
-Women	46.4	53.3	57.1	57.4
United States				
-Total	65.1	72.2	74.1	71.8
-Men	82.8	80.7	80.6	77.8
-Women	48.0	64.0	67.9	65.9

Sources: OECD, Employment Outlook 1995, 2001, and 2009.

The data in Table 5.1 reveal moderate change in the average employment-to-population ratios for the total employed labour force aged 15 to 64 years in the OECD countries as a whole between the years 1973, 1990, 2000 and 2007. The ratios were at a level of between 65 per cent and 67 per cent. The employment rate of men was about 10 percentage points higher in 2007 and the rate for women 11 points lower in 2007 as compared to 1973. In the European member countries of OECD, the rates for male, female and all workers in 2007 stood at three points less than the rates for the entire OECD. Between 1990 and 2007, the total rate for the EU-15 countries increased by five points. While the male rate remained nearly unchanged, the women rate soared by nearly 11 points. The employment rate in the United States reached 74 per cent in 2000, but fell back to 71.8 per cent in 2007. The rate for men was 5 points less, and the rate for women 18 points higher, in 2007 compared to 1973.

A large variation of employment rates between individual industrialized and transition countries is shown in Table 4.4 above.

5.2. Unemployment

Open unemployment

The statistical measurement of unemployment began in the late 19th century. In that period, few countries registered their unemployed workers to the full extent. In France, where unemployed workers were covered in a national population survey for the first time in 1896, only those who were less than 65 years old and who were less than one year without a job were officially classified in the category of "chômeurs" or "chômeuses", In practice, however, the jobless ceased to be counted as such after being out of work for three months (Salais et. al. 1986, p. 38-45).

In the 1920s and the 1930s, the then industrialized world was plagued by vast unemployment. At the climax of the Great Depression, joblessness in the industrial countries reached extremely high levels. In the United States, the number of unemployed ranged between 13 million and 15 million. In 1939, the unemployment rate in the US was estimated at 17.2 per cent. Approximately one third of the unemployed were out of work for more than 12 months (Gordon 1988, p. 276). Germany counted 5.6 million unemployed in 1932, as against 12.9 million employed workers (Klein 1959, p. 10).

The employment situation changed dramatically during and after World War II, when economic growth was rising to unprecedentedly high levels. In the period from 1950 to 1973, an era called the "Golden Era of the World Economy" (Singh 1995, S. 97), or the "Thirty Glorious years of Economic Growth" (Fitoussi 1996, S. 214), GDP increased by an average annual rate of nearly five per cent worldwide and in Western Europe, nearly four per cent in the USA, and more than nine per cent in Japan. GDP per capita rose at a mean rate of almost three per cent worldwide, more than four per cent in Western Europe, over 8 per cent in Japan, and two and one half per cent in the USA. After 1973, average growth rates declined markedly in all regions, except Asia (see Table 5.2).

TABLE 5.2: RATES OF ECONOMIC GROWTH IN SELECTED COUNTRIES AND WORLD REGIONS IN THE SECOND HALF OF THE 20TH CENTURY

Region	GDP		GDP per capita	
	1950-73	1973-98	1950-73	1973-98
Global	4,91	3,01	2,93	1,33
Western Europe	4,81	2,11	4,08	1,78
USA	3,96	2,90	2,50	2,00
Japan	9,29	2,97	8,05	2,34
Asia, without Japan	5,18	5,46	2,92	3,54
Latin America	5,33	3,92	2,52	0,99
Africa	4,45	2,74	2,07	0,01

Quelle: Maddison 2001, p. 129,132, 183.

Corresponding to the level of buoyant GDP growth, official unemployment rates in the developed world attained a historic low in the 1960s. Average *aggregate unemployment* in that decade stood at 2.2 per cent in EU countries, and 3 per cent in OECD countries (Table 5.3). Some countries recorded extremely low rates of unemployment. In West Germany, for example, the rate was less than one percent throughout the 1960s. Taking three per cent of unemployment as a yardstick for a full employment economy (Beveridge), most industrialized economies enjoyed full employment, near-full employment, or over-full employment. They also had full-time employment. Part-time employment, short-time work and other forms of reduced working time were insignificant. Hidden unemployment was practically absent.

TABLE 5.3: RATES OF UNEMPLOYMENT (IN PER CENT) IN THE EU AND OECD FROM THE 1960S

	1961-70	1971-80	1981-90	1991-2000	2001-07	2009 *	2010*
EU	2.2	4.7	9.0	10.3	8.6	10.1**	12.0**
Total OECD	3.0	4.9	7.3	7.4	6.4	8.5	9.8

Sources: World Bank, World Development Indicators, online version; and ILO, Global Employment Trends. OECD Economic Outlook, database. *Forecasts **Euro area

From 1973, unemployment started to rise again. In the OECD area, the average rates increased in each decade until the mid-1990s, then fell again until 2007 – albeit the number of unemployed persons in 2006 was almost the same as it was in 1996 (OECD Employment Outlook 2006, p. 30). In the European Union, mean unemployment was even more thriving than in the OECD group, reaching more than 10 per cent in the 1990s. In connection with the present global financial and economic crisis, unemployment rates are predicted to reach 8.5 per cent and 9.8 per cent in the OECD area (OECD report, 24 June 2009). The IMF forecast puts the rate in the Euro area for 2010 even at 12 per cent, up from 10.1 per cent in 2009 and 7.6 per cent in 2008 (IMF, 30 July 2009). These figures represent the highest rates of joblessness in the industrialized countries since the Great Depression. They mark a long term trend of rising unemployment after the full-employment period in the middle of the 20th century. At the same time, there have been sizeable differences in that rise amongst the mainland EU countries. Unemployment in the industrialized countries varies greatly by country. For example, among

the OECD countries in 2008, unemployment rates ranged between 2.6 per cent in Norway and 11.3 per cent in Spain.

It can be assumed that despite the trend of rising aggregate unemployment during the last four decades of the 20th century, cyclical unemployment did not increase because the volatility of economic growth shrank in that period. The average standard deviation of the BIP in developed countries declined from a value of 2.4 in the 1960s, to 1.9 in the 1970s, 1.6 in the 1980s, and 1.0 in the 1990s (United Nations 2008, p. 10).

The incidence of *long-term unemployment* (share of long term unemployed as per cent of all unemployed) has risen during the second half the 20th century, reaching an average level in Europe of roughly two thirds of total unemployment if measured by unemployment of six months and over, and less than 50 per cent if measured by 12 months and over. In the OECD as a whole, long-term unemployment in 2007 was just over one half, respectively one third, of total unemployment in 1994 (Table 5.4).

TABLE 5.4: LONG-TERM UNEMPLOYMENT IN THE EU AND THE OECD, FOR SELECTED YEARS BETWEEN 1980 AND 2006

	Incidence of long-term unemployment (per cent in total unemployment)				Rates of long-term unemployment			
	1980	1989	1994		2007		2000	2006
			6 months and over	12 months and over	6 months and over	12 months and over		
EU-27							4.0	3.6
EU-15	---	---	67.6	48.4	58.7	42.3	3.4	3.1
EU-12							5.8	4.1
OECD Europe	31.5	52.8	66.9	46.7	58.1	41.7		
Total OECD	26.6	33.7	52.6	35.5	42.6	29.3		

Sources: OECD 1991, p. 259; OECD 2008, p. 355; Eurostat 2007.

Between 1995 and 2005, the incidence of long-term unemployment declined strongly in Finland, Italy and Spain, and rose markedly in Poland, the Czech Republic and Slovakia.
In 2005, countries with a low incidence of long term unemployment of 10 per cent or less included Denmark, Sweden, Finland, Norway, the United States, Canada, Korea, Australia, and New Zealand. A high incidence of 50 per cent and more was recorded in Belgium, Italy, Poland, the Czech Republic, Germany, Bulgaria, Croatia, Slovenia, Slovakia, Lithuania and Armenia (ILO 2008b, KILM-10, pp. 430-33). The mean rates of long-term unemployment in the EU-27 rose from 4 per cent in 2000 to 4.2 per cent in 2004, before falling to 3.6 per cent in 2006 (Table 5.4). The rates were higher in the new member states than the old ones.

TABLE 5.5: RATES OF UNEMPLOYMENT OF PERSONS AGED 25-64 IN EU AND OECD COUNTRIES, BY LEVEL OF EDUCATION, 2004

Low education (Less than upper secondary education)			Medium education (Upper secondary education)			High education level (Tertiary education)		
Rank	Country	Value	Rank	Country	Value	Rank	Country	Value
1	Luxembourg	5.0	1	Ireland	3.2	1	Ireland	2.1
2	Netherlands	5.7	2	United Kingd.	3.7	2	United Kingd.	2.2
3	Ireland	6.4	3	Austria	3.8	3	Netherlands	2.8
4	Portugal	6.4	4	Luxembourg	3.8	4	Austria	2.9
5	Sweden	6.5	5	Netherlands	3.9	5	Luxembourg	3.0
6	United Kingd.	6.6	6	Denmark	4.8	6	United States	3.3
7	Japan	6.7	7	Italy	5.3	7	Japan	3.7
8	Denmark	7.8	8	Japan	5.4	8	Belgium	3.9
9	Italy	7.8	9	Portugal	5.6	9	Denmark	3.9
10	Austria	7.8	10	United States	5.6	10	Sweden	4.3
11	Greece	8.4	11	Sweden	5.8	11	Portugal	4.4
12	United States	10.5	12	Belgium	6.9	12	Finland	4.7
13	Spain	11.0	13	France	7.6	13	Italy	4.8
14	Belgium	11.7	14	Finland	8.2	14	Germany	5.5
15	Finland	12.0	15	Spain	9.5	15	France	6.2
16	France	12.1	16	Greece	9.7	16	Greece	6.9
17	Germany	20.5	17	Germany	11.2	17	Spain	7.3
	EU-15	9.0		EU-15	6.2		EU-15	4.3
	OECD	10.3		OECD	6.2		OECD	3.9

Source: OECD, 2006, Table D, pp. 260-262.

Unemployment differs greatly according to the level of worker education. In 2005, the rates of unemployment for workers with low, medium and high skills in the group of EU-15 countries were 9.0 per cent, 6.2 per cent and 4.3 per cent respectively. The skill-related differential of unemployment was on average even larger for OECD countries where the corresponding values were 10.3 per cent, 6.2 per cent and 3.9 per cent. For each level of skill, there are large inter-country differences of joblessness (Table 5.5)

Hidden unemployment

There are various concepts and manifestations of hidden, or concealed, unemployment. *Discouraged workers* are those who are available for employment, but currently not actively seeking work because of past failure in finding work. Hence, they are not classified as unemployed, but counted as economically inactive (see 13th ICLS resolution, 1982). Discouraged workers would consider seeking employment should the general labour market situation improve or employment be offered that would suit them better than the one actually provided. In a wider sense, hidden unemployment covers those persons who are not counted as unemployed because they are involved in various kinds of measures of active labour market policy (ALMP), such as training and retraining and early retirement. They are frequently excluded from the rosters of national registered unemployment statistics, but it cannot be excluded that they also escape the harmonized international unemployment statistics according to the ILO definition (see chapter 6 below for details).

An increasing number of countries measure the discouraged workers as part of their labour force surveys. However, the definitions of discouragement differ from country to country (ILO 2008d, p. 20).

TABLE 5.6: DISCOURAGED WORKERS IN OECD COUNTRIES IN SELECTED YEARS

	Per cent of the labour force		Numbers ('000)	Unemployment rate	Expanded unemployment rate
	1983	1993	2008	2008	2008
Australia	1.6	1.6			
Belgium	0.3	1.5			
Canada	1.6	0.9			
Czech Republic			11	4.4	4.6
Denmark	0.7	1.6			
Finland	1.0	1.5			
France	…	0.2	128	7.4	7.8
Germany	…	…	255	7.5	8.0
Greece	0.1	0.3			
Hungary			138	7.8	10.8
Ireland	0.4	0.5			
Italy	1.1	2.6	1810	6.7	13.0
Japan	3.2	2.2			
Mexico			5656	5.1	15.6
Netherlands	0.9	0.6	115	2.8	4.0
New Zealand	0.5	1.0			
Norway	1.3	1.2			
Poland			488	7.1	9.7
Portugal	0.9	0.1	24	7.6	8.0
Romania			299	5.8	8.9
Spain	0.8	0.2	348	11.3	12.7
Sweden	1.1	2.0			
Turkey			681	9.4	11.9
United Kingdom	1.3	0.6	74	5.6	5.9
United States	1.5	0.9	2176*	9.7*	10.9*

Sources: OECD, 1995, Table 2.18; ILO 2009a, Table 2.1, p. 9.*June 2009

The level of discouraged workers tends to vary positively with open unemployment. This is borne out for most of the countries listed in Table 5.6. Notable exceptions are Belgium and Spain. In the first country, unemployment fell between 1983 and 1993, but the rate of discouraged workers increased fivefold. In Spain, in the same period, the share of discouraged workers declined despite a rise in unemployment. The table contains also data on the number of discouraged workers for selected OECD countries in 2008, and the size of the expanded unemployment rate, defined as the sum of standard unemployment and discouraged workers. The increment of unemployment due to discouraged workers is comparatively small in the Czech Republic, France, Portugal, Spain, the United Kingdom and the United States and comparatively large in Italy, Mexico and Romania.

5.3. Under-employment and Over-employment

Next to being unemployed, the labour force may be under-employed or over-employed. Time-related under- and over-employment may concern:

i) daily working hours
ii) weekly working hours
iii) annual working time
iv) life-time employment

For each of these periods, the actual working time may be within, below or in excess of upper and lower limits set by statutory or collectively agreed working time standards. Forms and magnitudes of employment that are outside of the normal bounds of regulated working time will be covered in section 5.4 below.

In the following we shall refer to the length of working time that deviates from the one preferred by the worker. In 1998, the 16th International Conference of Labour Statisticians adopted a standard international definition of *time-related underemployment* which replaced the previous concept of visible underemployment. The new definition is based on three criteria. It includes all persons in employment who, during a reference period, were

(i) willing to work additional hours;
(ii) available to work additional hours;
(iii) had worked less than a specified working time threshold.

Each of these criteria is defined in the 1989 ILO Resolution concerning the measurement of underemployment and inadequate employment situations.

TABLE 5.7: TIME-RELATED UNDEREMPLOYMENT FOR MEN AND WOMEN IN SELECTED COUNTRIES AS PER CENT OF THE LABOUR FORCE

	1980		1990		2000		2005	
	M	W	M	W	M	W	M	W
Austria					0.5	1.8	1.5	2.4
Australia			2.1	6.2	4.0	8.1	4.6	9.5
Belgium			0.6	5.9	1.0	5.1	0.9	3.7
Canada	1.1	3.7	1.7	4.9	2.6	6.2	2.7	6.3
Denmark			0.7	3.1	0.7	2.8	1.1	3.9
Greece			0.6	1.4	0.8	2.2	0.8	3.2
Ireland			1.0	2.3	1.4	2.6	0.7	1.4
Italy			1.0	2.3	1.4	2.6	0.7	1.4
Japan			0.5	1.9	0.8	3.1	2.5	7.0
Luxembourg			----	1.1	0.1	1.4	0.2.	2.7
New Zealand			2.3	6.3	3.7	8.6	2.0	5.4
Netherlands			1.8	9.2	0.6	1.8	1.0	2.2
Norway			1.0	4.8	0.6	1.8	1.1	2.6
Portugal			0.2	1.6	0.7	3.6	0.8	3.4
Spain			0.2	3.2	0.6	3.0	1.1	6.0
Sweden			0.8	3.8	1.6	5.0	1.9	4.0
United Kingdom			0.6	1.7	1.2	2.4	1.1	2.0
United States			---	---	0.5	0.9	0.7	1.2

Source: KILM, 5th edition, 2008, Table 12, pp. 470-473.

In Table 5.7, time-related underemployment as defined above is presented for countries for which data is available for a reasonably long period in order to identify some trend over time. The figures indicate that the level of time-related underemployment is universally much higher for women than for men. In the large majority of countries, the proportion of time-related underemployment rose from 1990 to 2000, and in a majority of countries the values for 2005 were even higher. Time-related underemployment varies strongly across industrialized countries. In 2005, the range for men was between 0.2 per cent of the labour force in Luxembourg and 4.6 per cent in Australia, while for women the range was from 1.4 per cent in Ireland and Italy to 9.5 per cent in Australia. The range appears to have increased over time. The lowest values are found in countries in Central Europe (not listed in Table 5.7). For example, Bulgaria is quoted with 0.2 per cent and 0.3 per cent for men, respectively women, in 1999. The Czech Republic had 0.2 per cent and 0.9 per cent in 2005, and Romania 0.7 per cent and 0.4 per cent in 2005. The figures for the Baltic countries were closer to the average of the European level (see ILO-KILM, 5th edition, Table 12).

In the United States, a mismatch has been encountered between actual hours worked and working hours preferred by employees. In 2001, almost 27 per cent of the employed labour force preferred more hours than they were actually working, whereas 7 per cent preferred fewer hours. While the desire for fewer hours rose as the work week lengthened from 40 to 60 hours and more, even among workers working 60 or more hours, more workers preferred to work additional hours rather than seeing their working week reduced (Table 5.8). Financial need, income preferences and a generalized sense of job insecurity likely explain the desire for additional hours of work (Rosenberg 2009).

TABLE 5.8: HOURS PREFERENCES BY NUMBER OF WEEKLY HOURS WORKED IN THE UNITED STATES, 2001

Actual weekly hours worked	Hours preferences (per cent of workers)		
	Same hours	Fewer hours	More hours
Total	67.0	7.4	25.6
1 to 14	62.1	5.1	32.9
15 to 29	60.3	6.0	33.7
30 to 34	58.9	8.1	33.1
35 to 39	64.0	7.7	28.3
40	69.8	5.6	24.5
41 to 48	66.6	8.1	25.3
49 to 59	69.7	9.6	20.6
60 and more	66.1	13.3	20.7

Source: Golden and Gebreselassie 2007, pp. 18-37

Over-employment

Next to workers who work less than they wish, there are those who work more hours per day or per week than they want to. "Excessively" long working weeks are neither preferred by workers nor healthy for them. The adverse effects of overly long working time are not limited to the individual employee, but affect also his/her family and interfere with other social commitments. Moreover, excessively long hours can be costly to enterprises and workers alike.

They may cause, for example, an increased number of accidents in the workplace (European Commission 2004; Dembe et. al. 2005).

In the most advanced industrialized nations, we have seen a secular decline of the annual working time. With the exception of an upward trend during the Second World War and its aftermath, annual working hours decreased fairly steadily from an average level of about 3000 hours in 1870 to a mean number of 1600 hours at the end of the 20th century. The rate of decline over that time span was starkest in the Netherlands where the mean hours per employee per year were brought down from 3300 to slightly over 1300. Moving from an average of 2600 hours to 1800 hours, the diminution was much more moderate in Australia and the United Kingdom. The rate of decline was in between the two extremes in the United Kingdom, France, Germany and the United States. Looking at the entire 13 decades there is a steady trend of convergence of annual hours in the countries until the 1960s and renewed divergence thereafter (Huberman and Minns, 2005).

ILO Conventions Nos. One and 20 set a maximum of 48 weekly hours and eight hours per day under normal circumstances. The same standard was established in the EU Working Time Directive in 1993, including both normal hours of work and overtime. The United States have no upper limit on hours of work, except in the road traffic and airlines sectors.

Overtime work refers to all hours worked in excess of the normal hours (ILO Reduction of Hours and Work Recommendation No. 116 (1962)). A number of countries limit the daily working hours by statute. For example, there is a maximum of 10 working hours in Austria, France, Germany, Japan, Luxembourg and Portugal, and 13 hours in the United Kingdom (ILO, 2004d). Flexi-time programmes allow workers and employers to schedule working hours flexibly on a daily and weekly basis, sometimes reaching a specified average working time over a set period. 'Time banking schemes' or 'working time accounts' are used to keep track of hours worked by individual workers.

Overtime may be paid or unpaid. Information of overtime hours is patchy. In the EU, the number of overtime hours in 1998 was estimated at between five and seven billion. Six billion overtime hours corresponded to roughly a job potential of 3.5 million (Schmid, 1998, p.13).

While there has been a century long trend towards shorter work weeks, this historic trend has slowed down in recent decades and appears to have stopped in some countries from the 1990s, e.g. in the United States. The most typical weekly schedule is around 38 hours of work per week, but the proportion of individuals who worked more than 45 hours in 2001 is quite large (OECD, 2003, p. 46). In 2006, usual weekly working time in excess of 48 hours has been common in a number of EU-15 countries – notably Greece and the United Kingdom, where 32.5 per cent, respectively 17.7 per cent, of the employed exceeded the specified limit. A strong rise of the proportion of workers putting in more than 48 hours was also observed in Austria and France between 1995 and 2006. It was most probably due to the increase in the rate of the self-employed who are much more likely to work long hours than paid employees. In the other EU-15 countries, the share of workers with excessive hours remained stable or declined. Among the new EU member countries, Poland and Bulgaria registered an increase in the rate of excessively long hours between 2000 and 2006, while the Czech Republic, Slovenia and the Baltic states saw their share of long hours decreasing (ILO, 2009, p. 68).

Across the European region, the level of night work has remained low, but weekend work, and particularly Saturday work has been on the rise. The use of shift work arrangements

is common in most of the European countries, but is typically higher in the new EU member states. There is a gradual movement away from fixed work schedules, and towards various forms of more flexible work schedules (Messenger, 2008, p. 19).

In the United States, working hours are relatively long, especially for male workers. Average paid weekly overtime hours of production workers in manufacturing rose from 3.3 hours in 1979 to 3.8 hours in 1989 and reached 4.8 hours in 1997, the highest level recorded since BLS started to publish the survey in 1956. Long average working weeks exist also outside manufacturing. The proportion of all employed workers working 49 hours a week or more rose in the 1980s and 1990s. Annual average working hours and the average length of the working week exceed those in Europe and Japan. As there is no legal requirement to provide paid vacations, vacations are short and many workers are not provided paid vacations. There is a polarization of working hours. While many full-time workers work long hours, the weekly working hours of other workers, particularly those in nonstandard and contingent employment arrangements, are short and precarious. There is a significant gender gap in working time reflected in fewer weekly hours of work for women than men and a lower probability of women working continuously throughout their working life than men (Rosenberg, 2009, p. 6-7).

Compared to Western Europe, the United States government plays a minimal role in regulating working time. As a result, the industrial relations system is the primary arena wherein working hours are determined. Given the decline in union density and union strength over the past 30 years, the distribution of working time arrangements reflects employer preferences more than worker preferences (Rosenberg 2009, p. 17).

5.4. Non-standard Employment and Precarious Work

Non-standard employment (or "atypical" forms of work as it is called in some European countries) encompasses a heterogeneous group of types of employment. They have in common that they deviate from the *standard model* of full-time paid employment of unlimited duration, which is subject to full regulation of working time and pay, entitlement to employment and social security and other terms of employment and work. For a major part of the labour force, standard employment has been associated with occupational advancement corresponding to hierarchical jobs ladders, predictable career patterns and improvement of wages and fringe benefits over the working life.

There is no "standard" definition of non-standard employment. The following dimensions may be subsumed under the heading non-standard employment:

i) *Time-related non-standard employment*, including (voluntary and involuntary) part-time work, short-time work, temporary employment, seasonal employment, casual employment, flexi-time work, family-friendly working time arrangements, on-call work and staggered hours of work (i.e. starting and finishing working at different times);

ii) *Non-standard forms of employment contracts*, including fixed-term contracts, contract labour and work involving a temporary employment agency;

iii) *Non-standard employment status,* including informal employment, migrant labour, home work, work on own account, tele-working, and multiple job holding.

Precarious work usually denotes a combination of features of work, such as low hourly pay; lacking control of work; absence or low degree of job security and uncertainty of continuing employment; an unsafe and unhealthy working environment; and restricted social security protection or low or absent protection through law or collective agreements. In the European welfare states, inferior or absent social protection is usually regarded as the key characteristic of precarious jobs.

Already during the 1980s, there had been a debate whether the incidence and diversity of non-standard forms of employment was growing, whether this might be due to high rates of unemployment, and whether it might indicate an increase in the general insecurity, or 'precariousness' of employment, or, to use a term more common in the United States, in the numbers of 'contingent' workers (Rodgers and Rodgers, 1989; Rodgers, 1989).

Summarizing trends of non-standard employment during the 1980s, an OECD report came to the following conclusions:

- Part-time work increased in almost all countries; in parallel with the total increase of part-timers, there has been an increase in the absolute number of part-time workers working 20 hours or less. These part-timers are more likely to be without job security;
- Temporary work increased rapidly in some countries, while remaining low in others;
- The proportion of self-employment increased in many countries. Women swelled the ranks of the self-employed. The rate has also increased for young workers. Since these two groups are relatively vulnerable on the labour market, this might indicate increased precariousness;
- The evidence on non-standard working suggests some increase in "flexibility" and "precariousness" (OECD Employment Outlook, 1991, p. 44).

Not each and every non-standard employment comes under the category of "precariousness". At the same time, precariousness may apply to standard jobs as well. Moreover, non-standard employment and the category of precarious work overlap to a greater or lesser extent. For example, fixed-term contracts may be classified precarious if workers are paid at a lower rate than those at permanent contracts that are comparable in other respects. Part-time work may be rated precarious or not, depending on whether it is associated with inferior working conditions and inadequate social protection. Migrant labour tends to be vulnerable if it is illegal or clandestine. Also, non-standard employment may come to be regarded as standard employment if it reaches a certain magnitude. This applies, for instance, to part-time work which has become a widespread and regular pattern of employment in some countries.

The precise statistical definition of forms of non-standard employment differs from country to country. In the Republic of Korea, for instance, non-standard employees are classified into seven groups: contingent workers, i.e. those with fixed term contracts or those whose contract can be terminated at will; part-time workers (working less than 36 hours a week); dispatched workers defined as "indirect employment mediated by temporary work agencies"; temporary help agency workers; independent contractors; on-call daily workers; and tele-workers/home-based workers. By this definition, non-standard workers covered 36.6 per cent of total paid employment in Korea in 2005, up from 13.8 per cent in 2001. The share of contingent workers alone rose from around 13.8 per cent to 24.1 per cent in that period (Lee and Yoo, 2008, pp. 208 and 211).

BOX 5.1: THE SURGE OF NON-STANDARD EMPLOYMENT IN GERMANY AFTER 1990

Germany represents a case of significant changes in the structure of employment and unemployment during the last 40 years. In particular, the share of non-standard forms of employment (usually called 'atypical' work) increased strongly since the time of reunification of the country in 1990. Between 1991 and 2007, it rose from close to 21 per cent of total employment to nearly 36 per cent of total employment, whereas the proportion of standard employment diminished from 72 per cent to 58 per cent. The largest single category of non-standard employment was part-time work. Its share in total employment soared from about 13 per cent to around 24 per cent. Marginally employed workers, holding so-called "Mini-Jobs" with a low ceiling of 400 € on monthly earnings, increased more than fourfold in that period to reach almost 10 per cent of total employment. The rate of workers establishing their own "one-person business" (own-account workers) increased also forcefully to reach 6 per cent of employment in 2007 (See Table 5.9; for somewhat differing magnitudes but identical trends of atypical employment based on different definitions, see Statistisches Bundesamt , 2008, and Körner and Puch, 2009). Young women, low skilled workers and foreign workers are most often found in atypical employment (Statistisches Bundesamt, 2009, p. 16 ff).

TABLE 5.9: STANDARD AND NON-STANDARD EMPLOYMENT IN GERMANY IN 1991, 1999 AND 2007

	1991	1999	2007
Total employment (000)	37.446	36.401	38.163
Standard employment (per cent)	72.2	64.8	58.0
Employers	4.4	5.0	4.8
Permanently employed (≥ 31 hours a week)	67.8	59.8	53.2
Non-standard employment (per cent)	20.7	28.3	35.7
Part-time employment	12.8	18.4	23.7
	14.0*	19.5*	26.3*
Marginal workers	2.2	6.1	9.6
Agency workers	0.0	0.0	0.1
Non-permanent	0.9	1.1	1.5
Fixed-term contracts (≥ 31 hours a week)	3.9	4.2	4.2
(≥ 35 hours a week)	7.5*	9.2*	10.3*
Agency workers (≥ 31 hours a week)	0.3	0.7	1.8
One-person-businesses	3.7	4.9	6.1
Specific types of employment (per cent)	7.1	7.0	6.3
Apprenticeships	3.3	4.4	4.5
Military service and alternative service	1.3	1.4	0.8
Unpaid family workers	1.4	0.9	1.0
No information about duration of labour contracts	1.1	0.4	0.0

Sources: Federal Republic of Germany: Federal Statistical Office and Federal Employment Agency, 2009; Dietz and Walwei, 2009, p.4; Keller and Seifert, 2009, p. 42; *figures based on total employment excluding apprentices.

German workers whose employment is classified as 'atypical' are likely to have inferior terms of employment and remuneration. Thus, for example, studies controlling for individual worker characteristics revealed lower wages for all non-standard forms of employment than for comparable

standard employment. In 2007, the proportion of low pay among workers holding non-regular jobs was 34 per cent, as against 10 per cent for regular workers (Brehmer and Seifert, 2009, p. 510). In another study based on different definitions, the share of atypically employed workers receiving low wages was estimated at over 49 per cent in 2006. The risk of poverty of atypical workers stood at 14.3 per cent in 2007, which was 4.5 times higher than the risk of workers on standard jobs (Wingerter, 2009, pp. 1089 and 1094). With the exception of part-time employees, workers in non-standard employment were also disadvantaged in respect of employment stability and with regard to accessing occupational training in enterprises which, in turn, diminishes their chances for future employability. The average risk of atypical employment to be precarious is clearly higher compared to standard employment (Keller and Seifert 2009, pp. 43-44).

The expansion of the low wage sector is a major reason behind the growth of income poverty in Germany. Income poverty rose each year between 1999 and 2006, from a rate of 12.0 per cent to 18. 3 per cent. The rate of increase was higher after 2004 as a result of the impact of changes in the provision of unemployment benefits. Growing poverty has negative repercussions on workers' employability, given that it is associated with an accumulation of negative risks such as poor housing conditions, poor or insufficient food, lack of savings, and poor or insufficient health care. For example, in 2006, 22 per cent of the poor German population who should have seen a doctor for medical reasons declined to do this for lack of financial resources (Federal Statistical Office 2006, EU-SILC).

It should be added that categories such as part-time work, mini-jobs, and long hours of work do not fully cover the innovations in working time arrangements that depart from the earlier model of fixed working hours. They co-exist with measures of so-called "flexi-time" that involve sweeping changes in working time management. Flexi-time is instrumental in adjusting individual workers' working time to volatile labour demand. It gets registered in working-time accounts which enable employers and employees to allocate the standard working time – set individually or by collective contract – variably across the time spectrum. The change in working time patterns presupposes a simultaneous change in procedures. Standardized working time is usually regulated by industry wide collective agreements. By contrast, flexible working time patterns based on time accounts require greater room for manoeuvre at the company level. Thus, the higher flexibility of working time goes hand in-hand with the decentralization of collective bargaining structures. The 'trust-based' model of working time goes one step further, dispensing altogether with supervisory checks on working time. Employees are held responsible for managing their working time budget on their own resulting in a greater dispersion of individual working time schedules. Performance is measured not by time put in, but instead by results. This does not mean, however, that working time has gone out of control, or has broken free from any regulatory constraints. The rules of time management have become subject to negotiation for worker representatives at the establishment level, while basic standards continue to be set in more centralized collective agreements (Seifert, 2008, pp. 235 ff.).

The long-term trend towards atypical working hours is further reflected in the increase of the volume of work at night and on weekends. Fifty-nine per cent of the German employees were engaged in night work, shift work, or work on Saturdays or Sundays in 2008, compared to 38 per cent in 1991 (Herzog-Stein and Seifert, 2010).

Part-time work

ILO Convention No. 175 (1994) defines a part-time worker as an "employed person whose normal hours of work are less than those of comparable full-time workers". The EU part-time work directive adopted in 1997 follows this definition. From 1977, OECD has published harmonized data on part-time work that refers to persons who usually work less than 30 hours per week in their main job. Data include only persons declaring usual hours. In national statistics, the cut-off that divides full-time and part-time employment varies from country to country, For example, it amounts to 37 hours in Norway, 36 hours in Hungary and Turkey, 35 hours in Australia, Austria, Japan, Sweden and the Unites States, and 30 hours in

Finland, Canada, and New Zealand (for definitions, see KILM, 5th edition, p. 250-51). In Germany, part-time work is defined by a usual working week of no more than 20 hours (Statistisches Bundesamt, 2008).

The incidence of part-time work increased between 1980 and 2000 in the large majority of OECD countries. In the years after 2000, the rise continued in most countries, reaching an average share of part-time workers in total employment of just over 15 per cent in the OECD as a whole. The share amounted to more than 30 per cent in the Netherlands and more than 20 per cent in the Australia, Germany, Ireland, Norway, Japan, and UK (Table 5.10). In the EU-15 group, the average share of workers on part-time employment rose from 15.8 per cent in 1995 to 20.9 percent in 2007. In the EU-27, the proportion of part-time work increased from 16.0 per cent in 1997 to 18.8 per cent in 2006. In each of the new EU member states, the rate was less than 10 per cent, and in some of them the rate declined in that period (European Commission, 2008, pp. 220-222).

TABLE 5.10: PART-TIME EMPLOYMENT AS PER CENT OF TOTAL EMPLOYMENT, BY GENDER, IN SELECTED COUNTRIES AND VARIOUS YEARS

	1975	1980		1990		2000		2007		
	Total	Total	Female	Total	Female	Total	Female	Total	Male	Female
Australia		18.1	34.9	22.6	38.5	26.2	40.7	24.1	12.4	38.5
Austria						12.2	24.4	17.2	5.2	31.5
Belgium	3.6			13.5	28.8	19.0	34.5	18.3	6.3	32.9
Canada		14.3	25.7	17.0	26.7	18.1	27.2	18.2	11.0	26.1
Czech Republic						3.2	5.4	3.5	1.7	5.9
Denmark	18.0			19.2	29.7	16.1	24.0	17.7	12.4	23.9
Finland				7.6	10.6	10.4	13.9	11.7	8.2	15.5
France	5.7			12.2	22.5	14.2	24.9	13.4	5.0	23.1
Germany	8.8					17.6	33.9	22.2	7.9	39.2
Greece				6.7	11.6	5.5	9.5	7.8	4.1	13.6
Hungary*						2.9	4.5	2.8	1.6	4.2
Iceland								15.9	8.0	25.4
Ireland								20.3	7.6	35.6
Italy	3.3			8.9	18.4	12.2	23.4	15.1	5.4	29.2
Japan		15.7	28.6	19.2	33.4	22.6	38.6	18.9	9.2	32.6
Korea				4.5	6.6	7.1	9.9	8.9	6.3	12.5
Luxembourg				7.6	19.1	13.0	28.9	13.1	1.6	28.8
Netherlands	5.8			28.2	52.5	32.1	57.2	36.1	16.2	60.0
Norway				21.8	39.8	20.2	33.4	20.4	10.5	31.6
Poland						12.8	17.9	10.1	6.0	15.0
Portugal				7.6	12.8	9.4	14.9	10.0	6.3	14.3
Slovakia						1.9	2.9	2.6	1.2	4.4
Spain				4.4	11.5	7.7	16.5	10.9	3.8	20.9
Sweden				14.5	24.5	14.0	21.4	14.4	9.5	19.7
Switzerland				22.1	42.6	24.4	44.7	25.0	8.7	45.6
Turkey				9.4	19.0	9.4	19.4	8.4	4.6	19.2
United Kingdom	17.7			20.1	39.5	23.0	40.8	23.3	9.9	38.6
United States		14.4	21.9	14.1	20.2	12.6	18.0	12.6	7.6	17.9
EU-15								18.1	7.2	31.7
EU-19								16.7	6.8	28.9
OECD-Europe								16.1	6.6	28.7
Total OECD								15.4	7.5	25.3

Sources: ILO-KILM, 5th edition, 2008, pp. 254-257; OECD, Employment Outlook 2008, Table E; For 1975: EU Report.

Part-time work is heavily gender-biased. The majority of part-time workers are female, causing gender segregation of part-time employment. In 2000, rates of more than 40 per cent of part-time work for women were reached in Australia, Japan, and the Netherlands. In 2007, women part-time work in Australia and Japan fell below the 40 per cent line, but in the Netherlands it remained at a level of 60 per cent (see Table 5.10). In the EU-15 group of countries, the average share of women on part-time employment was almost one third (31.7 per cent), compared to just over 7 per cent for men. In the OECD, mean rates were 25.3 per cent, and 7.5 per cent respectively. Part-time work has increased disproportionally among employees with children. In Germany, for example, the rate for mothers on part-time work rose from 48.9 per cent in 1996 to 69.0 per cent in 2008, and for fathers working part-time from 2.0 per cent to 4.8 per cent in the same period (Statistisches Bundesamt, 15 October 2009).

Studies found that in the initial growth stage of part-time work, there was a "danger of marginalization" of the affected workers through significantly inferior terms of employment. While this trend continued in some countries, it was stemmed in other countries, such as the Netherlands, where great gains were made in "normalizing" part-time work. Both the Dutch government and the social partners have supported families in choosing part-time work and shorter hours as a way to achieve work-family balance. Policies were put in place setting minimum standards in terms of part-time workers' rights, earnings and equal treatment. In fact, part-time work in the Netherlands is no longer regarded as atypical work (Yerkes and Visser, 2006, p. 242-245; ILO 2006, p. 31).

In the European Union as a whole, the extended recourse of women to part-time work has allowed them to combine work and family responsibilities, although it should also be recognized that part-time work may carry with it fewer fringe benefits and career possibilities than full-time jobs, and may to a certain extent reflect the unavailability of full-time work. The higher gender gap in the share of part-time workers is also evidence of the differences in time-use patterns between women and men, and of the role of care activities predominantly assumed by women (European Commission, 2007, p. 28).

The increase of part-time work shows up in the gap between overall employment rates and *full-time equivalent (FTE) employment rates*. The FTE indicator tells us how high the employment rate would be if employment would entirely consist of full-time jobs. The mean FTE rate in the EU picked up, although at a smaller margin than the employment rate for all workers. In the period from 1995 to 2006, the FTE-rate rose by 3.3 percentage points to 59.3 per cent in the EU-15 group. This compares with a rise of 5.9 per cent for the overall employment rate. For the EU-27, the figures show an increase of the FTE-rate of 0.7 points between 2001 and 2006 (European Commission 2007, pp. 284-286).

Whereas the ILO Working Group on Labour Underutilization regards only involuntary part-time work as a category of labour market slack, others have included voluntary time work in the formula for estimating labour slack (see chapter 6 for details). In this perspective, the full-time equivalent unemployment rate in the EU-12 in 1983 was 13 per cent, compared to the unemployment rate of 10 per cent. By 2002, the gap between the two had significantly widened. At that point in time, unemployment stood at just over 6 per cent, whereas full-time equivalent unemployment was nearly 12 per cent (ILO Socio-Economic Security Programme, 2004, Fig. 5.2, p. 120).

Involuntary part-time work

Involuntary part-time work refers directly to the ILO concept of visible underemployment (see ICLS, 1998). It comprises three groups of workers:

- First, individuals who usually work full time but are working part-time because of economic slack;
- second, individuals who usually work part-time but are working fewer hours in their part-time job because of economic slack;
- third, those working part-time because they could not find full-time work.

The first two groups echo aggregate – and perhaps sector-specific – demand problems and could be expected to be closely associated with the economic cycle. The latter reflects aggregate demand problems – e.g. lack of full-time jobs – or supply side issues such as a lack of qualifications for vacant jobs, lack of flexibility in working arrangements and others (OECD 2005, p. 65).

International comparisons of involuntary part-time employment are handicapped by different national definitions and by non-regular measurement. In 1993, about eight million workers in OECD countries were engaged in involuntary part-time work because they could not find full-time work. Their number was much higher than that of persons who worked fewer hours than normally for economic reasons (ibid.).

In Table 5.11, data is presented on the share of involuntary part-time workers for selected years between 1983 and 2008, measured as a percentage of the total labour force, total employment and total part-time employment respectively. The indicators refer to workers who would have preferred full time work but could not find it. Levels of involuntary part-time work were generally much higher for women than for men. For the latter, the rate of involuntary part-time work increased between 1983 and 1993 in nine out of 17 countries. In six of them, the rate declined, and in two countries it stayed the same. The women rate increased in 11 countries and declined in six. In most instances, the margin of increase was greater than the margin of decline. The average level of involuntary part-time employment in the EU, Europe as a whole, North America and OECD was higher in 2008 than in 2000, both as a percentage of total employment and as a percentage of total part-time employment. The increase in the average share of involuntary part-time employment in total part-time employment was particularly strong in Europe. In the EU-15, the share rose from 12.9 per cent to 18.2 per cent in the period 2000-08. There was, however, a conspicuous exceptional decline of the incidence of involuntary part-time work for women in the Netherlands from two-digit rates in the 1980s and 1990s to a comparatively low rate thereafter. It was brought about by the deliberate policy shift reported above. Families could choose part-time work and shorter hours as a way to achieve a work-family balance. In the EU-15 as a whole, the proportion of involuntary part-time work was found to increase with the total number of hours worked in a country, indicated by a correlation coefficient of .72 between the two for the years 1995-2005 (European Commission 2007, p. 135).

TABLE 5.11: INVOLUNTARY PART-TIME WORKERS IN THE AGE GROUP 16-64 YEARS WHO COULD NOT FIND FULL-TIME JOBS IN SELECTED YEARS

	In per cent of the labour force				In per cent of total employment		In per cent of part-time employment	
	Men		Women		Men and Women		Men and Women	
	1983	1993	1983	1993	2000	2008	2000	2008
Australia	1.8	3.9	5.4	9.2	7.2	6.4	30.1*	26.9
Austria					1.1	1.7	9.4	9.7
Belgium	0.4	1.0	3.5	7.2	3.3	2.7	17.3	14.6
Canada	2.1	3.3	6.5	8.2	4.6	4.2	25.4	22.5
Czech R.					0.6	0.4	20.0	10.7
Denmark (1984)	1.1	1.1	4.2	6.3	1.8	1.5	11.0	8.5
France					3.0	3.6	21.0	27.0
Germany (1985)	0.2	0.2	1.4	2.0	1.8	4.3	10.2	19.5
Greece	1.6	1.4	1.4	2.1	1.5	2.0	28.3	25.9
Hungary					0.4	0.5	14.4	17.1
Ireland	1.3	1.8	2.0	3.6	2.0	1.0	11.0	4.9
Italy	0.7	0.8	2.2	2.8	2.1	4.7	17.5	28.9
Japan (1985)	0.6	0.5	2.2	1.9	1.9	4.8	8.3	17.6
Netherlands (1987)	1.7	1.9	11.4	10.3	1.2	1.1	3.7	3.1
New Zealand (1986)	0.9	3.5	3.5	8.8	6.4	4.0	28.6	18.0
Portugal (1986)	0.9	0.6	2.8	2.5	2.1	2.8	22.1	28.8
Spain (1987)	0.6	0.3	3.1	1.6	1.7	4.0	22.2	--
Sweden					3.4	3.0	24.5	20.3
United Kingdom	0.5	1.6	3.0	4.3	1.9	1.9	8.1	8.3
United States	1.9	1.6	4.1	3.1	0.8	1.1	4.6	6.9
EU-15					2.1	3.3	12.9	18.2
Europe					1.7	2.7	11.8	16.4
North America					0.9	1.5	7.0	11.7
OECD					1.7	2.6	13.9	16.6

Sources: OECD 1995, Table 2.12, p. 67; OECD Employment and Labour Market Statistics, 2009. *2001

Short-time work

Short-time work refers the reduction of regular hours of work. It also figures under the heading of "work sharing" because a given volume of work is spread over a larger number of workers in order to avoid lay-offs or increase the number of employed. The decrease in working hours is mostly coupled with cuts in earnings which, in turn, may be partially compensated by public wage subsidies. The extent of the reduction in workers' pay and benefits may or may not be proportional to the reduction of working hours. By contrast, *job sharing* refers to a voluntary arrangement whereby two workers take joint responsibility for one full-time job and divide the time they spend on it according to a specific arrangement made with the employer (ILO, 2004; Messenger 2009).

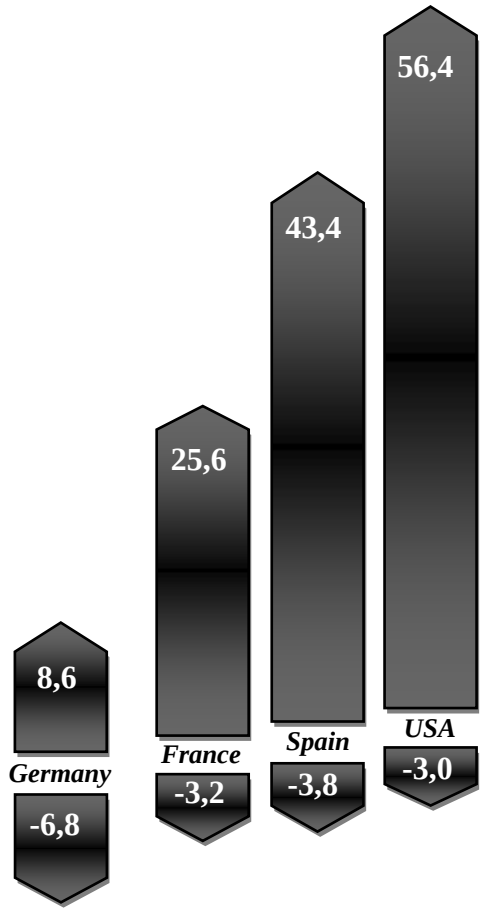
Short-time work comes under different names. The respective terms are "temporary unemployment" in Belgium and "partial unemployment" ("chômage partiel") in France. During the transition period in Eastern Europe, notably in Russia, a variant of short-time work has been operated under the label of "administrative leave", or "internal unemployment". Enterprises temporarily terminated production fully or in part without dismissing their employees. Apart from differences in wording in the various national programmes, the short-time working schemes are similar. The affected workers remain on the payroll of their employer.

Short-time work, respectively work sharing programmes, have been run, albeit at a greatly varying scale, in continental European countries and in Canada and a number of individual states of the United States. In Poland, a work-sharing programme was added in July 2009, financed from the Guaranteed Employee Benefits Fund. The introduction of short-time work programmes is under consideration in some other EU-countries, including the Czech Republic, Hungary, the Slovak Republic, Slovenia and the United Kingdom (Bosch 2009, p. 7; Messenger 2009, p. 3; ILO, 2009a, p. 29).

The level of subsidized short-time work in Germany has oscillated with the business cycle. Thus, the number of short-time workers rose from 44 thousand in 1973 to 773 thousand at the peak of the recession in 1975, and fell back to 250 thousand by 1978. Due to the short-time scheme, the number of unemployed in these years was reduced by 11 thousand, 175 thousand and 56 thousand, respectively (Bundesanstalt für Arbeit, 1978). In the course of the recent economic downturn, the number of registered short-time workers in Germany rose to a preliminary maximum of 1.52 million in May 2009, equivalent to 432.000 full-time jobs (Bundesagentur für Arbeit, 2009). The extensive use of short-time working, together with the reduction of collectively agreed working time and the reduction of credits on individual working time budgets, explain in large part the comparatively moderate rise of unemployment between 2008 and 2009 (Graph 5.1).

GRAPH 5.1: RATES OF CHANGE OF GDP AND UNEMPLOYMENT IN GERMANY, FRANCE, SPAIN AND THE UNITED STATES DURING PRESENT ECONOMIC RECESSION*

GDP: Per cent change from period January to June 2008 to period January to June 2009 (deflated);
Unemployment (standardized): Per cent change from August 2008 to August 2009



Source of data: OECD Key economic indicators; OECD employment outlook.

In addition to state-subsidized short-time work, nearly all industry collective agreements in Germany contain the option of temporary working time reductions without wage compensation. They are used to cushion the adverse employment effects of industrial restructuring or cyclical fluctuations of demand (Bosch, 2009, p.7). Variations of working time have accounted for a large, and at times nearly the full, adjustment of the work volume. A study that examined how enterprises in the German and US automobile industries coped with cyclical fluctuations of demand in the 1970s and early 1980s came to the conclusion that approximately the same scope of adjustment of work volume was achieved in the two countries, although with different approaches. In Germany, adjustment was primarily brought about by hiring stops, overtime, extra-shifts, and short-time working (providing a range of flexibility of between about 45 and 28 weekly working hours), whereas in the US it was largely accomplished by layoffs and rehires (Köhler and Sengenberger, 1983, p. 423 ff.). The same coping strategy could be observed in Germany again recently: between the first quarter of 2008

and the first quarter of 2009, the reduction of weekly working hours by an average 3.4 per cent was nearly commensurate with the reduction of GDP of 3.5 per cent. In the same period, real wages declined by 0.4 per cent and the employment rate by 0.4 percentage points, and were thus of comparatively minor significance as adjustment instruments. By comparison, in the same period in Korea, the drop of 4.2 per cent GDP resulted in a decline of 5.6 per cent of real average wages, 2.6 per cent of weekly working time, and 0.8 percentage points of employment (ILO 2009b, p.7).

Public subsidies for short-time work are granted in order to avoid unemployment and permit enterprises to keep their experienced incumbent work force in periods of economic slump. Until November 2008, the German Federal Employment Agency provided a short-time allowance for enterprises facing economic difficulties if at least 10 per cent of the normal working hours of one-third of the staff were reduced because of insufficient labour demand. Lost earnings due to short-time working were compensated by the Agency at a rate of 60 per cent (or 67 per cent for employees with children). In view of the recent economic crisis, the German Federal Government extended the maximum period of entitlement for short-time work allowance gradually from 6 months in 2008 to 24 months in the middle of 2009. In Austria and Switzerland, the maximum period of entitlement for short-time work has been extended from 12 months to 18 months.

In Belgium, temporary unemployment is subsidized by the employment office (ONEM). The duration of the entitlement is unlimited when work is carried out at least three days per week or one week in 15 days. According to a new inter-professional agreement for 2009-10, the national employment office reimburses 75 per cent of the wage up to a certain ceiling. The scheme is massively used by employers. In February 2009, 289.000 workers were temporarily unemployed.

In France, the partial unemployment scheme dates back to a tripartite agreement reached in 1968. According to the renegotiated agreement of 2008, the maximum yearly entitlement to partial unemployment was extended from 600 hours to 800 hours per year and from four to six consecutive weeks. In heavily affected industries like textiles and automobiles, the maximum entitlement per year is 1000 hours. For each hour on partial unemployment, the employer gets a state subsidy of 3.84 € in enterprises with less than 250 employees, and 3.33 € in enterprises with more than 250 employees. Specific regulatory changes in the scheme, which went into effect in January 2009, increased the duration of the scheme from four to six consecutive weeks, and also raised compensation from 50 to 60 per cent of workers' gross earnings, and the minimum compensation per hour from 4.42 € to 6.84 €, in order to limit the loss of earnings for low paid workers (Bosch, 2009, p. 5)

The use of partial unemployment in France declined over the 40-year period in which the scheme has been operated. It had only a marginal impact on the labour market. The number of days in partial unemployment decreased from over 12 million in 1995 to about two million in 2005 (Centre d'Etudes de l'Emploi, 2009, p. 29).

In Japan, work sharing has been promoted by a tripartite agreement at national level, providing both strong normative encouragement and financial incentives. The agreement includes four components, of which is the "Maintenance of employment through promoting the 'Japanese-model' of work sharing.

Some estimates of job preservation due to work sharing are available. In Germany, when overall employment declined during 2000-02, two thirds of all companies participating in

the short-term working programme maintained the same level of employment in their establishments, and seven per cent actually increased employment by hiring new employees (EUROFUND, 2009, p. 4). Similarly, in Canada, layoffs avoided through work sharing varied strongly with the business cycle, rising to a high of 12, 836 during the 2001 recession, and then declining to approximately 3,000 per year during the economic expansion of the mid-2000s and even less in 2006-07 (Messenger, 2009, p. 49).

Temporary employment

In the EU-15 countries, temporary employment measured by the average rate of *fixed-term employment* rose from 8.4 per cent in 1985 to 13.6 per cent in 2000, and further to 14.8 per cent in 2007 (Table 5.12). The share was somewhat higher for women than for men. In 2000, the rate varied between 5.4 per cent in Luxembourg and 32.0 per cent in Spain. In 2007, the span was between 1.6 per cent in Romania to 31.7 per cent in Spain. The fastest growth occurred in Poland where the level increased more than fivefold. The share of temporary employment diminished in 12 EU countries over that period: In most cases the fall was small, while the margin of increase was large in most of the countries where fixed-term contracts expanded.

Workers took up temporary employment for various reasons: Sixty per cent of the labour force that held temporary jobs in the EU-27 in 2007 could not find a permanent job. About 12 per cent did not want a permanent job. Close to 19 per cent undertook education and training, and close to 9 per cent were on probation (Eurostat database, October 2009).

TABLE 5.12: PERCENTAGE OF EMPLOYED WORKERS ON FIXED-TERM CONTRACTS IN THE EU, FOR SELECTED YEARS BETWEEN 1985 AND 2007

	1985	1990	1995	2000	2007
EU-15	8.4	10.3	11.5	13.6	14.8
-men	7.5	9.3	10.7	12.8	14.0
-women	9.7	11.8	12.5	14.7	15.7
EU-25	…	…	11.7*	12.6	15.1
-men			11.1*	12.0	14.5
-women			12.4*	13.4	15.8
Austria	….	….	6.0	8.0	8.9
Belgium	6.9	5.3	5.4	9.1	8.6
Bulgaria				6.3	5.2
Cyprus				10.7	13.2
Czech Republic				8.1	8.6
Denmark	12.3	10.8	11.6	9.7	8.7
Estonia				3.0	2.1
Finland	10.5	11.5	….	16.3	15.9
France	4.7	10.4	12.4	15.2	14.4
Gerrnany	9.3	10.3	10.5	12.7	14.6
Greece	21.2	16.6	9.4	12.9	10.9
Hungary				7.1	7.3
Ireland	7.3	8.5	10.0	5.7	7.3
Italy	4.8	5.2	7.4	10.1	13.2
Latvia				6.7	4.2
Lithuania				4.4	3.5
Luxembourg	4.7	3.4	4.1	5.4	6.8
Malta				4.1	5.2
Netherlands	7.5	7.6	11.4	13.7	18.1
Poland				5.8	28.2
Portugal	14.7	18.6	8.1	11.0	22.4
Romania				2.8	1.6
Slovakia				4.8	5.1
Slovenia				13.2	18.5
Spain	15.6	29.8	35.2	32.0	31.7
Sweden	11.9	10.0	14.7	15.8	17.5
United Kingdom	7.0	5.2	7.2	6.9	5.8

Source: European Commission, Employment in Europe, various years *1997

Findings on the proportion of voluntary and involuntary temporary employment are not quite consistent. While in 2002, OECD (OECD, 2002, Chapter 3), stated that temporary jobs are "most often" not a voluntary choice, OECD's Employment Report of 2003 reported that based on figures from 2001, more than four out of ten workers in temporary jobs indicate that they would prefer a permanent contract. The share was about one half for workers in the age group 25-54, and nearly 30 per cent for the age group 15-24. For the latter, the percentage of workers on temporary jobs was much higher, however, reaching as much as 35 per cent (OECD, Employment Report 2003, pp. 50-51).

Temporary employment can trap workers in situations of employment instability and earnings insecurity. There is evidence from OECD that temporary jobs tend to provide less favourable conditions than permanent ones. Controlling for differences in individual worker and job characteristics, the wage penalty for temporary workers was found to be significant, ranging from 6 per cent in Denmark to 24 per cent in the Netherlands, and averaging about 15 per cent in a number of OECD countries. Access to non-wage benefits which represent an increasingly important part of job quality and job stability, also tend to be lower for workers with temporary jobs compared to workers under permanent contracts (OECD, 2002, Chapter 2; OECD, 2006, p.170).

In a number of sectors, the magnitude of employment of contractually limited duration exceeds by far the average national rates shown in Table 5.12. For example, in the category of professional service in the United Nations (UN Common System), an average of 72 per cent of the staff was employed under a fixed-term contract in 2008, whereby 60 of the contracts were not financed from the regular budget of the UN agencies. Only about one half of the staff had an average length of employment in the Common System of five years or more. Employment instability is further aggravated by myriads of external consultants on short-term contracts. The prevalence of short-term and fixed term employment leads to the erosion of the conventional principle of seniority and career planning, and gives way to transient or "patchwork" career patterns (http://hr.unsystemceb.org/statistics/archives/stats/2008/).

Agency work

Agency work is a special employment scheme under which workers are employed by a private employment agency which places them in enterprises or institutions seeking temporary or permanent labour. In countries where they are permitted by law, work agencies have increased rapidly during the 1980s (ILO, 1994). Data on the number of temporary agency workers are incomplete, but show a rapid increase in the European Union. They were estimated at 8 million in the EU-27 in 2006, accounting for 3.8 per cent of total employment. In some countries, such as the Netherlands, agency workers enjoy similar access to social security schemes as workers on regular contracts. In many other countries, their coverage is limited, their pay is lower and many abuses of contractual rules are reported (ILO 2009, p. 49)

Informal employment and undeclared work

Informal employment, variably also called 'unregistered', 'undeclared', 'hidden', or 'grey' employment, has been defined as employment engaged in the production of legal goods and services where one or more of the legal requirements usually associated with employment (such a registration for social security, paying taxes, or labour regulations) are not complied with (OECD, 2008, p. 84). Transforming this definition into comparable cross-country statistics on informal employment is compromised by difficulties in measuring various aspects of informality and limited or incomplete data availability.

Informal employment is relatively high in middle-income countries of South East and Eastern Europe. In general, countries with higher levels of development tend to experience less informality. In Turkey, for example, the share of informal employment in year 2000 was 9.9 per cent according to the national definition, and 50.9 per cent according to the harmonized definition used in the LFS (ILO-KILM 2006). The first measure excludes agriculture, whereas the second excludes paid domestic workers. By the third quarter of 2004, unregistered employment in Turkey had risen to 55.4 per cent. Informal employment in FYR Macedonia runs as high as 60 per cent (World Bank 2003b). The share of informal jobs in Serbia is estimated at between 31 per cent and 35 per cent (World Bank, 2004, p. 95). The recorded

share of informal employment is 30.4 per cent in Bulgaria, 24.3 per cent in Romania, and 38 per cent in Moldova. The figures relate to different years between 1999 and 2004 (Table 5.13). Most of the recent gains in employment in Bosnia & Herzegovina came from the informal sector, whose share increased from 37 per cent in 2001 to more than 42 per cent in 2004 (World Bank 2005b, pp. 1 and 5).

TABLE 5.13: SIZE OF THE INFORMAL ECONOMY AND INFORMAL EMPLOYMENT

Country Year	Share of Informal Economy (as % of GDP) National accounts discrepancy method	Currency demand method	Share of Informal Employment (%)
Central Europe			
Czech Republic (2000)	9	20	
Hungary (2000)	18	26	
Poland (20039	14	29	
Slovakia	15	20	
South-Eastern Europe			
Albania (2002)	28	35	--
Bosnia&H (2003)	53	37	42
Bulgaria (2003)	22	38	30.4
Croatia (2000)	7	35	11.8 (2002)
FYR Macedonia (1999)	14	36	28*
(2003)			up to 60**
Moldova (2000)	31	49	38****
Romania (2000)	21	37	24.3
Serbia&M (2004)	35	39	30.6
Turkey	--	--	50.9***
CIS			
Armenia (1999)	29	49	30-38 (2003)
Azerbaijan (2003)	20	61	
Belarus (2002)	11	50	
Georgia (2001)	34	68	
Kazakhstan (2003)	22	45	
Kyrgyzstan 820039	50	41	
Republic of Moldova (2000)	31	49	33 (2007)
Russian Federation (2003)	23	39	17 (2006)
Tajikistan (2003)	15	--	
Ukraine	--	55	22 (2007)
Uzbekistan (2004)	---	37	56
OECD		16	

Sources : UNECE 2005b, p. 24; * Cazes and Nesporova 2006; Nesporova (2009), p. 7-8.
** World Bank 2003b; ***KILM 2006 (harmonized definition) ****CREP Moldova.

For a number of countries in the region, information is available on the share of the informal economy as a percentage of GDP (see Table 5.13). For the year 2000, the highest relative values of informal activities were recorded for Moldova (49 per cent), Bulgaria (38 per cent), and Bosnia & Herzegovina, Albania and Croatia (between 35 per cent and 38 per cent). The figure for FYR Macedonia in 2003 was 40-45 per cent. Several CREP reports indicate that employment and income related to the informal economy have been on the upturn. The share of the shadow economy in SEE-countries runs much higher than in the average OECD country (= 16 per cent).

TABLE 5.14: INDICATORS OF NON-STANDARD EMPLOYMENT AND UNDECLARED INCOME IN COUNTRIES OF CENTRAL, EASTERN AND SOUTH-EASTERN EUROPE AND KOREA, 2005

	Employees in informal jobs		Own account workers	unpaid family workers	multiple jobs holders	undeclared income	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Czech Republic	….	1.8	11.4	0.7	2.1	10	3
Hungary	19.4	2.6	6.4	0.3	1.8	9	8
Korea, Rep.	25.8	….	17.1	4.7	1.7	7	…
Poland	…..	4.9	7.0	0.7	7.5	11	11
Slovak Rep.	….	2.2	9.2	0.1	1.2	6	7
Turkey	21.7	….	16.8	3.3	3.1	25	…

Source: OECD, Employment Outlook 2008, Table 2.1, p. 86.
(1) Employment not registered for mandatory social security as per cent of non-farm employment;
(2) Employment without work contract as per cent of non-farm employment;
(3) Per cent of non-farm employment;
(4) Per cent of non-farm employment;
(5) Per cent of total employment;
(6) Per cent of workforce typically not reported for tax purposes;
(7) Per cent of employees receiving wages cash-in-hand.

OECD has published data on various measures of informal work for a few of its member countries (Table 5.14). The study shows inter alia that in the Czech Republic and the Slovak Republic, there are very few employees who are completely informal, but up to 10 per cent of the workforce has under-declared income. In Hungary and Poland, relatively widespread under-declaration of income is accompanied by other forms of informality. In Korea, 25 per cent of the workforce remains unregistered for social security (OECD, 2008, p. 81-82). Unfortunately, the available data do not allow measuring the rate of change in the incidence of informal employment over time.

Within the EU, work not declared to public authorities was estimated to account for between 7 per cent and 16 per cent of GDP in 2004, although the extent and the characteristics of undeclared work differed widely in the Member States. It accounted for as much as 20 per cent in the Southern and Eastern European countries. Undeclared work is found to be still on the rise in some countries of the Union (European Commission, 2008, p.75).

Vulnerable employment

The ILO publishes statistical information on the level of *vulnerable employment,* defined as the sum of own-account workers and contributing family workers. Many workers in this employment status, particularly in developing countries, but to some extent in developed countries as well, do not benefit from a social safety net if they lose their livelihoods or face challenges such as personal or family member illnesses. These workers are also less likely than more formal wage and salary employees to receive an adequate income and have their fundamental labour rights respected (ILO, 2009b, p. 13). ILO scenarios estimated the share of vulnerable workers worldwide to amount to 49.4 per cent in 2008. The figures for developed economies and the European Union was 10.1 per cent. It stood at 19.1 per cent for Central and Eastern Europe (non-EU) & CIS countries. The rates of change for these two sub-regions for 2007-09 were 1.3 per cent and 4.9 per cent respectively (ibid.).

The share of own-account workers in total employment increased in Estonia and Romania from 1990 to 2000, and decreased in Ireland and Spain. In year 2000, the level of work on own account was higher for men than for women in virtually every country for which data were available. The inter-country variation in the level was large for both sexes, with lowest rates recorded in Luxembourg and highest levels for men in Romania and for women in Portugal.

TABLE 5.15: SHARES OF OWN-ACCOUNT WORKERS AND VULNERABLE EMPLOYMENT IN DEVELOPED ECONOMIES, 1990 AND 2000

Country	Own-account workers				Vulnerable employment			
	Men		Women		Men		Women	
	1990	2000	1990	2000	1990	2000	1990	2000
EU countries								
Austria		5.4		4.6		6.9		8.6
Belgium		11.0		7.3		11.5		11.5
Bulgaria		14.9		9.2		16.1		11.6
Czech Republic		12.8		7.0		13.0		8.0
Denmark		5.3		2.4		5.6		4.3
Estonia	1.0	6.6	0.4	3.8	1.9	7.8	2.7	4.7
Finland		10.8		6.0		11.5		6.6
France		7.4		3.9		7.8		6.2
Germany		6.6		3.8		6.4		5.3
Greece		28.2		17.9		33.3		35.1
Hungary		10.1		5.8		10.5		6.8
Ireland	23.3	16.7	5.7	4.4	25.2	17.6	9.0	6.3
Italy		13.6		7.8		16.4		13.6
Latvia		7.0		6.5		10.4		10.0
Lithuania		17.9		12.1		20.4		15.6
Luxembourg		3.2		2.2		3.3		3.5
Netherlands		7.9		6.1		8.2		7.7
Poland		21.0		15.4		24.6		22.1
Portugal		17.4		17.5		18.9		21.0
Romania	7.2	29.2	10.5	16.1		39.8		45.5
Slovakia		7.5		2.9		7.5		3.1
Slovenia		10.0		4.6		15.3		11.1
Spain	17.3	13.8	13.5	9.6	20.3	15.0	24.2	13.2
Sweden		9.3		3.8		9.9		4.1
United Kingdom		11.3		5.6		11.5		6.2

Country	Own-account workers				Vulnerable employment			
	Men		Women		Men		Women	
	1990	2000	1990	2000	1990	2000	1990	2000
North America								
Canada		11.7		8.6		11.8		9.1
Asia and Pacific								
Australia	11.1	11.8	7.3	6.9	11.6	12.3	8.5	7.9
Japan	12.0	9.9	9.4	6.5	14.5	11.6	26.1	17.1
New Zealand		16.0		8.8		16.5		10.1
CIS								
Georgia		35.4		25.1		58.1		61.7
Russian Federation		7.3		8.0		7.4		8.1

Source: KILM-Table 3, Status in Employment, KILM, 6th edition, 2009

The share of vulnerable employment, which in addition to own-account workers includes contributing family workers, diminished strongly in Ireland and Spain, but increased in Estonia. Again, Luxembourg registered the lowest level of vulnerable employment while within the EU, Romania showed extremely high rates of nearly 40 per cent for men and over 45 per cent for women. In Georgia, approximately three fifths of total employment was classified as vulnerable in year 2000 (Table 5.15).

Irregular Labour Migration

Irregular flows of labour across borders, also called illegal, clandestine or undocumented migration, my lead to one of the worst forms of precarious employment. In part, it comes in the form of human trafficking. Irregularities may arise at the point of departure, transit, entry and return. The full magnitude of irregular migration is hard to ascertain. There are scarcely any hard data on persons entering to work without legal authorization. Countries have different systems for compiling statistics to suit their particular needs. This makes cross-country comparisons difficult. When estimating numbers of migrants, some countries gather statistics only on foreign citizens and thus do not count those immigrants who have naturalized; others gather statistics on the "foreign born". In some cases migrants frequently cross borders without being included in any migration record (ILO 2004, p. 7).

As a rule, labour migration has been estimated to amount to about one half of total migration. In 2000, around 175 million persons were residing outside their country of birth or citizenship – 3 per cent of the world's population. The number of labour migrants would then have been in the order of close to 90 million people. The share of irregular migrants is assumed to amount to between 10 and 15 per cent of total migration. This is suggested from regularization programmes. In 2000, there were an estimated 7 to 8 million irregular migrants in the Unites States, and 3.3 million in Europe. In the Russian Federation, there were at least 1.5 million unauthorized foreigners in the country (ILO 2004, p. 11).

5.5. Low Pay, Earnings Inequality and Working Poverty

Low pay has been classified as a category of labour underutilization and also as a key form of precarious work.

Table 5.16 presents the incidence of low pay measured by the standard definition of less than two thirds of the national median of gross hourly wages. According to the figures, there are sizeable differences between countries in the proportion of workers on low pay. Between 1996 and 2006, a comparatively high increase in the level of low pay occurred in Germany and Poland. A large incidence of low pay of more than 20 per cent are shown in all Anglo-Saxon countries, except Australia and New Zealand, and in the central European countries of Poland and Hungary.

Low pay emerged at different points in time. In the United States, the level of low pay was already high in the 1970s and has varied since then with the economic cycle. Over the same period, the share of low paid workers was constant in Denmark and falling in France. The United Kingdom and Netherlands saw large increases in the 1980s and 1990s, with no further rise after 2000. In Germany, the rate of low pay was low and falling before 1990, but from the mid-1990s it increased steadily even during the economic upswing in the mid-2000s (Bosch, 2009, pp. 3-4). By 2007, there were 2.1 million more low-paid workers than in 1995 (amounting to a growth rate of 49 per cent). During 2007 alone, the number of workers on low pay increased by 350.000, pushing the rate to 21.5 per cent (21.1 per cent in West Germany and 23.5 per cent in East-Germany) of all dependently employed in the country (Kalina and Weinkopf, 2009, pp. 3-4). It has been found that, in part, the rise of the proportion of low paid employment is related to the increase in the share of part-time employment. In particular, this is the case for part-time work of less than 15 hours per week in the Netherlands, UK, US and Germany (Bosch 2009, p. 6).

In the transition countries of Central, Eastern and South Eastern Europe, we find a peculiar variant of low pay in the form of *wage arrears.* In Ukraine, for example, the ILO has tracked the incidence of non-receipt of wages from the beginning of the 1990s. In 2002, over a three-month period, 27.5 per cent of the employed had not received all the wages to which they were entitled. Agriculture was the worst hit. Some 60 per cent of rural workers had not received all their wages in the previous three months, and most of those had not received any wages at all for over two of these months. Wage arrears have been common in the Russian Federation, in the Republic of Moldova, Azerbaijan and Georgia (ILO, 2004b, p. 99).

Earnings inequality

Table 5.16 shows that between 1973 and 1991, the dispersion of *gross hourly earnings* declined in some countries indicated by the ratio of the lowest decile of wage earners and the median wage. The United States formed an exception. By contrast, earnings disparities rose at an accelerated pace from the mid-1990s (OECD, Employment Outlook, 2006, p. 38).

Disproportionately high increases of inequality between the top and bottom wage earners were recorded in Hungary, Poland and Korea. Together with the United States, these were also the countries with a high earnings gap, both in the mid-1990s and in the mid-2000s.

TABLE 5.16: EARNINGS DISPERSION, LOW PAY, GENDER WAGE GAP AND POVERTY IN OECD COUNTRIES

	Earnings Dispersion (lowest decile wages relative to the median) 1973=100	Earnings Dispersion (9th to 1st earnings deciles)		Incidence of Low Pay (less than two-thirds of median earnings)		Gender wage gap		Poverty rate (< 50% of median Income)
	1973-1991	1996	2006	1996	2006	1996	2006	2004
Australia	...	2.95	3.26	13.1	15.2	15	17	12.2
Austria	…	…	…	…	15.8	23	22	7.7
Canada	109	3.53	3.74	22.0	22.2	25	21	11.4
Czech Republic	…	2.80	3.10	14.4	…	21	18	4.0
Denmark	…	2.49	2.67	…	…	14	11	5.6
Finland	…	2.29	2.45	….	6.9	21	19	5.4
France	119	3.09	2.91	…	…	10	12	7.3
Germany	127	2.91	3.26	13.6	17.5	24	23	10.0
Greece								14.3
Hungary	…	4.01	4.56	21.0	23.1	18	--	6.7
Ireland	…	3.93	3.92	20.4	21.2	22	14	16.2
Italy								12.7
Japan	118	3.00	3.11	15.3	16.1	37	33	11.8
Korea	…	4.04	4.56	24.6	24.5	42	38	---
Netherlands	…	2.78	2.91	13.9	…	22	17	7.3
Norway	…	1.95	2.11	…	…	22	10	6.4
New Zealand	…	2.53	2.86	17.0	14.5	--	--	…
Poland	…	4.22	3.53	15.2	16.2	20	10	8.6
Slovakia								7.0
Spain	…							14.2
Sweden	…	2.27	2.31	5.7	6.5	16	15	6.5
Switzerland	…	2.41	2.65	…	..	25	19	7.6
United Kingdom	…	134	3.63	….	21.0	26	21	12.5
United States	96	4.63	4.84	25.1	24.2	24	19	17.0
OECD*		3.12	3.33	17.1	17.9	22	18	---

Sources: OECD Employment Outlook 2008, Table H, p. 358; UNDP, Human Development Report 2007/08, Table 4, p. 241 *Unweighted average

Similar findings on inequality are received when using the ratio of earnings of the top 10 per cent earners and the bottom 10 per cent in the period 1990 to 2006. Only France saw declining earnings disparities over the whole period. For Japan, Canada, Ireland and Spain shrinking wage gaps can be observed for some years in that period. Strong increases of wage gaps resulting in high levels of disparity occurred in Hungary and Poland. The Nordic countries in Europe stick out with low levels of wage differentiation and low rates of increase (ILO, 2008c: Figure 1.8, p.13).

Several reasons account for the increasing wage differentials. In some countries, as for example in Germany, there was a "collapsing bottom", i.e. wage inequality was growing as a result of the rise in the share of the lowest wages or the fall of the average wage in the low wage groups. Hourly wages of less than six euro are no longer exceptional (Kalina and Weinkopf, 2009, p. 3-4). The opposite case is represented by the "flying top", where high level wages increased faster than the rest of wage spectrum. This has happened mainly in the US and

the UK. Where both types of changes occurred at the time, this led to a "polarization" of the wage structure. Australia (and many developing countries) fit this category (ILO 2008, p. 25).

The level and the rate of change of wage inequality have been found to correspond to the rate of collective bargaining and minimum wage legislation. Countries with high or increasing wage gaps show either a comparatively low density of collective wage agreements and/or an absence of institutional wage floors. For example, Hungary, Poland and the UK with relatively high wage inequality have rates of collective bargaining coverage of 40 per cent or less, whereas the Netherlands, France, Denmark, Finland and Sweden stick out by low wage differentials and high rates of workers covered by collective wage contracts (ILO, 2008, pp. 33-45).

Along with the change in the wage distribution, the share of wages in national income has declined in the EU-15, Japan and the United States. It fell from a high average of 67 per cent in 1975 to 66 per cent 1981. Thereafter, it declined more sharply to reach 58 per cent in 2005 (OECD Employment Outlook 2007, P. 117).

The *gender wage gap*, i.e. the average earnings of women compared to those of men, declined in the OECD countries from 22 per cent to 18 per cent between 1996 and 2006. The gap narrowed in all countries except Australia and France (Table 5.16).

Poverty and Working poverty

The *working poor* or – to use an official term – those "in work and at risk of poverty" are defined as individuals who are employed but do not earn enough so that they fall below a specified poverty line. The international poverty line is usually set at US$ 1.25 or US$ 2 a day. Based on this measure, data on working poverty is available for new member countries of the European Union, non-EU countries in Central and South-East Europe and the CIS.

According to the figures in Table 5.17, extreme working poverty indicated by a level of income of US$ 1.25 or less shrank between 1993 and 2003 in Central European countries, except in Estonia. Poverty rates measured by an income of US$ 2 or less declined also in all countries listed, except in Bulgaria. Large shares of working poor were recorded in Armenia, Georgia and Moldova. Extremely high proportions were reported for Armenia and Uzbekistan. Belarus, the Russian Federation and Ukraine saw their level of working poverty strongly declining since 1993.

TABLE 5.17: WORKING POVERTY AS SHARE IN TOTAL EMPLOYMENT (IN PER CENT), FOR SELECTED YEARS

	Percentage of working poor at the US$ 1.25 a day level			at the US$ 2 a day level		
	1993	2003	2005	1993	2003	2005
EU countries						
Bulgaria*	6.5*	4.0	…	19.1*	21.0	…
Estonia	1.3	3.5	…	10.1	10.0	…
Hungary**	…	…		25.8	19.0**	…
Latvia	1.5	0.8*	…	12.9	6.7	…
Lithuania	10.9	0.9	…	68.1	11.7	…
Poland	…	…	…	2.6	2.6	…
Romania	4.2*	1.6	…	39.8	18.9	…
South-East-Europe						
Albania	…	…	1.3	…	…	12.3
Croatia	…	…	1.3	…	...	19.3
Turkey	3.4	5.1	3.9	27.7	33.3	13.6
CIS countries						
Armenia	…	18.5	…	…	75.0	…
Belarus	…	…	…	15.6	5.4	1.7
Georgia	…	…	17.4	…	…	40.4
Kazakhstan	…	3.8	…	…	…	21.2
Moldova	…	…	11.1	…	…	41.4
Russian Federation	8.0	1.0**	…	31.1	19.6**	1.9
Ukraine	….	…	…	14.7	7.6	…
Uzbekistan	…	59.7	…	…	88.5	…

Source: KILM, 5th edition, pp. 925-27; KILM 6th edition. *1992 **2002

In the EU and OECD, *poverty* is usually measured in relative terms, indicated by the share of the population that receives less than some proportion of the median income (For the range of existing definitions, see Gazier, 2009, pp. 2-3). For most of the workers the main or exclusive source of income is earnings from work so that income poverty may be seen as a good proxy of working poverty. In 2006, in the EU-27, an average 8 per cent of persons were found to be "in work and at risk of poverty". Their disposable income was 60 per cent or less of the national median disposable. The rate of incidence of the working poor varied between three per cent in the Czech Republic, and four percent in Belgium, Denmark, Netherlands and Finland, on the low side, and 14 per cent in Greece, in the high side (EUROSTAT, 0908, htm.).

Table 5.16 includes information on the rate of income poverty in OECD countries indicated by the percentage of the population with less than 50 per cent of the median income. The data point to relatively low poverty levels in the Northern European countries and high rates in the Anglo-Saxon countries. In the EU-25 in 2004, the rate of income poverty stood at 10 per cent measured at 50 per cent of the median income, and at 16 per cent based on 60 per cent of the median income. Unemployed persons ran a much higher risk of falling below the poverty line. As much as 40 per cent of the unemployed workers had less than 60 per cent of the median income at their disposal. In the EU-10, the rate amounted to 47 per cent (EUROSTAT, November 2007).

Due to lower growth rates of real wages and increased inequality of incomes and assets, most industrialized countries have seen increasing levels of relative poverty since the 1960s. The trend is most advanced in the Unites States where income gains have been concentrated on the highest income stratum. In 1970, the richest 13.000 families in the US had 70 times more income at their disposal than the average family. By 1998, they had about 300 times more. At that point, their income was equivalent to the aggregate income of the 20 million poorest families (Krugman, 2002, p. 65). In the period 2002-07, income inequality in the US reached the same maximum level as in the 1920s. Between 1993 and 2007, the growth of real income in the US averaged 2.2 per cent per annum. Excluding the top one per cent income group, the rate comes down to 1.3 per cent (Piketty and Saez, 2009, p. 1-4). The income distribution in the other industrialized countries has followed more or less the same pattern, albeit at varying rates: Large differentials of income and wealth in the beginning of the 20th century yielded to a compression of income inequality during the "golden years of economic growth" in the middle of the 20th century. Subsequently, renewed growth of income dispersion occurred. Poverty rates evolved in parallel to the income distribution. Mass poverty a century ago gave way to a period of widespread prosperity and a subsequent period of new pauperization of part of the population. In November 2009, a poll of European citizens indicated that 7 out of 10 Europeans saw poverty as the greatest problem confronting their life, ahead of climatic change (EUROBAROMETER, November 2009).

Higher income inequality and poverty are self-reinforcing, inter alia through the mechanism of voting behaviour. Pertinent research findings show that average voter participation in parliamentary elections in industrialized countries has continuously declined in recent decades, in particular in countries and areas with a high proportion of unemployed and poor populations. The economically disadvantaged tend to be "voiceless", because their electoral participation is low (Solt, 2008; Schäfer, 2009). As a result, there will be less of a chance to elect politicians who opt for policies to combat unemployment and to reverse the trend towards greater income disparities.

5.6. Conclusions

Incomplete data for countries and time periods and partly deviant indicator definitions notwithstanding, a fairly clear picture emerges from the panoramic view of labour market developments in industrialized and transition countries during the last half century and before.

- After periods of large labour surplus in the first half of the 20th century, and notably during the Great Depression, mean aggregate unemployment in the industrialized countries shrank after World War II, reaching a historically low rate during the 1960s. Thereafter, a long-term trend of rising unemployment set in, interrupted by a temporary decline of measured joblessness between the mid- 1990s and 2007. Record unemployment in the post-WW-II period is forecasted for 2010 as a result of the present global economic crisis;

- There are large inter-country differentials in respect of the level of employment, unemployment, underemployment and over-employment, informal or undeclared employment, working time, low pay, gender pay, earnings distribution and poverty; there has been some degree of convergence of the inter-country differences in some periods, especially those of high output growth, and divergence at other times;

- There has been a secular decline of annual working hours. Weekly working time has remained excessively long for some workers in some countries. Time-related underemployment of workers who want to work longer hours than they actually do has been

rising in the majority of countries. For part of the employed, standard working time and fixed work schedules have been eroding and replaced by flexible working time arrangements;

- A mounting variety and level of forms of non-standard, or atypical, employment can be observed emanating in an increasingly heterogeneous, fragmented and complex labour market structure; in particular, part-time work (both voluntary and involuntary), temporary employment, agency work and own-account employment have been spreading; the number of workers on short-time or work-sharing has been significant in continental European countries. In a number of sectors, life-time career patterns have given way to transient and patchwork careers;

- The total work volume has been fragmented, or parcelled out, into smaller and marginal units of employment. This holds, for example, for the replacement of full-time jobs by an increasing proportion of part-time jobs, and for the trend towards shorter average working hours per part-time job. In some countries, mini-jobs have been rampant;

- Varying across countries, some part of employment has been classified as "precarious", primarily in terms of employment instability, poor hourly pay, low or absent fringe benefits, income insecurity, and sub-standard working conditions; informal employment has declined in some transition countries, but remained significant in others; precariousness of work tends to be cumulative in the sense that one dimension of inferiority of employment status causes inferiority in other dimensions;

- Income inequality and poverty have risen at varying degrees in most OECD countries in recent decades. The trend has been nourished by the growth of unemployment and underemployment and the expansion of low pay. Working poverty has remained high in a number of transition countries, particularly in some CIS countries. It shrank in Belarus, the Russian Federation and Ukraine. The gender wage gap narrowed in nearly all countries;

- Over the last four decades, unemployment has increasingly been supplanted by rising levels and partly new forms of underemployment and low-quality employment. Therefore, the fall in the average rate of joblessness in OECD countries from the mid-1990s until the onslaught of the present economic crisis in 2008 should not be taken as an unambiguous sign of improved overall labour market performance.

It is likely that with the prospect of higher unemployment, longer unemployment spells and an increased number of job seekers in the present economic crisis, the trend of diversification and growing heterogeneity of employment patterns, including the expansion of at least some of the non-standard forms and sub-standard forms of employment, will continue. Though all social groups have been affected by job loss from this crisis, it is the already disadvantaged groups in the labour market – youth, low-skilled, immigrants, ethnic minorities and, among them, those on temporary and other atypical jobs - that are bearing most of the brunt (Martin, 2009, p.1).

6. Beyond the Conventional Labour Market Measurements

Having reviewed the evolution of labour market theory and policies (chapter 4), and labour market developments (chapter 5), we are now better equipped to analyze the interfacing role of labour market statistics (see the model of inter-linkages of labour market statistics in chapter 3). How does labour market statistics interact with labour market theories and labour market policies? More specifically: How is the perception of the labour market performance affected by the choice of statistical concepts, definitions and indicators? How adequate are the framework and the instruments of labour market statistics to measure present-day labour market reality?

6.1. The Limitations of the Unemployment Indicator

According to the 1982 ICLS Resolution, a person who worked for at least one hour in the reference week is counted as employed, while a person who was "without work", "available for work", and "actively seeking work" is counted as unemployed. Actively seeking work is defined as "registering at public or private employment exchanges, direct application to employers, checking at worksites, farms , factory gates, market or assembly places, placing or answering newspaper advertisements, seeking assistance of friends or relatives, looking for financial resources, land, building, machinery, or equipment, or permits or licenses to establish own enterprise".

6.1.1. Contingencies of measured unemployment

The internationally harmonized method used to learn about the volume of unemployment is a labour force survey conducted in a particular reference week. The self-characterization of the person's labour market status in the survey is not simply a "technical" matter. Rather, each of the defining characteristics of a person's labour market integration is subject to various kinds of spatial and time-bound circumstances, or "contingencies" that vary across nations and localities, and over time. They will be typified below. The contingencies relate to the degrees of workers' freedom to choose, and the capabilities and the resources available to them. These include

- The capability of a national economy to provide work for those who wish to work and to offer the kind of work workers are willing and able to take;
- The freedom of workers to choose between labour market activity and inactivity, and the freedom to choose the number of hours worked; to a large extent, these freedoms depend on the worker's income and asset resources and on public and private labour market policies;
- The capability of workers to actually perform work, or be available for and seek work in case of unemployment. It is determined by workers' physical, mental and motivational condition, their skill endowments, and on financial and other support from public employment agencies.

To illustrate the importance of these factors it may be useful to review a case of unemployment where the three critical facilities are largely absent. The case is provided by the 'classic' historiographic study of the "The unemployed of Marienthal" (see Box 6.1). The study was carried out by Marie Jahoda, Paul Lazarsfeld and Hans Zeisel in 1933 (Jahoda et. al. 1933; Lazarsfeld et. al. 1975). It gives a comprehensive account of the economic, social and psychological effects of a plant closure and the ensuing joblessness on individuals and the local community at the time of the Great Depression.

BOX 6.1: "THE UNEMPLOYED OF MARIENTHAL"

Marienthal is a small worker community in the town of Gramatneusiedl near Vienna/Austria. During the 1920s, its exclusive economic base was a textile factory employing about 1200 workers. Due to declining business, one half of the staff was licensed in 1926. By 1933, the factory was closed down entirely. In the absence of alternative employment opportunities for the local population, a large proportion of the labour force of Marienthal became unemployed. There were 367 families, out of a total of 478 families, in which nobody had any employment.

Initially, most of the jobless received some meagre financial assistance from the state unemployment fund or the national emergency fund. As the unemployment became long-term, people exhausted their claims. Also, the rate of public unemployment compensation had been diminished. Income poverty was spreading. The public administration ceased to give the impression that it could ensure the survival of the affected families. Hunger emerged. Dogs and cats disappeared from the streets. Their owners refrained from reporting the loss because it was clear what had happened to the animals and nobody wanted to find out who caught and ate them. Deposits of coal of the railways were looted. Nobody filed a suit against the pilferage. Theft became a tolerable practice.

When Jahoda and her colleagues looked into the psychological condition of the working class families in Marienthal, they found that 112 families (23 per cent) were "still unbroken and resistant to social degeneration, even in despair"; 330 families (68 per cent) were "resigned"; 11 families were "desperate"; and 25 were "completely apathetic". The capability for individual activity and the social life in the community weakened and finally ceased altogether. The researchers observed general "fatigue" among the population and spoke of a "tired community". The mass unemployment did not lead to any social upheaval or protest, but instead to nearly total political apathy.

At the time, the Austrian economy was unfit to provide employment. While the textile company of Marienthal had suffered from economic difficulties already prior to 1929, its total collapse coincided with the beginning of the Great Depression in the late 1920s. Like any other nation in Europe, Austria faced a dramatic fall of her industrial production during the depression. Between 1929 and 1931, output in that country dropped by 39 per cent. The labour market during the Great Depression was such that there was simply no work available. It would not have helped the workers of Marienthal to move elsewhere in Austria to find work because high labour surplus was virtually ubiquitous.

The unemployed of Marienthal were without work for a long time. This was due not merely to the general shortage of jobs at the time. The prolonged joblessness in Marienthal was very much caused by the reported mental resignation and frustration of the local working population. One had given up hope to find work. Worse, the unemployed had lost their capability to use their time in a productive and meaningful way. In the words of the authors: "Knowing how tenaciously organized workers [in Austria] had fought for shorter hours of work and longer vacation, one might think that under the misery of unemployment unlimited free time would be welcomed. Yet, this freedom turned out to be a tragic gift for them. Stripped of work and contacts with the 'outer world', they lost the economic and moral capability to use their time" (Lazarsfeld et. al. 1975, p. 25).

Marienthal demonstrates the compounded effects of an economy that is 'unfit' to provide work, workers who are 'unfit' to work due to demoralization and loss of working

capability, and the weakness and subsequent total absence of a social safety net that could have provided alternative income for the jobless, or to enable them to spend the spell of unemployment on activities to maintain or improve their employability. The lack of employment opportunity, together with the paucity and eventual cessation of public income support led part of the desperate unemployed to seek alternative sources of subsistence through "abnormal" means such as slaughtering domestic animals for food consumption, and theft and pilfering of heating materials to survive the winter periods. Normal moral standards in the community broke down. Unusual forms of "self-employment" by those who were not totally derailed served as substitutes for paid employment and public income replacement.

Socio-psychological contingency: The mental capability for employment

There is ample evidence from empirical studies that the negative social and psychological impact of unemployment on the employability of workers may be as great as, or even greater than, the effect of financial difficulties, even though the two are interlinked (Brinkmann, 1976, p. 412). Adverse socio-psychological effects of unemployment are manifold, including: Disturbance of the habitual rhythm of working time and leisure time; loss of perspective in relation to individual careers and family welfare; loss of contacts to co-workers, friends and the concomitant deprivation of self-confidence, countenance and personal recognition; loss of status and authority in the family because of failure to serve as breadwinner; perceived incapability because of failure to find jobs and recurrent unemployment; perceived dependence on the employment exchange and on public benefits; and feelings of individual fault due to selective dismissal (Büchtemann, 1979).

Based on empirical studies for the period 1995 and 2005, OECD reported a link between the level of unemployment and non-standard types of employment (fixed-term jobs, short-term work, shift-work, week-end work and night work) on the one hand, and mental health problems experienced by workers on the other hand. The positive correlation between the two persisted after controlling for individual characteristics of workers. The study observed also a worsening of psychological distress during the period. Unemployment and forced labour market inactivity were found to increase distress by more than any other life changes such as accidents, moves, or the loss of the partner. The duration of unemployment matters for the severity of mental illness but the size of the impact is different across countries (OECD 2008, pp. 206-21).

The severity of the socio-psychological effects of unemployment depends inter alia on the duration and frequency of a worker's unemployment spell. Pertinent research points to four successive phases in the individual reaction to the unemployment experience, namely shock, optimism to find a new job, pessimism, and fatalism. In the course of passing through these four phases, the jobless worker may be confronted with financial problems (indebtedness), boredom, shrinking self-esteem and self-confidence due to failure to gain income, anxiety and psychic depression, and feelings of dwindling prospects of re-employment in spite of efforts of intensive job search. The worker ponders whether or not to make wage concessions in relation to prospective employment, give up one's occupation, change residence, and finally, cease making efforts altogether. With increasing duration of unemployment, employers view job applicants with greater scepticism, leading to further resignation on the part of the job seeker (United Kingdom, Department of Employment Gazette, April 1976).

Starting in the 1970s, with rising levels of redundancy and unemployment, empirical research on the interaction of unemployment and job insecurity has abounded. For example, data from Great Britain point to a gradual increase in job insecurity between 1967 and 1986,

with the trend being most pronounced for blue-collar workers. The percentage of jobs for this group held as insecure or very insecure rose from 20 to 33 during the 20-year period, the level of insecurity for female blue collar workers increased from 13 per cent to almost 30 per cent. Insecurity among white collar workers, both male and female, rose as well, but at a smaller pace. In the subsequent decade from 1986 to 1997, it was the professional workers which suffered most from job fears. The main reasons why people fell insecure encompassed the threat of company downsizing, company mergers and acquisitions, redundancies, organizational restructuring, and plant closure (Burchell et. al. 1999, pp. 17-24).

Recent research on the labour market situation of the male labour force in West-Germany has documented a steady increase of employment insecurity linked to rising unemployment during the past five decades. The chances of finding a new job after an unemployment spell are currently significantly lower than previously. At the same time, the average time lapsing until re-employment is found and the risk of long-term income loss at the new job have increased (Protsch 2008).

Socio-economic contingency: Resource endowment of the labour force

The concept of "unemployment" that underlies the standardized statistical measure of the unemployment rate presumes an economy with income levels high enough to afford a safety net of redistribution, either through the family or the state. Unemployment is almost exclusively a 20th century phenomenon applicable to the industrialized world. In the 19th century, classical economists focussed on "surplus labour" or the "reserve army of labour". In agrarian and developing countries, a large share of the labour force is self-employed and involved in family based production. At subsistence levels, not being employed in some activity to support the household is simply not an option (Howell, 2004, p. 5). Given the method of estimation, unemployment rates in developing countries represent the sum of chronic and transient unemployment. While the chronic unemployment rate indicates the extent of queuing for jobs in the formal segment, the transient unemployment rate is a partial measure of unemployment of casual/irregular wage workers (Ghose et. al., 2008, pp. 73-74).

The decision of workers to be available for work and to actively seek work, and also retain jobs or change jobs, hinges on their financial situation and other material resources at their disposal which, in turn, depend on the availability of savings and other assets, the employment and income situation of other members in the family, help from friends and relatives, the level and duration of unemployment benefits and the rules of qualifying for benefits, the level of pensions, and other kinds of income that determine the level and immediacy of reproduction requirements. The decision depends, furthermore, on the extent and kind of immaterial support, especially job search assistance, which the worker receives from public labour market programmes for taking up work and meeting the requirements of jobs offered in the labour market. With increasing duration of unemployment, workers tend to need more than the usual transfer payments to maintain their employability. They need to preserve social contacts, sustain or update skills and qualifications in demand in the labour market and also maintain extra-occupational abilities required for engaging in gainful employment.

Compared to the financial situation of the unemployed of Marienthal, workers in Europe and other advanced industrial countries faced more favourable financial conditions in the second half of the 20th century. Thanks to rising real wages and labour incomes, private reserves have grown. The average assets of individuals and households have increased manifold. Yet, with higher levels of real income workers may adapt their consumption patterns and expand their long-run financial commitments so that a large proportion of their household

budget is fixed. Hence, in spite of increased real earnings, workers may be liquidity constrained in their labour market behaviour and may not endure sustained spells of joblessness without public income support. Moreover, opposite to the long-term trend, part of the labour force now tends to be confronted with more precarious income situations, even in the most advanced countries (see Chapter 5). In the United States, for example, real income declined for 97 per cent of the population and increased for the remaining three per cent after the turn of the century (Scheve and Slaughter, Foreign Affairs, 2007). A New York Times/CBS News poll of 708 unemployed adults in December 2009 yielded that 7 in 10 of the jobless rated their families' financial situation as "fairly bad or very bad" and 53 per cent borrowed money from family members or friends. Fourty-seven per cent were without health insurance or health care coverage and 54 per cent have reduced doctor visits or medical treatments (International Herald Tribune, 16 December 2009, p. 2). In Germany, also one of the most prosperous countries, net real wages stagnated and declined during some years after 2000. An increasing share of individuals and families have come to face an accumulation of bad risks in living conditions, including housing (poor heating, noise), food consumption (unhealthy food, malnutrition), financial situation (lack of savings and other reserves; indebtedness), and insufficient medical care (Statistisches Bundesamt, 2006, EU-SILC, 1st wave).

Public income replacement for the unemployed in the industrialized world has increased for several decades, but lately it has been stagnating or has become subject to cuts. As was shown in Chapter 4, the level and duration of benefit payment for unemployed and underemployed workers varies greatly across the industrialized and transition countries. Through setting up mandatory insurance schemes against unemployment, underemployment, sickness, bad weather and old age, welfare states have "decommodified" labour to a greater or lesser extent (Polanyi, 1944; Esping-Andersen 1990 and 1999). The conditions for entitlement and the magnitude of the coverage by benefits schemes clearly make a difference in respect of the labour market status. In Sweden, for example, on any given day in 1990, an average of 15 per cent of workers was absent from work yet paid. The share was as high as 30 per cent in the case of women working in the public sector. In the Netherlands where a comprehensive invalidity scheme for people unable to work (WAO) was set up in 1978, twelve per cent of the labour force was classified as unfit to work and received 70 per cent of its last wage. The scheme is not confined to early retirements. Fourteen per cent of those unfit for work were less than 35 years old (Esping-Andersen, 1990). While a certain proportion of the public income transfers concerns people fully or partly out of work (e.g. unemployment benefits, short-time allowances, or retirement schemes), others interfere directly with the labour contract (e.g. sick leave, maternity leave, allowances under family friendly policies and training schemes).

The evolution of the welfare state, notably the improved material endowment and the better wage replacement standards during the "golden age of capitalism" in the middle decades of the 20th century, had profound implications for the employment behaviour of workers: They have reduced the compulsion to work under any circumstances, on any terms and conditions of employment, and at any point in time throughout life, in order to survive. They have diminished the need for the "appeasement of hunger" as the central motive of workers to participate in the labour market (Polanyi 1978). They have enhanced the ability to work, but also afforded some degree of freedom to choose between working and not working, and to decide the length of the working life. Comprehensive social safety nets have provided financial scope and opportunity for an extended period of search of adequate employment. As a rule, the higher the rate of wage replacement for the unemployed, the longer the benefit payment period, and the more effective and efficient the information and placement services, the greater is the incentive for the jobless to register their unemployment in order to receive compensation and job search assistance.

The welfare induced moratorium on the immediate need to work, and the ability "to wait" and "to look around" before taking up employment has *ambivalent repercussions on both the level and duration of unemployment*. At a given rate of labour demand, it may increase the number of workers who are looking for work at any moment in time and, in addition, lengthen their period of job search. Consequently, more generous unemployment compensation tends to lead to an increase of the number of unemployed, or the rate of unemployment. Evidence of the positive correlation between the level of wage replacement and the duration of unemployment is available from Austria (Lalive et. al. 2006). It was also found that the duration of unemployment benefit payment has a greater impact than the income replacement rate on the level and duration of unemployment (Layard et. al. 1991). In a synopsis of empirical studies of factors significantly impacting on unemployment, the OECD secretariat identified the generosity of unemployment benefits, the duration of benefit payment, the tax wedge between labour cost and take-home pay, and product market regulation as increasing the unemployment rate, whereas the level of expenditure on active labour market policies was found to dampen it. The stringency of employment protection legislation, minimum wage regulation and the trade union membership rate, on the other hand, would not affect unemployment in one way or another. The labour market policy reforms undertaken would explain 47 per cent of the cross-country variance of observed unemployment change between 1982 and 2003 (OECD, 2006, p. 210-216). It should be stressed, however, that these findings result from simple univariate statistical analysis that do not account for interaction effects between these variables and miss any of the second order or long-term effects that were emphasized in Chapter 4. In any case, looking at the inter-country dispersion of the average duration of completed unemployment spells should warn us against simplistic views on the effects of the unemployment benefits system on unemployment (see Table 6.1). Taking Ireland apart, short average spells are found in Anglo Saxon countries (where unemployment benefit generosity is low), as well as in the Nordic European countries (where benefit generosity is high). The Southern European countries stick out with the longest duration of unemployment.

TABLE 6.1: AVERAGE DURATION (NUMBER OF MONTHS) OF COMPLETED UNEMPLOYMENT SPELLS*

Country	Men	Women	Youth (15-24)	Prime-age (25-54)	Older Workers (55 and over)	Total
Australia	5.1	3.6	3.4	4.9	7.7	4.4
Belgium	16.4	15.4	8.9	20.9	…	15.8
Canada	3.7	3.4	2.4	4.1	4.9	3.6
Denmark	7.9	7.8	4.2	9.6	33.4	7.8
France	10.9	11.8	6.7	12.8	27.8	11.4
Germany	13.9	14.6	8.1	14.5	31.7	14.2
Greece	15.2	23.6	14.2	21.7	24.6	19.6
Ireland	20.7	12.6	11.8	19.3	85.1	16.8
Italy	29.6	30.4	23.3	34.4	51.3	30.7
Japan	6.4	4.6	3.4	5.9	13.7	5.5
New Zealand	4.4	3.2	2.8	4.5	8.6	3.8
Norway	3.3	2.6	1.7	3.7	…	2.8
Portugal	11.9	14.5	9.0	15.2	32.8	13.2
Spain	9.9	13.8	7.9	13.2	18.4	11.8
Sweden	4.6	3.8	2.3	5.1	11.0	4.2
United Kingdom	8.2	5.3	5.0	7.6	11.8	6.8
United States	2.0	1.8	1.4	2.3	2.6	1.9

Source: OECD 2009, p. 22 *The number of years covered by the statistic varies by country; the longest period of observation concerns the United States (1968-2007), the shortest period concerns New Zealand (1986-2007).

Next to raising the level of unemployment, public labour market programmes may also reduce unemployment to the extent that they result in a better match of jobs offered and jobs demanded, in terms of skill level, occupations, wages and the location of work. Moreover, public income sources for the unemployed and the resulting emancipation from the need to seek employment at any time or any cost may alter the behaviour of employers. They may make it more difficult for them to recruit workers since the latter have more alternative options for choosing employment. Consequently, employers may be more inclined to change job contents to make work more attractive, or raise wages and other rewards which, in turn, may result in higher productivity, a higher rate of technical or product innovation, and increased purchasing power. Thus, higher wages, higher productivity and more innovation will raise the level of demand for labour directly or indirectly due to greater international competitiveness, with favourable knock-on effects on the rates of employment and unemployment.

In chapter 4, evidence was provided of very large differences between OECD countries in the duration of unemployment benefit payment and vastly disparate income replacement rates. The eligibility criteria for unemployment benefits and, in particular, the regulation of suitability of work in relation to benefit payment have greatly varied. So have provisions of punitive sanctions in case of non-compliance with eligibility rules. Countries with stricter regulation may earn lower unemployment as a primary effect, but may face lower productivity and other kinds of the unfavourable secondary effects mentioned above.

GRAPH 6.1: MAIN FACTORS OF REGULATION OF THE PUBLIC UNEMPLOYMENT BENEFIT SYSTEM IMPACTING ON UNEMPLOYMENT

1. Level of unemployment benefits (wage replacement rate)
2. Constant vs. declining benefit scale during unemployment spell
3. Length of employment insurance period required for qualifying for benefits
4. Duration of benefit payment; contingent on age, years of insurance, etc.
5. Length of waiting period in unemployment before benefit payment
6. Eligibility for benefits
   - Registration with placement service
   - Reporting and monitoring of job search requirements (e.g. frequency of reporting)
   - Interviews (obligations and frequency) and active job search plans
   - Participation in ALMP: voluntary or compulsory (after specified period)
   - Suitability of work (in terms of wage offered, commuting time, etc.)
7. Sanctions and exclusion from benefit payment in case of refusal of suitable work

Of great importance for labour market statistics are the intensified intervention regimes adopted by many governments in virtually all OECD countries in order to "activate" job seeking by the unemployed (for an overview, see OECD 2007, pp. 210-234). The initiatives started at varying points in time in the OECD countries. Measures taken include the cutting of replacement income rates and the tightening of eligibility criteria. In some countries, the benefit scale was made degressive so that benefits levels diminished with increasing length of the unemployment spell in order to entice workers to make greater concessions to wages and other terms of employment. National regulation differs widely in respect of the length of the waiting period for which benefits are not payable at the start of the unemployment. In Austria, Germany, Greece, Hungary, Poland and the Slovak Republic, the entitlement to benefits begins

at the day of registration of the unemployment. In 14 other countries, including Australia, France and most US states, there is a waiting period of up to one week. Job search requirements have been tightened also with regard to the frequency of reporting of the unemployed worker's job search activity (ranging from zero in Poland to every two weeks in Anglo-Saxon countries).

The general rationale behind each of the various changes in the public support programmes has been to motivate, or even coerce, the unemployed to seek work as quickly and efficiently as possible. Sticks and carrot have been used for ensuring expeditious re-employment. Lowering the level and/or the duration of benefit payment and tightening the eligibility rules has formed the negative (or "low road) variant of activation. The positive ("high road") variant of activation has been to promote worker capability by investing in worker skills, health and other dimensions of employability, complemented by improved information, placement and counselling services. To the extent that unemployment levels have been affected by the activation programmes, or have been affected variably because of different national support programmes, this has clearly compromised the inter-temporal, respectively the international, comparability of unemployment rates.

It is not only individual labour market policies and measures that affect the level and duration of unemployment and other kinds of underemployment. In addition, there are interaction effects between policies and policy packages which impinge on labour market outcomes. For example, according to OECD research, the disincentive effects on job search brought about by generous unemployment benefits or long payment periods tend to be dampened or offset by active labour market policies. This is confirmed by empirical analysis, which shows that the "adverse" impact of unemployment benefits is lower in countries that spend more on active labour market policies. In countries with a strong emphasis on activation policies, like Denmark and the Netherlands, unemployment benefits were found to have a statistically insignificant effect on unemployment (OECD, 2006, p. 217). Another illustration of interaction of various policies in relation to unemployment comes from Sweden. Research has documented the interplay between the unemployment insurance (UI) and the sickness insurance (SI). By reporting sick, an unemployed person can postpone the unemployment benefit expiration date and sometimes also receive considerably higher benefits. In the course of a reform which greatly reduced the incentives for unemployed persons to transfer to SI, evidence was found that the reform significantly lowered the incidence of sick reports among the unemployed. But there was no evidence suggesting that the reduced reporting of sickness in turn affected the transition rate to employment (Hall 2008). The links between employment, unemployment and sickness tend to be complex. Experience tells us that during cyclical economic downturns and rising unemployment, workers who actually suffer from illness hesitate to report sick because of fear of losing their job. Such behaviour may keep the employment rate up in the short term, but due to neglected proper cure of the sickness and the subsequent deteriorating health it may diminish workers' employability in the longer run.

The employability of workers, and the chances of avoiding or exiting unemployment, depends also on the education and vocational skills of the labour force. In a long-term perspective, worker preparedness and occupational qualification have been enhanced through more years of schooling and improvements in the system of basic occupational training, further training and retraining. Spending on active labour market policies has risen over decades, although since 2000, expenditure in most industrialized and transition countries declined, both as a share of GDP and per worker (EUTOSTAT 2007; OECD 2007, Statistical Annex, Table J). The ceteris paribus impact on unemployment of higher worker employability in terms of general and vocational education is again ambivalent: it may reduce skills mismatch because

the worker is more able to meet job requirements; at the same time it may raise workers' expectations on wages and other job rewards leading him/her to refuse job offers, thus lengthening unemployment spells. It can be assumed that the first effect exceeds the second one, yielding an overall positive impact of education and skills on employment opportunities and the chance to avoid unemployment.

Cultural contingency

Next to the health and mental disposition of workers and the system of worker resource endowments through public income support and public services, *local culture* may affect the behaviour of the labour force reflected in key labour market indicators. The kind and magnitude of the cultural factor is illustrated by the case of Switzerland where major population groups separated by language have shown significantly different rates of unemployment and unemployment turnover (See Box 6.2).

BOX 6.2: CULTURAL DIFFERENCES OF LABOUR FORCE PARTICIPATION AND UNEMPLOYMENT IN SWITZERLAND

In Switzerland, persistent differences in the rate of unemployment have been observed between the German speaking population in the Eastern and Central parts of the country and the French and Italian speaking regions in the Western and Southern regions. The disparities have aroused the curiosity of researchers. In the period between 1998 and 2003, with an average rate of joblessness of 3.39 per cent in the country as a whole, the mean rate of unemployment in German-speaking Switzerland was less than one half of the rate of the other regions. Furthermore, major gaps between the linguistically different regions were found with regard to the probabilities of entering and leaving unemployment. In the French and Italian speaking cantons, the probability of entering unemployment was 0.24 percentage points higher and the probability of exiting unemployment was 0.89 points lower than in the German speaking cantons. These figures compare with average probabilities of entry and exit to and from unemployment for the entire country of 0.38 and 11.48 respectively. Hence, while the regional gap in the probability of leaving unemployment was minor, the gap for entering employment was large. The likelihood that the German speaking labour force would become unemployed was only 63 per cent of the average Swiss worker.

The sizeable differences in the labour market behaviour patterns could not be explained by relevant labour market institutions, policies or legal regulation. These were more or less the same in the country. The researchers attributed the disparities of labour market outcomes to cultural factors, i.e. embedded behavioural patterns rooted in distinct social norms and social interactions. Support in favour of this explanation was found in the results of various population surveys. For example, workers who expressed a preference for working time reduction and earlier retirement were much more frequent in the French and Italian speaking parts than in the German speaking ones. Among the latter, 80 per cent said that they would want to work even if they would not need the earnings from it. Among the non-German speaking population, the share of people with this option was only 50 per cent. In subsequent research, the authors estimated that the differences in culture between the Swiss regions explain differences in unemployment duration in the order of 20 per cent. The impact of culture on unemployment would roughly be as important as strong changes in the duration of benefit payment (Brügger et. al. 2007; Brügger et. al. 2009).

6.1.2. Disguised unemployment

A significant share of the actual underutilization of labour is hidden, or disguised. It is neither counted as unemployment in standard labour force surveys, nor is it reflected in registered unemployment. Disguised unemployment is manifested in different ways.

Discouraged workers and unrecorded unemployed

The most common form of hidden, or concealed, unemployment refers to the so-called "discouraged workers". These are available for employment but currently not actively seeking work because of past failure in finding work. Hence, they are not classified as unemployed, but counted as economically inactive (see 13th ICLS resolution, 1982). This decision rule has been called into question. For example, the United Nations have suggested classifying discouraged workers as unemployed instead of "out of the labour force".

Estimates of the share of discouraged workers in the total labour force in OECD countries were presented in Table 5.6. In 1992, the share ranged from 0.2 per cent in France to 2.6 per cent in Italy. Drawing on data from the annual European labour force surveys, it has been observed that the gap between the rate of labour slack indicated by the discouraged job seekers and the standard rate of unemployment in selected EU-countries increased between 1983 and 2002. In the same period, adjusting rates of employment and unemployment so that both are expressed by full-time equivalents, the disparity between the rates of unemployment and full-time equivalent unemployment has risen (ILO 2004, p. 119-120).

For a number of countries, there has been documentation of a long-term trend of a rising proportion of discouraged workers in parallel with mounting open unemployment since the 1970s. According to the U.S. Bureau of Labour Statistics indicators of underutilization (U-6 and U-7), the ratio of underemployment, including unemployment plus all 'marginally attached' workers, plus all persons employed part time for economic reasons, to open unemployment was in the order of 1.4 during the 1980s, and between 1.6 and 1.8 between 1993 and 2002 (Howell, 2004, Fig. 1, p. 20). While "marginally attached workers" are defined as "all persons who want and are available for a job and have recently searched for work", discouraged workers are the "marginally attached who give a job-related reason for not looking for work" (Bregger and Haugen, 1995, p. 24).

A recent study identified "many non-working persons in EU countries at the boundary between unemployment and inactivity" (Brandolini et al. 2006, p. 153 ff). Like the unemployed they are available for work and seek work, but unlike the unemployed their last search action was not recent enough the meet the ILO definition of unemployment. Using data from the European Community Household Panel, and examining the transition probabilities of these out-of-the-labour force job seekers, the study concluded that these undocumented job seekers constitute a distinct labour market segment. Data exclusively available from the Italian Labour Force Survey made it possible to calibrate the search intensity of these individuals. According to their transition probabilities, the most active among them are indistinguishable from the unemployed (ibid.)

Apart from discouraged workers, there may be "other inactive persons with labour force attachment" whose unemployment is disguised. This component can be revealed when comparing unemployment in developing countries and industrialized countries. For example, exploring the reasons for the low unemployment rates in Mexico relative to U.S. rates, it was found that Mexico's low measured unemployment rates mask a larger number of persons in

unstable, marginal jobs. The rates reflect the need for persons to subsist through any kind of work. Many have no employment options other than part-time work, marginal self-employment, non-remunerated work in family businesses and unproductive jobs in the large informal economy (Fleck and Sorrentino, 1994, pp. 3-4; Martin 2000, p. 4). In more developed countries, by contrast, marginal, informal work may not be understood as *real* employment. As pointed out by Howell, many Spanish and southern Italian workers consider themselves "unemployed" even while working in their own family enterprises or in "underground economy" jobs since they are actively looking for "real" above-ground jobs. With much larger shares of the working age population able to get through by a combination of government and family redistribution in Spain than in Mexico, unemployment, while certainly not voluntary, is a condition that can be sustained for a longer period of time. It is instructive that youth (ages 16 to 24) account for one third of Spain's unemployed, and nearly all of them live at home with their parents. Fully 89 per cent of the 20-24 years olds in Spain live with their parents, compared to 55 per cent in Germany, 52 per cent in France and just 47 per cent in the Netherlands. In Italy, the rate is nearly as high as in Spain, namely 87 per cent (Munoz de Bustillo, 2004). Howell concludes that Mexico's unemployment rate is estimated far too low relative to the United States, due in large part to massive disguised unemployment. On the other hand, Spain's unemployment rate is probably far too high, reflecting greater redistribution and the counting of workers as unemployed whose marginal jobs are less likely to be treated as "employment" than by otherwise similar survey respondents in the United States and Mexico (Howell, 2004, p. 7). The question remains, though, whether in the national labour force survey under the international definition of unemployment, the quoted marginal workers in Spain are in fact rated as unemployed. They are available for work and look for work, but they are not "out of work".

In a wider sense, hidden unemployment covers those individuals who are not counted as unemployed because they are involved in various kinds of *labour market programmes*, such as short-time work, training and retraining, and early retirement. Hidden unemployment in this sense poses a major problem for national unemployment statistics based on registration instead of labour force surveys. National governments or statistical offices have been repeatedly charged of "manipulating" unemployment levels by removing certain groups that participate in measures of public or private labour market programmes from the unemployment statistics. For example, the Dutch government has been accused of keeping open unemployment in check by putting large numbers of people on an invalidity scheme called WAO (*Wet Arbeidsongeschiktheid*). In Germany, by-mid year 2009, the Federal Employment Agency estimated the number of unemployed workers involved in a variety of active labour market programmes at approximately 1.1 million, and 44 per cent higher than registered unemployment. "Hidden employment" of this kind covers persons involved in vocational training, job seeker training, sick leave, an early retirement scheme, engaged in a mini-job (paying one euro) of publically organized activities, or on short-time work, if the amount actually worked under the short-time allowance scheme at the point in time is zero ("Die Zeit", 2 July 2009, p. 20).

Countries like Denmark, France, Germany, the Netherlands, the United Kingdom and the United States differ according to the extent to which they restrict their national definitions of unemployment, and their practices of classifying workers' non-standard' labour market status, such as sickness, disability, short-time working, training spells and participation in other public labour market programmes under the rubrics of "employed", "unemployed" or "inactive" (see Erlinghagen et. al. 2008). Unemployed workers who the national employment agencies have referred to third parties for placement are usually not included among the registered unemployed. Participants in public measures of occupational training and other

ALMP interventions are no longer classified as registered unemployed as they are usually not immediately available for work. As different types of active interventions are increasingly integrated into individualized case management as well as in support programmes by contracted providers, it is getting more and more difficult to assess the unemployment status according to the availability criteria (Konle-Seidl, 2009b, p. 1). Definitions and classifications have changed during recent decades. In the United Kingdom, for example, the authorities in the 1980s and the early 1990s redefined unemployment so that only those claiming and receiving unemployment benefits counted. The change led to a sharp drop in measured unemployment (Standing 1999, p. 135). The U.S. Bureau of Labor Statistics also limits the official unemployment rate by its definition. For example, if people stop looking for a job for four weeks they don't count as unemployed (Financial Times, October 19, 2009, p. 9).

For year 2003, the ratio of the number of nationally registered unemployed and those recorded in LFS surveys according to the ILO definition was estimated as follows: Netherlands 0.54; United Kingdom 0.60; Sweden 0.72; France 0.97, and Germany 1.04 (Konle-Seidl, 2009a, pp. 6-7). The relatively high value for Germany results from the underlying definition of employment of 15 hours per week in the national statistic and the recent (re-) classification of jobless persons of age 58 and older as unemployed. Additional reasons for the discrepancy of national and LFS-based unemployment include differences in the operational definitions and the associated popular understanding of concepts such as "active search", "availability" and "disability" (see also section 6.1.3 below). Such differences impair not only the comparability of national unemployment rates but also that of the internationally standardized rates because they likely affect respondents' replies in household surveys.

In Eastern Europe, registered unemployment rates fall generally vastly short of those obtained from labour force surveys. In 2007, for example, the respective figures for Russia were 1.5 per cent and 6.1 per cent. For Ukraine, they were 1.9 per cent and 6.4 per cent. The difference stems from the low propensity of job seekers to turn to the public employment service (PES) for assistance (Nesporova, 2009, p. 12).

Disguised unemployment due to lack of public income support

From the viewpoint of Keynesian economics, limited or absent social protection engenders "disguised unemployment" so that measured unemployment in countries with low levels of protection is underestimated. This view turns around the position of neo-classical economics according to which social protection raises the unemployment level.

The repercussions of public social policy arrangements not only on the level, but also on the structure, of unemployment have been known for quite some time. As early as 1937, Joan Robinson argued that the failure to provide unemployment compensation will lead to "disguised unemployment", defined as the absorption of workers in low productivity jobs, either because these jobs are protected [from product market competition. WS] or, more typically, because no other means of subsistence are available.

"In a society in which there is no regular system of unemployment benefit, and in which poor relief is either non-existent or less "eligible" than almost any alternative short of suicide, a man who is thrown out of work must scratch up a living somehow or other by means of his own efforts. And under any system in which complete idleness is not a statutory condition for drawing the dole, a man who cannot find a regular job will naturally employ his time as usefully as he may. Thus, except under peculiar conditions, a decline in effective demand which reduces the amount of employment offered in the general run of industries will not lead to 'unemployment' in the sense of complete idleness, but will rather draw workers into a number

of occupations – selling match boxes in the Strand, cutting brushwood in the jungles, digging potatoes on allotments – which are still open to them. A decline in one sort of employment leads to an increase in another sort, and at first sight it may appear that, in such a case, a decline in effective demand does not cause unemployment at all. But the matter must be more closely examined. In all those occupations which the dismissed workers take up, their productivity is less than in the occupations that they have left. For if it were not so they would have engaged in them already. The wage received by a man who remains in employment in a particular industry measures the marginal physical productivity of a similar man who has been dismissed from it, and if the latter could find an occupation yielding him a better return, he would not have waited for dismissal to take it up. Thus a decline in demand for the product of the general run of industries leads to a diversion of labour from occupations in which productivity is higher to others where it is lower. The cause of this diversion, a decline in effective demand, is exactly the same as the cause of unemployment in the ordinary sense, and it is natural to describe the adoption of inferior occupations by dismissed workers as disguised unemployment"(Robinson 1937, pp. 83-84).

In effect, as noted by Lord Eatwell later on (Eatwell, 1995, p. 70), Robinson portrays a dual economy. In one sector, the advanced sector (A), the level of employment is determined by effective demand. In the other, the backward sector (B), the level of employment is determined by the supply of labour which, as Robinson suggests, is a function of the level and duration of social security support from the unemployed together with the range of opportunities to pursue sector B employment. In contrast to the OECD Jobs Study (OECD, 1994) which attributes low unemployment to "flexible" labour markets with limited worker protection, Eatwell suggests that the low measured rate of unemployment in North America and Japan stems from a high level of disguised unemployment. He argues further that disguised unemployment in Britain is growing as benefits are cut and inequality increases.
G-7 unemployment would not be due to rigidities in the labour market, but to those factors, international and domestic (such as high long term interest rates), which inhibit an increase in the rate of growth of effective demand. There would be substantial surplus labour, openly unemployed or hidden in disguised unemployment – with the latter defined as the absorption of potentially high productive workers in low productivity jobs (Eatwell, 1995, p.67).

Using present-day international terminology, one would categorize the type of "disguised unemployment" described by Robinson and Eatwell as disguised underemployment or inadequate employment. Such forms of employment tend to persist under the condition of dual labour markets where due to low or lacking wage floors and limited social safety nets wages are depressed for some part of employment and wage dispersion reaches high levels. Dual economies with very large wage inequality were prevalent in Japan and the United States in the 1980s. At that time, average wages in Japan were 3.5 fold higher than the minimum wage. In the US, the ratio was 3.3 (Emerson 1985, p. 219). In each of the two countries, the low wage sector brought with it a sector of low productivity employment that was virtually unknown, or had been displaced by automation, in continental Europe with higher minimum wage floors. Conspicuous examples of such jobs in the US included shoe-shining in the streets, hand-operated elevators in apartment buildings, young persons in super markets filling the purchased merchandise for customers into paper bags. The Japanese case was illustrated by workers switching traffic lights by hand even though electronic equipment had been available at the time. Obviously, it is not the average wage level of wages, but instead the dispersion of wages that determines job structure and the related nature of (undervalued) employment.

Disguised unemployment due to incarceration

In a way, at least some part of the *incarceration* of individuals may be seen as a form of hidden unemployment. According to one point of view, "the prison has been a means of responding to social and economic crises, including periods of high unemployment. Almost invariably, the unemployed have a high probability of being criminalized and a high probability of being sent to prison. Once they are there, they do not show up in the unemployment statistics. …..Crime has become an outcome of dysfunctional and misguided social policy. A large proportion of the prisoners had been unemployed before they were put to jail" (ILO, 2004b, p. 130). In fact, prisoners are not included in labour force surveys because these cover only private households, not institutions. Thus, they are not counted as unemployed. This does not rule out that some proportion of prisoners are engaged in productive work (such as assembly operations), often contracted by external enterprises.

Rates of incarceration vary greatly across industrialized countries, but nearly everywhere have disadvantaged social groups been disproportionally highly affected by imprisonment. Among the industrialized countries, the United States has a comparatively large share of its population in prison. Its incarceration rate rose throughout the 1980s and the 1990s (ILO 2004, p. 130). At the turn to the 21st century, the number of prisoners passed two million, up from 1.4 million in 1992 (Mayhem and van Dijk, 1997). In 2007, the US was quoted as having 738 individuals per 100.000 inhabitants in prison, which was about tenfold the level of the Nordic European countries. Norway, Sweden, Finland and Denmark had ratios between 66 and 82, France and Germany stood at between 80 and 100 (UNDP 2007/2008, Table 27, p. 322).

It can be assumed that the frequency of transgressing the law is related to the economic situation of the population. Poor people and those not entitled to adequate replacement income in case of unemployment and underemployment are more likely to commit property offences and other types of crime. One may recall the experience of Marienthal where moral despair and anomie resulting from long-term unemployment during the Great Depression brought about criminal acts which had been inconceivable in the community earlier on (see section 6.1.1.).

6.1.3. Issues of classification of labour force attachment

There is evidence that the assignment of a labour force status in Labour Force Surveys (LFS) hinges on the precise wording of the relevant questionnaire. In conformity to the ILO's standard definition, the status of economic inactivity in the LFS subdivides into three groups of persons:

i) Those who had looked for work in the previous four weeks ending the Sunday before the LFS interview, but were unavailable to start in the next two weeks;

ii) Those who had not looked for work, but said they would like a regular paid job at the moment; and

ii) Those who had not looked for work and said they would not like a job at the moment.

In a British qualitative study involving in-depth interviewing it was found that the results of the labour force survey questionnaire on inactivity varied with the respondents' understanding of the questions. Respondents were asked how they interpreted the meaning of

each question and how they formulated their answers. In addition, the respondents' economic and social situation, their views of the labour market and of their employability, and their future intention to work were explored. The retrospective cognitive testing was carried out in the United Kingdom in March and April of 2003 (Guinea and Betts 2003, pp. 513-519).

The major findings from the cognitive probing can be summarized as follows:

- When asked about what was meant by "looking for paid work", the respondents' answers revealed a striking agreement that "looking for" implicitly meant "actively looking for". Those who were "passively" looking for work, or 'keeping an open eye' on employment said 'no' to the question of looking for work.
- When the latter were asked if they would like to have a regular paid job at the moment, some answered "realistically" in terms of need and ability, while others answered "idealistically" in terms of the ideal dimension implicit in the phrase "would you like". The complexity of the answers reflects the complexity of the question itself. In the present conditional "would you like" the dimension of desire is explicit, while the dimensions of need and ability are implicit. In other words, the question "would you like to have a regular paid job" not only asks "do you want …", but also "do you need….." and "can you have a regular paid job?" Some respondents considered all three aspects, while others considered only one or two of them. The need to work was considered in terms of a financial need, a psychological need or a combination of both.
- Some respondents interpreted "at the moment" to mean "at some point in the future", and gave a positive response to whether they would like to have a regular paid job at the moment.
- Asked about the reasons why they were not looking for work, or did not want to work, it turned out that persons in similar situations were classified differently from interview to interview depending on how they expressed their answers and how interviewers interpreted them. Both of these are potential sources of response error. For example, people who said they would like a job, but who actually work in the future and not at the moment, were asked to give the main reason for not looking. The wording assumes that work is wanted at the moment. The consequences of this routing differed, depending on the main reason given for being economically inactive.
- In-depth interviewing about economically inactive persons' future intentions to work led to the development of five categories on a continuum of how likely people were to work in the future. The findings showed that the respondents' answers on inactivity could not be reduced to a simple 'yes' or 'no' dichotomy.

The results of the study, as well as previous findings (Ashworth et. al. 2001), suggest that verbs "like" and "want" should be avoided in the LFS questionnaires on labour force activity. It was also recommended that any further questionnaire development should be made part of a full review. The study corroborates earlier research in which it was concluded that persons with an identical economic inactivity classification may live under diverse circumstances. Their likelihood of obtaining work and their interpretation of "would like work" may be completely different in terms of the constraints they face to paid employment and the choices they can make in this regard. It was also found that the statistically significant predictors of being in employment were the level of education, the occupation, tenure (renting vs. accommodation owned) and marital status (Burchard and Le Grand, 2002).

6.1.4 Links between unemployment and low job quality

The unemployment rate simply tells us the proportion of the labour force that does not have a job but is available and actively looking for work. The exclusive consideration of unemployment as a yardstick of labour market outcomes and, furthermore, the widespread failure to recognize, or downplay, quality dimensions of employment, has in practice led to serious misjudgements on the part of labour market analysis, theory building and policy prescriptions. It has contributed to questionable policy choices. It reflects a problem not merely with the concept of unemployment as such, but the inappropriate use of the unemployment indicator, be it consciously or inadvertently.

As pointed out by Howell and Okatenko, "a highly developed market economy such as the US could be operating at nearly 'full employment' (say, a four per cent unemployment rate) despite the presence of large numbers of adult active job seekers unable to find anything but part-time work at poverty-level wages (as could be argued was the case in the booming late 1990s' U.S. labour market). This, in turn, could lead to discouragement and exit from the labour market. These workers would no longer be counted as unemployed, so it is possible that insufficient numbers of decent work opportunities could actually *reduce* the unemployment rate" (Howell and Okatenko 2008, p. 6-7). Schmitt and Wadsworth (2005) have argued that such exits help explain the decline of the U.K. unemployment rates in the 1990s.

The nexus between job quality and unemployment can be illustrated further by a comparison of labour market performance in the United States and in France undertaken by Howell and Okatenko (ibid.). For quite some time, the U.S. has been portrayed as having an employment friendly system whereas France has been regarded as a show case of dismal employment-unfriendly labour market rigidity. In 1982, both the French and the US standardized unemployment rates stood at roughly eight and one half per cent. From then on, the cyclically adjusted French rate rose almost persistently to reach slightly over 10 per cent in 2006, whereas the U.S. rate diminished to less than five per cent in the same period, i.e. slightly less than one half of the French level. With just 62 per cent in 2005, the employment-to-population ratio in France was almost 10 percentage points lower than the U.S. ratio, although with 79.6 per cent, the French employment rate for prime-age workers (25-54 years old) was slightly above the U.S. rate of 79.3 per cent in 2005.

A profoundly different picture emerges when employment quality is taken into account. France shows vastly superior performance on the following three indicators, for employment as a whole, and especially for the employment of less educated workers: i) the share of low wage employment; ii) underemployment measured by a combination of low wages, unemployment and involuntary part-time work; and iii) adequate employment indicated by the proportion of employed workers who are not on low pay and not on involuntary part-time work. The French advantage on these measures has grown faster after the late 1990s. The findings of the study which draws data from each country's main household survey highlight the severe bias involved in labour market studies that ignore the quality dimension of labour market outcomes (Howell and Okatenko 2008, pp. 2-4). The divergence in the qualitative performance of the two countries can be attributed to relevant institutions. For example, the U.S national statutory minimum wage fell about 30 per cent (corrected for inflation) between 1980 and 2007. It declined from $ 6.08 in 2000 to $ 5.15 in 2007 (in 2007 dollars)., [Note that more recently the US national minimum wage increased to $ 7.25 on July 24, 2009. In some states the level is now above eight dollars (Reich, 2009)]. Significant institutional divergence in favour of the French labour market has been observed also with regard to cash income support to the working age population, gross replacement rates for a three-person family over a

five-year period, collective bargaining coverage and structure, and the strictness of employment protection legislation (OECD, 2004; OECD, 2005). It is precisely these institutions which had led OECD to call on France to adopt comprehensive reforms to reduce institutional labour market impediments.

A parallel case of partly insufficient labour market analysis can be made for Germany. Like France, Germany experienced a cyclically adjusted rise of unemployment from the 1970s, but it was not until 1993 that Germany's unemployment turned higher than that of the United States. By 2005, the German rate had reached more than 10 per cent. In view of this high level of people without jobs, the German government introduced a series of reforms to gain numerical labour market flexibility during the 1990s, and more resolutely through the so-called Hartz-reforms between 2002 and 2005. From 2006, employment started to rise and unemployment to fall at rates larger than the EU average. Whether or not this upturn has been due to the reform package is controversial. It could as well be explained by the effects of the global economic boom and the German unprecedentedly huge trade surplus in this period. There is no doubt that because of the labour market reforms, Germany saw the quality of part of its employment deteriorating at a rapid pace over the past decade, including: the expansion of marginal and precarious jobs at the expense of standard employment; rampant job insecurity; sharp increases in the share of low pay employment that needs to be subsidized to provide the minimum legal subsistence income; swelling working poverty and concomitantly greater wage and income inequality. There were knock-on effects of the loss of real earnings and the freeze of pensions, showing up in subdued private consumption, increased savings and depressed domestic demand. The rapid growth of the low wage sector is connected to the expansion of marginal employment (Koch et. al. 2009) and, furthermore, the shrinking collective bargaining coverage and the absence of universal statutory minimum wage fixing. Being preoccupied by the level of unemployment, mainstream labour market analysts in Germany either ignored or underplayed the labour market outcomes indicated by the aggravating quality of employment.

Other European countries had similar experience. As indicated in Chapter 4, a major bias in the perception of labour market realities started to occur already during the 1980s when the average rate of unemployment in the EU-15 that used to be below the U.S. rate started to exceed the American level of joblessness. The gap between European and U.S. unemployment increased further during the 1990s when EU unemployment remained high while U.S. unemployment declined further and reached a very low level of four per cent at the end of the Clinton boom in 2000. Labour market analysts, notably of the dominant economic orthodoxy, and organizations such as OECD in its Jobs Study (OECD 1994), took this divergence as evidence of the superiority of the US labour market model. By contrast, Europe's labour markets would suffer from sclerosis due to "excessive" employment regulation and comparatively high social insurance benefits. Consequently, they advised policy makers to refashion European labour market and employment policies in accordance with the presumed more viable institutional configuration of the United States. They pressed for labour market deregulation to enlarge the scope for numerical labour market flexibility, and especially for bringing down wages to restore labour market equilibrium. However, they overlooked the negative consequences of such moves which would have been apparent had they taken into consideration not just unemployment but the various other dimensions of labour market performance. They also disregarded the failures of the deregulation drives. In the case of the United Kingdom, Schmitt and Wadsworth concluded that "the serious restructuring of the country's labour market since the early 1980s appears to have produced no noticeable improvement in the labour market prospects facing less-skilled workers in the 1990s relative to the 1980s. They find that all of the improvement in UK unemployment rates is accounted for,

not by workers being priced into the labour market, but by workers dropping out of the labour market " (Schmitt and Wadsworth, 2005).

6.1.5. Conclusions

The status of workers in the labour market in accordance with international statistical definitions is not simply a matter of supply and demand. Instead, whether a person reports to be employed, unemployed, under-employed or inactive, is subject to socio-psychological, socio-economic and cultural contingencies. In particular, national unemployment records usually drawn from the registration of jobless workers frequently hinge on deviant definitions and peculiar administrative decisions making the unemployment rate an arbitrary indicator and unfit for international comparison. Yet, the internationally harmonized measurement is also not free from individual, social and political forces and predicaments.

A person may be physically or mentally incapable of taking up paid work, or unable to take it up without support by others, due to a degradation or loss of working capacity. This happens, for instances, if a worker has experienced long-term unemployment. In this case, the person is less likely to actively search for work and, thus, fails to satisfy one of the defining criteria of unemployment. Socio-economic contingency relates to the worker's financial resource base as a critical variable for enduring an unemployment spell. The financial resources are determined by the individual worker's earnings, savings and other financial assets, indebtedness, and consumption patterns which together form the worker's actual liquidity status. The latter hinges, furthermore, on public policy provisions, such as the level and duration of substitute income that the worker can expect to receive in case of job loss and subsequent un- or underemployment. The level of income replacement through unemployment benefits, the duration of benefit payment, and the eligibility criteria for receiving benefits have greatly varied across industrialized countries, and they have been shifted in the course of the last half century: a phase of more generous provision of public financial support for un- and underemployed workers was followed by a period of retrenchment of such provisions in a fair number of industrialized and transition countries.

The welfare regime impacts on labour market behaviour and measurement. Public welfare provisions can lead to higher as well as lower measured unemployment and under-employment, as compared to a (hypothetical) labour market situation determined exclusively by supply and demand. Greater generosity of public income support may entail longer unemployment spells, and thus higher unemployment rates, due the more extended, lengthier job search. Public policy may also reduce market unemployment to the extent that it generates higher aggregate demand (through macro-economic policy) or improves the employability of workers, or reduces geographic labour market mismatch through various types of active labour market policy. While it is exceedingly difficult to discern the net effect of public policy intervention on unemployment, it is clear that varying degrees and kinds of such national intervention reduces the cross-national comparability of the unemployment rate, as well as the national comparability over time.

Finally, we have identified cultural factors that affect labour force participation and labour force behaviour.

The various contingencies should caution us against drawing simplistic inferences from the reading of labour market statistics, notably the unemployment rate, for labour market performance. According to our analysis, the unemployment rate is not an unambiguous metric but an amalgam of different indications of the state of the labour market. It is not as

unambiguous as other statistical indicators, such as the age, sex, years of schooling, years of service with the same employer, and other properties of workers. While these are objective indicators, there is a good deal of subjectivity in the measure of unemployment originating in the variable interpretations of questions and answers in the labour force surveys concerning availability and active job search and the subsequent variability in classifications. As we have seen, classifications depend on the wording and the sequencing of questions posed in the survey. Hence, the unemployment statistic may be seen as both a "contextual" indicator and an "aggregate" indicator as it reflects a multitude of peculiar individual, social, and institutional conditions prevailing in the labour market and semantic intricacies of classification involved in discerning the individual's labour market status.

In sum, we do not know precisely what the unemployment rate really measures: To what extent is it labour slack (unused labour capacity), or the physical, mental and occupational capabilities (employability) of workers, or the generosity versus paucity of public income support for the jobless, or the range, magnitude and accessibility of active labour market policies, or the degree and modalities of labour force activation policies, or the administrative efficiency of the labour market services? In reality, measured unemployment reflects a mix of these factors, with varying composition according to local or national economic and institutional circumstances. Unlike in composite indicators, the exact composition and the weights of each factor is not specified in the unemployment rate.

In view of the ambiguity of measured unemployment, a lowering of the unemployment rate may not be the most desirable solution, if it is associated with other outcomes that are deemed undesirable in view of individual preferences or public labour market objectives. Static neoclassical interpretations of the labour market drawn from the competitive labour market model have seriously misjudged the role of public protective and promotional labour market policy. As shown above, they have resorted to concepts such as the "natural rate" of unemployment and the notion of "voluntary unemployment" in relation to labour market regulation and social security arrangements (see chapter 4). While public income support for the unemployed and the underemployed can indeed raise the level of unutilized labour, at least temporarily, this need not be seen as a sign of malfunctioning of labour markets. On the contrary, it may improve labour market functioning if the unemployment diminishing secondary effects of regulation are taken into account. Such effects can be brought about by higher demand for labour resulting from wages and consumption power, higher productivity, better skills match, and better job and employment quality due to the capability of workers to refuse the acceptance of unsuitable, precarious, or inadequate work. The degree of autonomy gained by the unemployed through public benefit provisions and the longer and better job search enabled by it should be viewed as an element of freedom and efficiency. To equate it simply with "shirking", "opportunistic behaviour", or "sclerosis", as it is done in neoclassical analysis, misses the point.

6.2. Revision and Extension of the Labour Force Framework

As the shortcomings and ambiguities of the unemployment rate became increasingly apparent, attempts have been made at the national and international level to revise the unemployment statistic and complement it with concepts of underemployment and inadequate employment in accordance with the 1982 ILO Resolution and various resolutions of the International Conference of Labour Statisticians.

6.2.1. Extension and refinement of statistical indicators

At the 18th International Conference of Labour Statisticians in 2008, the ILO Working Party on Labour Underutilization presented a paper (Room Document No. 13) in which it is attempted to cure some of the insufficiencies of the conventional labour force concept and, in particular, overcome a number of the limitations of the unemployment statistic. A broader framework is provided that attempts to meet present day labour market realities by addressing three issues:

i) The fuzziness of the received statistical indicators;
ii) The variety in the forms of underemployment and inadequate employment;
iii) Estimating the magnitude of total labour underutilization and its components.

The conventional labour force framework is based on a double dichotomy, according to which the working-age population is divided into the economically active population (or the labour force) and the population not economically active; and the labour force is divided into the employed and the unemployed. These concepts have formed the backbone of labour market statistics for half a century. Reviewing the experience gained in applying the labour force framework, the Working Group has called into question the traditional treatment of the employed, the unemployed and the inactive population as discrete categories. Instead, labour market activity is to be viewed as a continuum of labour market statuses. The Group has directed attention to the "halos" of unemployment, i.e. "elements in the vicinity of unemployment that have sufficient resemblance to it to qualify for separate measurement" (ILO 2008d, p. 16). Graph 6.2 illustrates the revision of the labour force framework designed to incorporate the new elements.

GRAPH 6.2: BASIC LABOUR FORCE CONCEPTS, HALOS OF UNEMPLOYMENT AND LABOUR UNDERUTILIZATION

A. Conventional labour force framework

Employed	Unemployed	Not economically active

B. Refined labour force framework

Employed	**H**	Unemployed	**H**	Not economically active

Halos of unemployment (= H)

Labour underutilization

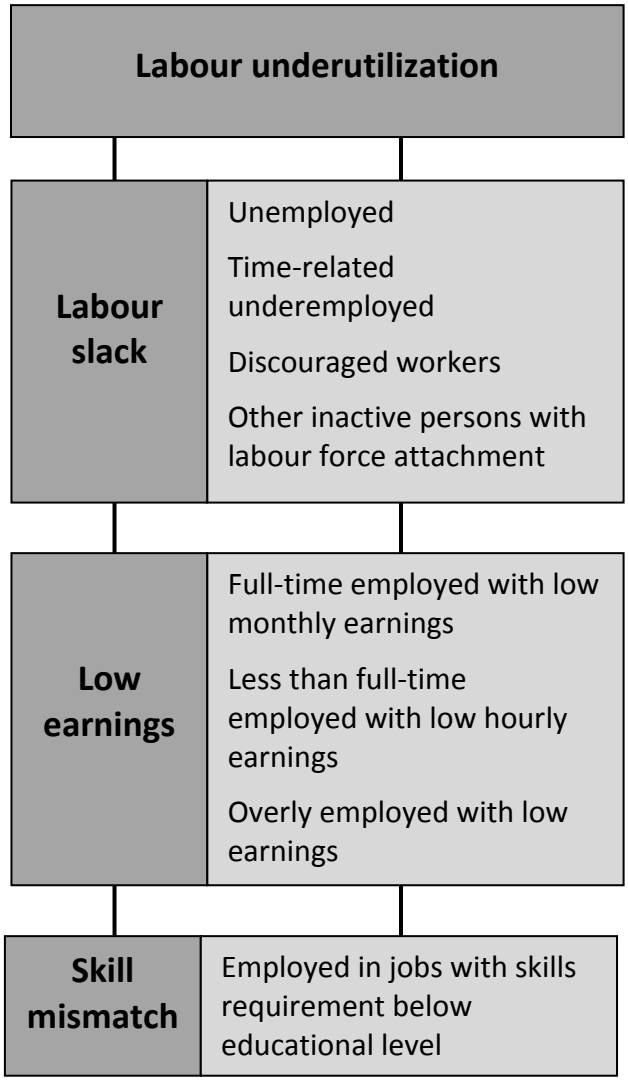
The Working Group has identified two elements of halos of unemployment: (i) underemployment and inadequate employment as intermediaries between employment and unemployment; and (ii) discouraged workers and other inactive persons with attachment to the labour force forming intermediaries between unemployment and the economically inactive population. The broken lines between the employed, unemployed and economically inactive population symbolize the blurred boundaries between these categories.

The combination of the unemployed, together with the two kinds of intermediaries, is called aggregate "labour underutilization". It encompasses unemployment and "other forms of mal-employment, insufficiency of the volume of work (labour slack), low remuneration (low earnings) and incompatibility of education and occupation (skill mismatch)" (See Graph 6.3).

The components and various sub-components of labour underutilization are designed to represent a set of mutually exclusive categories in order to avoid double counting in the calculation of an aggregate measure of labour underutilization (ILO 2008d, p.16). Thus, for example, persons counted on the component "low earnings" do not necessarily include all low earners, as there may be persons with low earnings who are "time-related unemployed" and who have already been accounted as such.

While the Working Group has focussed attention to the eroding dichotomies of key labour force categories in relation to unemployment it should be emphasized that the blurring of categories has affected the volume and nature of the employed and the inactive labour force as well. As indicated in Chapter 5, employment has become much more heterogeneous and more stratified as a result of the expansion of non-standard forms of work in recent decades. The lines between dependent and independent employment, or self-employment, have departed from the earlier 'binary divide' (see, for example, Deakin and Wilkinson 2005, p. 311 ff. for relevant legal cases and empirical studies in the United Kingdom).

GRAPH 6.3: THE COMPONENTS OF LABOUR UNDERUTILIZATION



Source: ILO 2008, p. 17

Finally, 'economic inactivity' is by no means a homogenous category or one that is clearly demarcated from unemployment. Rather it is to be seen as a set of diverse statuses on a continuum of varying degrees of labour force attachment that spill over into the category of unemployment. Some illustration of it can be derived from a study in the United Kingdom based on in-depth interviews with inactive persons. Five categories of persons were identified with regard to their likelihood of working in the future: People who definitely did not want to work; those who were unlikely to seek work but did not rule out the possibility, including disabled workers who wanted to work, but had a negative view of the job market and were limited in the types of jobs they could do; people who were undecided whether or not they wanted to work, including those with high in-work characteristics such as looking after children and the long-term sick or disabled for whom employment was not choice but constraint; people who were likely to work once their circumstances allowed and those who were pessimistic about their employability; and people who definitely did want to work, such as women who were looking after their children (Guinea and Betts 2003, pp. 518-519).

6.2.2. Estimates of labour underutilization

The ILO Working Group provided numerical estimates for five developing countries and two transition countries in Europe of the magnitude of total labour under-utilization and the proportion of it that is accounted for by unemployment. In 2007, in Bosnia and Herzegovina, the unemployment rate stood at 27 per cent, whereas total labour underutilization amounted to 56 per cent. The corresponding figures for Moldova were five per cent and 46.3 per cent. In the first country, the largest component of labour force underutilization was labour slack, whereas in the second it was low earnings and skills mismatch (ILO 2008d, p. 29). In the United States in 1977, there were for every 100 unemployed 21 other individuals underutilized by hours of work, 83 persons underutilized by work-related income and 214 persons utilized below their skill level (Sullivan and Hauser, 1977).

A study of the components of labour slack in OECD countries undertaken in 1993 showed that for every 100 unemployed persons there was an average of 40 time-related underemployed and 10 discouraged workers (OECD 1993). The figures leave no doubt that while the level of underutilization of the labour force may be less in the more developed than in developing countries, it is numerically significant everywhere.

In the meantime, more recent data on labour underutilization has become available, both for developed and developing countries. Table 6.2 shows estimates of labour slack and its four sub-components for years between 2008 and 2009. The sub-components of the unemployed and the time-related unemployed (as defined by the 16th ICLS) indicate labour slack among economically active persons, while the components of discouraged workers and other persons marginally attached to the labour force indicate labour slack among economically inactive persons.

TABLE 6.2: COMPONENTS OF LABOUR SLACK IN SELECTED COUNTRIES, 2007, 2008 OR 2009 (IN PER CENT)

Country	Year	Total Labour slack	Subcomponents of labour slack			
			Unemployed	Time-related underemployed	Discouraged jobseekers	Other inactive, available
Canada	2008	10.8	6.1	3.9	0.1	0.7
France	2008	12.8	7.3	4.4	0.2	0.9
Germany	Q2 2009	18.3	7.7	10.3	0.3	0.0
Italy	Q2 2009	14.0	7.1	3.4	0.8	2.7
Norway	2008	7.4	2.5	2.2	0.2	2.4
Turkey	Q3 2009	21.4	12.5	2.1	2.5	4.3

Source: ILO 2009 c.

Table 6.3 shows levels of underutilization of available skills and its subcomponents. Skill underutilization is defined as the percentage share of persons employed in jobs with skill requirements below their level of occupational attainment. Educational attainment is based on UNESCO's International Standard Classification of Education (ISCED). The skill level is defined on the basis of ILO's International Standard Classification of Occupations (ISCO-88). The international standards of education and occupations are used as an objective measure for which data are readily available and comparable for a large number of countries. Obviously, the figures of skill underutilization represent no more than a rough approximation of the under-use of worker qualification obtained in the general and vocational educational system. They do

not cover worker skills acquired through channels of informal skill acquisition, including on-the-job training in enterprise-internal labour markets.

TABLE 6.3: SKILL UNDERUTILIZATION AND ITS SUBCOMPONENTS IN SELECTED COUNTRIES IN 2008 OR 2009 (IN PER CENT)

Country	Year	Total skill underutilization	Subcomponents of skill underutilization		
			Lower skill group (1)	Medium skill group (2)	Higher skill group (3)
Canada	2008	24.8	7.3	15.4	2.1
France	2008	12.3	6.4	5.8	0.1
Germany	Q2 2009	11.7	6.3	5.3	0.1
Italy	Q2 2009	7.2	6.9	0.3	0.0
Norway	2008	8.2	3.9	4.3	0.0
Turkey	Q3 2009	7.9	3.4	3.5	0.1

Source: ILO 2009 c.

(1) ISCED 2,3,4 (lower-, upper- and post-secondary non-tertiary education) in ISCO-88 group 9 elementary occupations ;

(2) ISCED 5 (first stage of tertiary education) in ISCO groups 4-9 (clerks, service workers, shop and market sales workers, skilled agricultural and fishery workers, craft and related trade workers, plant and machine operators and assemblers, and elementary occupations;

(3) (3) ISCED 6 (second stage of tertiary and higher education in ISCO-88 groups 3-9 (including groups under (2) plus technicians and associated professionals.

In the following, we review other studies that estimated the level of labour underutilization in industrialized and transition countries and its numerical difference from the standard unemployment rate. We show estimates of the overall magnitude of the halos of unemployment, and the corresponding labour underutilization rates. The evidence is largely drawn from chapter 5 of this report where we have documented the evolution of forms of employment or labour market activity including those that act as intermediaries between employment, unemployment and inactivity. Although the analysis and the precise measurement of the halos is seriously hampered by varying national definitions, lacking or incomplete and partly obsolete data sources and non-regular time series, a fairly clear statistical picture emerges of increasing diversity and fuzziness of labour market status on the continuum between employment, unemployment and underemployment. It bears witness of mounting underemployment and inadequacy of employment. It suggests an increased rate of labour underutilization relative to the rate of open unemployment. The findings are relevant for the adjustment of the measure of unemployment at national level and for international comparisons.

Large inter-country differential of total labour underutilization

Based on OECD labour force data, estimates have been provided for some time of the level of underemployment and inadequate employment. These have been laid alongside the rates of unemployment and employment so that one learns about the size of the halo effects of unemployment and the gap between the rates of unemployment and aggregate labour underutilization. The data in Table 6.4 below are for 1995. One may keep in mind, that this year was favourable for the United States because unemployment had declined significantly from the early 1990s. It was unfavourable for European countries, where unemployment rose in the first half of the 1990s and some countries, e.g. Finland, had just come out of a deep recession.

TABLE 6.4: EMPLOYMENT, UNEMPLOYMENT, UNDERUTILIZATION AND EMPLOYMENT ADEQUACY FOR SELECTED OECD COUNTRIES, 1995

Country	U	UU	EILF	EPOP	EIPOP	EAPOP
Australia	8.6	15.4	23.1	68.8	17.6	51.2
Austria	3.7	4.7	14.2	68.6	10.2	58.3
Belgium	9.4	12.8	18.7	56.2	11.7	44.5
Canada	9.5	15.1	28.2	68.0	21.2	46.8
Finland	15.6	19.3	32.4	61.0	23.9	37.2
France	11.6	15.6	23.2	59.4	15.6	43.7
Germany	9.4	10.6	19.3	62.9	13.4	49.5
Italy	12.0	14.1	21.4	51.4	12.6	38.8
Japan	3.1	5.6	11.4	74.1	8.8	65.2
Netherlands	7.1	10.1	16.4	57.4	10.2	47.1
New Zealand	6.3	12.3	21.0	68.8	15.5	53.3
Sweden	7.7	13.2	16.0	71.1	12.5	58.5
United Kingdom	8.6	11.4	23.0	68.8	17.4	51.4
United States	5.6	9.6	26.4	72.6	20.2	52.2

Source: Howell 2004, p.19
U = Unemployment rate;
UU = Underutilization rate (unemployment+involuntary part-time+discouraged / labour force +discouraged);
EILF = Inadequate employment rate (unemployment+involuntary part-time+discouraged+low paid/ labour force+discouraged);
EPOP = employment rate (employment/population)
EIPOP = Inadequate employment to population rate (unemployed+involuntary part-time+discouraged+low paid/population);
EAPOP = adequate employment to population rate (employment-(unemployment+involuntary part-time+discouraged))/population.

Broadly speaking, the figures suggest that in the mid-1990s, most of the Anglo-Saxon countries performed relatively well on the employment and unemployment indicators whereas the majority of the continental European countries performed poorly. Yet, the picture reverses when underemployment and inadequate employment is taken into account. By and large, the European countries performed better on these indicators, both in terms of the absolute levels as well in respect of the size of the halos, showing up in the gap between unemployment and total labour underutilization. One may conclude from these patterns that it is absolutely essential to consider both quantitative and qualitative labour market indicators in order to arrive at a realistic image of labour market performance. This conclusion echoes the one drawn from the findings in Table 4.2 on labour market policy regimes and labour market outcomes.

Long-term rise of labour underutilization

Time-related under-employment is defined as the actual hours worked that are insufficient in relation to an alternative employment situation in which the person is willing and available to engage (16th International Conference of Labour Statisticians 1998). National statistical indicators of time-related under-employment cover persons on involuntary part-time work, or whose hours of work were below a certain cut-off point and who wanted or sought to work additional hours (see KILM 5th edition, KILM 12, pp. 464-465). Given this definition we showed that the average rate of time-related underemployment in OECD countries increased

during the 1990s and beyond year 2000 (see Table 5.7). In the same period, OECD countries have diverged in their level of time-related under-employment.

As to the specific forms of time-related underemployment, we gave some indications that the level of short-time work (also called "temporary unemployment" and "partial unemployment") varies with the business cycle. In Germany, for instance, there were about 770 000 workers on short-time in the recession in the mid-1970s, two million at the end of the reunification boom in 1991, one million during the recession of 1993, and 1.5 million in mid-year 2009. The maximum duration of granting public short-time working benefits was extended to two years at the beginning of the present recession. From 1983 to 1993, and again between 2000 and 2008, involuntary part-time work rose in EU-countries and OECD countries (for details, see Table 5. 11).

Inadequate employment

According to the 1998 ICLS Resolution, inadequate employment refers to work below a person's skill level, or low income from work, or excessive hours of work. One may think also of other manifestations of inadequate employment, such as lacking job security and social security, lack of access to training and retraining, informal employment, lack of due process in work conflicts, poor health and safety at the workplace, etc.

In chapter 5, statistics have been shown that indicate for the large majority of countries an increase in the proportion of non-standard, or atypical, categories of employment deviating from the standard model of full-time employment of unlimited duration and full social security coverage. The heterogeneous, partly overlapping categories of non-standard employment encompass mainly part-time work, temporary and fixed-term contracts, home working, contract labour, multiple job holding, informal employment, and agency work. Not all of the non-standard employment amounts to inadequate, or "precarious", employment, but the probability of inadequacy is generally higher for non-standard than for standard employment. For instance, while part-time employment may be equivalent to full-time work in terms of earnings, social security and other characteristics, an increasing incidence of part-time work of less than 20 hours with a greater likelihood of inferior job security has been found. In some countries, self-employment with high vulnerability has been on the rise. Informal employment which has tended to increase in some Western industrialized countries, and has risen to partly very high levels in transition countries of East and South East Europe and the CIS, is frequently inadequate in terms of working time arrangements, employment and social protection, pay, skill utilization and other terms.

A fair amount of research on inadequate employment has been done in France in recent years. Aggregating the share of workers with low pay, precarious contracts, occupational downscaling and unhealthy working conditions, a total of 11.4 million workers have been identified who fall under these categories in year 2005. Adding the unemployed from the French LFS, a total of about 14 million persons (or 51 per cent of the active population) was estimated to face an inadequate employment situation. The proportion has steadily risen since 1990, reflecting a continuous degradation of the quality of employment. In view of these data, the decline of the unemployment rate indicated by the official figures would be largely fictitious (Collectif "Autres Chiffres du Chômage, 2007, p. 1-2).

Low pay has spread between 1996 and 2006 to reach two-digit percentage rates in virtually all OECD nations, except the Nordic countries in Europe. Levels are especially high in Anglo-Saxon countries. For example, the percentage of low pay in the United States has

been estimated at 29.5 per cent in 2006. Low earnings affect young less educated workers (ages 20-34) more than the average working population. The share of low wages among them increased dramatically between 1979 and 2006, particularly for men whose share reached 37.6 per cent in 2006 (Howell and Diallo, 2007, p. 15). Germany saw its low wage sector increase in this period far more rapidly than the average EU country (see Chapter 5). The long term trends starting in the 1970s differ from those in the mid-1990s. The long trend for the US is upward, that for Japan downward. Other countries had relatively stable levels of low pay until the end of the 1990s (Howell 2005, Fig. 4, p. 21).

Wage arrears as a variant of low pay has been fairly widespread in transition countries in the 1990s. The incidence has declined in Central European countries, but has continued in South-Eastern Europe and some of the CIS countries (see Nesporova, 2009).

A broad trend towards increased earnings inequality and working poverty has been observed in many OECD countries during the last two decades. The trend is well documented for the United States where a hollowing of the middle of the wage distribution was observed in the 1990s (Autor, Katz and Kerney, 2006).

Excessive hours of work persist in industrialized and transition countries, even in the most advanced ones. While there has been a long-term trend of a declining average number of weekly hours worked, the trend of a shorter week has come to a halt, and has even reversed, in a number of industrialized countries. Working more than 48 hours (the maximum set under relevant ILO Conventions) has been common in some EU countries and in the United States, and a rise of hours work beyond the 48 hours threshold has been observed in some countries, partly in conjunction with the increased share of own account workers.

There is plenty of casual or anecdotal evidence of an increased blurring of the lines between working time and non-working (leisure) time. One symptom of it is massive unpaid overtime, the working of special shifts, and the requirement of continuous readiness for work duties. To quote an extreme case: Lehman Brothers bankers had to be reachable for clients and financial transactions at any point in time, even during meals, vacation periods and sexual intercourse (Der Spiegel, 09 March 2009). An expansion of work beyond and outside the formal working hours has been reported in a German study whose title is telling: “Ever reachable, always on the spot”. Workers spend time outside of the regular hours for preparation of work tasks, or reworking, at their work place or at home. Job related work and leisure tend to merge (DLF-Magazin, 5 March, 2009).

In summary, the various statistical data indicating a rise of underutilization of labour and/or inadequate employment in recent decades serves as an empirical rationale for the need of extending the conventional labour force framework.

6.2.3. From dichotomies to a continuum of labour market status

The Working Group has recognized that the ‘unemployed’ actually form a continuum of labour market statuses, rather than a discrete, clearly bounded statistical category. It defines three categories of labour underutilization - labour slack, low earnings and skill mismatch – and a total of eight defined sub-categories, each one positioned somewhere in the vicinity of the conventional concept of unemployment but qualifying for separate measurement (ILO, 2008d, pp. 16-17).

The concept of the continuum of labour market status may be re-emphasized and elaborated by directing attention to the very large span and differentiation in the degree of labour market integration of the working age population. One may think of the extreme points at a scale: Persons immersed in more than full employment ("over-employment"), indicated by regular voluntary or involuntary over-time work or on long working weeks at the one end, and able bodied but totally discouraged workers who have given up job search at the other end. In between these two end points are persons in various types and degrees of fragile labour market positions. Already in the 1990s, French studies described the evolving labour market structure as brittle and crumbling and this would need to be reflected in the statistical description of labour market positions (Castel 1998). The unravelling or parcelling out of labour market status holds also *within* the statistical categories of employment, unemployment and labour market inactivity. These are far from being homogeneous categories. Increasing heterogeneity has emerged within the same labour force group. "A worker who keeps his job throughout his working life, and one in the same skill category who experiences recurrent spells of unemployment, are in very different labour market positions. (Fitoussi et Rosanvallon 1998). Similarly, "a worker of age 40 or 50 years who got dismissed by his employer and became unemployed, and a young worker who does not find a job, have nothing in common even though they are identical in their statistical classification" (Castel 1998, p. 37).

The continuum of labour market status where it is presented as a gradation of opportunities, rewards and security follows the evolution of employment and labour market structure. It echoes the modalities and specifications of public labour market policy, collective agreements between workers' and employers' organizations, or unilateral employer policies, frequently in accordance with the degree of labour market attachment of workers. For example, many countries have come to provide a two-tiered unemployment compensation scheme with different levels, duration and eligibility rules for benefits. Provisions of employment protection and social security tend to be graded by age or length of service. Furthermore, the gradation of labour market status reflects the split of labour market services (e.g. placement services and training institutions) into public and private branches. It mirrors the decomposition and differentiation of enterprise structures (e.g. through subcontracting work), replacing the formerly unified, homogeneous and stable enterprise. Collective bargaining structures have come to be more stratified along with the differentiation of trade unions and employer organizations. Extreme instances of such differentiation can be found in the countries of Central and Eastern Europe.

The disintegration of the standard labour market status through intermediary, or heterogeneous, categories with blurred boundaries has ramifications for labour market theory, policy and statistical measurement. It implies, for instance, that the notion of "dualism" in labour market structure, or the dichotomy of "inclusion" versus "exclusion" of workers with regard to employment, may be too simplistic to adequately describe the labour market architecture, and may form a hindrance to fully understanding the continuum of labour market status.

6.3. Beyond the Labour Force Framework: Towards New Frontiers in Labour Market Statistics

The revised labour force framework developed by the Working Group on Underutilization has gone some way to reconcile labour market statistics with labour market reality. Nevertheless, in view of recent turns in labour market analysis and labour market policy, there is room for the further elaboration of the statistical tool kit.

6.3.1. Measuring the quality of employment – There is more to be done

Adequately accounting for the quality of employment poses one of the most important challenges for labour market statistics at present and in the years to come. For several reasons, the measurement of the quality of labour market outcomes has to be brought to the centre of labour market research, including statistical analysis. Measurement of the quality of jobs and work has to take an equal rank with measures of the quantity of labour utilization. For most people, the conditions under which work is performed are as important as the work itself (Rodgers, 2010, p. 1). We have seen above that the failure to incorporate quality indicators in the analysis of labour markets led to serious misjudgements of labour market performance. Finally, we could witness the upgrading of quality standards for employment and work in recent years.

A renaissance of international standards of the quality of work and employment

The advancement of quality related concepts and indicators of labour market statistics is suggested by a renewed concern for higher standards of the quality of jobs and working life. The initiative commenced at the turn of the century. At its origin was the "Decent Work Agenda" introduced by the ILO under its new director-general Juan Somavia in 1999. The word "decent" reflects "the idea of a realistic ambition which meets social norms of income, of conditions of work and security, of rights and dignity" (ILO 1999). It aims to bring together in a common framework both the quantity of work and its quality. It involves a comprehensive, integrated approach to rights at work, employment promotion, social protection and social dialogue (for details see Rodgers et al. 2009, pp. 222-234) Shortly after the ILO, using the slogan "more and better jobs", the European Union followed up with a quality campaign for its labour market policies (see chapter 5).

In the meantime, the decent work concept has become an objective on the international policy agenda and has taken root in national policy objectives of a fair number of industrialized countries. It was endorsed at the follow-up meeting of the World Social Summit for Social Development in Geneva in 2000. Decent work has come to serve as a reference point to policies of national and international trade union organizations. It is found in the deliberations and conclusions of summit meetings of the G-7 group and the G-20 group of nations. The term 'decent work' has even entered the terminology of the international finance institutions and OECD that used to be the guardians of the neoliberal agenda of employment and labour market prescriptions. For decades they had held that substantive labour standards, particularly the legal regulation of minimum wages, employment security and social security, were detrimental to employment and labour incomes.

The new emphasis on employment quality in industrialized countries would hardly have come about without the concurrence of a number of interrelated circumstances: firstly, economic globalization and the spread labour market deregulation policies triggered the expansion of non-standard forms of employment, sub-standard working conditions and higher work intensity. Secondly, it was recognized, at least in some countries and among some policy makers, that the quality of work and employment is a critical factor for economic growth, international competitiveness and social stability. Thirdly, among labour market analysts, it was increasingly realized that wages do not fully capture job quality and they do not compensate for poor job quality as assumed in the neo-classical model of perfectly competitive labour markets. Thus, wages are not a good proxy as an overall statistical measure of job quality. Fourthly, in a long-term perspective, it may be expected that with rising average levels of real income workers' interest in the quality of work will grow. Once basic needs such as

having a job are satisfied, the relative importance of other needs such as having a "good" job, or job satisfaction, come to the fore. A survey of well-being of workers that inquired about the relative importance of job attributes for the work force in 17 EU countries in 2005 yielded the following results (average value of importance in brackets): Job security (58.1 per cent), "an interesting job" (49.1 per cent), "a job useful to society" (48.4 per cent), high income (36.4 per cent), opportunities of advancement (31.8 per cent), autonomy at the job (30.7 per cent), "help other people (29.7 per cent), "allows deciding the times or days of work" (23.3 per cent) (Munoz de Bustillo et. al. 2009, p. 20).

GRAPH 6.3: COMPONENTS OF WORKER WELL-BEING: QUALITY OF WORK, JOBS AND EMPLOYMENT

Source: Muñoz de Bustillo, 2009, p. 20

Future analysis of the quality dimension of employment will have to make further efforts to differentiate, and show the interactions, between the "quality of work", "job quality" and "employment quality" and their respective characteristics (See Graph 6.3). For example, employment quality may differ for jobs of equal quality. This is the case if workers performing the same job get different pay or have different job security because they are on permanent contracts or on fixed-term contracts. Low pay may have different implications for worker well-being depending on the existence or absence of public support programmes, such as moderately priced public housing or income tax credits that augment workers' economic situation.

Designing quality indicators

In the course of creating, elaborating and upgrading employment quality centred policy agendas, initiatives have been taken to extend and improve the statistical measurement of the quality of employment and work. Among the most important ones have been those taken in the ILO and the European Union. In the latter, a list of job quality indicators was endorsed by the Laeken European Council in December 2001. The definition of job quality adopted by the EU comprised 10 dimensions of quality, encompassing both objective and subjective variables, and proposing for each area key and context indicators. Datasets were developed to identify national 'job quality regimes' and assess job quality trends in the Union (for a summary, see European Commission, 2008, pp. 153-167).

Concerning the ILO, a résumé of efforts of developing a set of measurements of decent work was published in a special issue of the International Labour Review in 2003. Thirty existing, proposed, and readily usable indicators were identified that measure employment opportunities, unacceptable work, adequate earnings and productive work, decent hours, stability and security of work, balancing work and family life, fair treatment in work, safe work environment, social protection social dialogue and workplace relations, and the economic and social context of decent work (Anker et. al., 2003, p. 110). Given the large number and diversity of indicators, the authors were aware that their comprehensive approach poses an obstacle to immediate application (ibid.)**.** Other analysts used a more limited set of indicators, a combination of quality indicators and those of labour force utilization, to capture key dimensions of the 'decency' of work (Bescond et. al., 2003; Bonnet et.al., 2003). The varying choice of indicators in the studies notwithstanding, the ranking of countries established by the aggregate indices turned out more or less the same: The countries in the North of Europe received the top scores on decent work performance, followed by the continental European countries (ibid).

The work of the ILO and others designed to enrich labour market statistics by indicators of decent work has not met with unanimous approval. For example, attempts to build overall measures of decent work using existing statistics were judged unsatisfactory. There would be a need for considerable investment in new statistical systems to measure progress on decent work adequately, especially in developing countries. At the same time, however, it was recognized that some of the notions of decent work are very hard to measure unambiguously (Rodgers et. al. 2009, p. 233-34). Another critical argument held that the decent work statistical package "describes numerous indicators that reflect many important quantity-of-employment and quality-of-employment dimensions, but they propose no single composite indicator that could capture key quantity and quality dimensions of work, nor are they standardized in a way that would make them useful for cross-country comparisons" (Howell and Okatenko 2008, p. 8).

Conceptual or methodological difficulties notwithstanding, in the analytical work of the ILO geared to information gathering, processing and dissemination, the dimension of quality of employment and work has progressed over the last ten years. For example, at least eight of the present 20 Key Indicators of the Labour Market published by ILO's Employment Sector, relate directly to quality aspects of employment (see ILO 2008 b). Also, conceptual work has been undertaken to tackle the even greater challenge of measuring the quality of employment in developing countries where the extreme heterogeneity of labour markets, the inadequacy of standard statistical categories and the paucity of statistical data have obscured or hindered adequate measurement (Dewan and Peek, 2007; Ghose et. al., 2008).

In recent years, various attempts at the national and international level have been made to construct *composite indices* of employment quality from a few easily accessible indicators, such as short-term work or temporary work, wages, skills, working conditions, gender equality, social protection, and social dialogue (For an overview see Howell and Okatenko 2009, p. 8-9). For example, the French Collectif 'Autres Chiffres du Chomage' has produced an 'inadequacy-to-labour force' rate and an 'inadequacy-to-working population' rate based on low wages, short-term or temporary jobs, underemployment in the sense of over-qualification for the jobs held, and dangerous jobs (Collectif ACDC, 2007).

In the European Union, *synthetic indices* and *job quality sub-indices* that aggregate various dimensions of job attributes have been developed to measure the dynamics of job quality in the EU since the mid-1990s. One of the most recent analytical framework is based on four dimensions of job quality: wages and socio-economic security; working conditions and work intensity; skill and training; and the reconciliation of work with private life (including gender equality aspects). The synthetic indices were used to identify four 'job quality clusters' in the EU: Northern countries, including the UK and the Netherlands; Continental EU countries; Southern EU countries; and New Member States. The results of the study suggest the existence of significant "synergies" between the number of jobs and their quality (refuting the notion of a trade-off between the two), as well as synergies between job quality and labour productivity. In an interim assessment, the EU-Commission emphasized that its analytical work on job quality should be considered as preliminary and taken with some caution, especially as regards the limited time/geographical coverage and relatively narrow range of variables in the dynamic analysis as well as the insufficient treatment of labour market transitions (by labour market statuses, type of contract and income levels) (European Commission, 2008, p. 162-167). An overview of other efforts undertaken in Europe and in the United States to construct synthetic indices can be found in Leske et. al. 2008.

The most comprehensive job quality index in the EU so far has been compiled by the research arm of the European Trade Union Institute ETUI-REHS. It encompasses six sub-indices capturing wages, non-standard forms of employment, work-balance and working time, working conditions and job security, access to training and career advancement, and collective representation and participation. Each of these thematic fields is made up of at least two and a maximum of four indicators (some of which are themselves composites). The choice of indicators has been guided by the availability of comparable data on an annual basis taken from EUROSTAT's European Labour Force Survey (Leske et. al. 2008). A ranking of the EU member countries on each of the six sub-indices is shown for the year 2006 (Leske and Watt, 2008).

It may be concluded that significant progress has been made in advancing the measurement of quality of jobs and employment. Efforts will have to continue. Among other things, greater attention will have to be given to some particular features of employment quality, such as the degree of informality of employment which is relevant in parts of Europe and non-European transition countries. The efforts should also be aimed at overcoming the apparent arbitrariness in the selection of quality indicators and/or their use in accordance with current data availability. Progress in statistics will have to be accomplished in tandem with the advancement of a theory of the quality of employment. It will, thus, have to build on collaborative endeavours of the two branches of labour market analysis.

6.3.2. Transitional labour market status

In section 6.2, we have analyzed the implications for labour market statistics resulting from the disintegration of the conventional categories of employment, unemployment and inactivity into an array of more specific labour force categories positioned on a continuum of labour market statuses.

The notion of the continuum of labour force status can be elaborated by bringing the concept of "transitional labour markets" into play. These are defined as "institutionalized arrangements which allow or support the change of the employment status or the combination of labour market work with other socially (and to some extent even economically) useful activities" (Schmid, 1998; Gazier, 1998; Auer and Gazier, 2002; Gautié and Gazier, 2009). Hence, transitional labour markets can be positioned at the boundaries of the economic sphere (employment), the social sphere (social protection in a wide sense), and the domestic sphere (family and domestic activities). They extend the continuum of employment, unemployment and underemployment by addressing transient states between paid work and gainful non-market activities. Hence, like the concept of "decent work", transitional labour markets define work broadly to cover activities beyond paid employment.

The notion of labour market transition was initially coined in Europe in the 1990s, when mass unemployment persisted, part-time employment rose concurrently with over-employment, and the spread of various forms of labour market flexibility threatened to put the received labour and social standards at risk. Transitional labour markets are said to cushion the adverse effects of unemployment for workers, mitigate the risks of low pay and skill related underutilization and promote employability (Schmid, 2002).

In Table 6.5, five types of transitional arrangements and a total of 18 corresponding mechanisms for bridging periods of unemployment and underemployment are exhibited.

TABLE 6.5: TRANSITIONAL LABOUR MARKETS: TYPES AND BRIDGING MECHANISMS

Type of transitional labour market	Bridging mechanisms
I. Transitional arrangements between short-time and full-time employment	(1) Bad weather and winter allowances (2) Short-time allowances (3) Work-sharing in the service sector (4) Flexibility of working time
II. Transitional arrangements between unemployment and employment	(5) Business start-ups for unemployed (6) Settling-in allowances for hard-to-place workers (7) Structural wage subsidies (8) Social companies and public works (9) Vocational rehabilitation and sheltered work
III. Transitional arrangements between education and employment	(10) Training allowances (11) Advanced training and retraining (12) Further training and employment
IV. Transitional arrangements between private/domestic activities and employment	(13) Parental leave (14) Part-time employment for family reason (15) Sabbaticals
V. Transitional arrangements between employment and retirement	(16) Wage subsidies for older workers (17) Early retirement or semi-retirement allowances (18) Part-time work prior to retirement

Source: Schmid 1998, p. 27

The various bridging mechanisms of labour market transitions may not equally stand the test of "decent work". For example, to supplement sub-standard wages insufficient to live on by public subsidies may help to alleviate the individual worker's tight income situation, but at the same time, the subsidies may provide incentives for employers to expand low pay employment as this becomes more socially tolerable. Possibly, the varying "quality" of transitions can be accommodated by the distinction made between 'good' and 'bad' transitions (European Commission, 2008, p. 150). A more recent and more encompassing definition of "transitions" in labour markets takes account of the dimension of quality. It refers to a "trajectory", i.e. a sequence of employment positions in an occupational career. The sequence involve a progression, by providing access to better jobs (regarding pay, guarantees, working conditions, promotion perspectives), or a recession , e. g. dead end and precarious circuits of low paid and short-term jobs, eventually ending in exclusion processes (Gautié and Gazier, 2009, p. 4).

The literature on transition labour markets suggests that transitions are becoming more and more complex. For example, a parental leave taken by the mother may be connected by another one taken by the father, and furthered by another sequence, possibly combining a part-time back to work position and a retraining programme. If so, the boundaries between the (supposedly) stable departure and arrival positions may become *blurred.* The development of a

set of complex intermediary positions between employment, unemployment, and labour force inactivity are mediated and deliberately managed by intervening public policy schemes and programmes. They may dampen the shocks stemming from employment interruptions. What is more, the intermediary positions tend to blur the conventional frontiers of firms (or employers) and weaken the distinction between markets and organizations (Gautié and Gazier, 2009, p. 4-5). Such observations on the boundaries of labour market status are not only in conformity with the revision of the classic labour force framework developed by the ILO Working Group, but may seen as inspiring its further extension.

Table 6.3 shows the magnitude of transitions in countries of the European Union. According to data from the European Community Household Panel taken in 1994/95, EU countries do not differ widely in terms of their relative number of transitions and workers involved in transition activities. In the EU-11 during that year, the average number of transitions counted amounted to 27 per cent of the population of 16 years and older. Twenty per cent of the working-age population experienced at least one transition activity. Twenty-six per cent changed their labour market status more than once. Among women, the share of persons undergoing transition and the transition frequency were higher than those for men.

TABLE 6.6: INCIDENCE OF TRANSITIONS AND PERSONS INVOLVED IN SELECTED EU-COUNTRIES IN 1994/95

Country	Transitions Per cent of working age population			Persons involved Per cent of working age population			
	Total	Thereof (per cent)		Total	Thereof (per cent)		
		Men	Women		Men	Women	More than one one transition
Denmark	28	45	55	18	43	57	41
Germany	22	43	57	18	41	59	17
France	32	35	65	19	34	66	52
United Kingdom	29	42	58	21	35	65	17
EU-11	27	43	57	20	41	59	26

Source: Kruppe 2002.

It would be important to know how the total volume of transitions, and the level of the five types of transition arrangements covered in Table 6.6, has changed during recent decades and what the prospects are for the future incidence of labour market transitions. This would require applying time series analysis to transitions. Anecdotal evidence suggests that at least some types of transitions may be on the rise. For example, new patterns of part-time employment for workers prior to retirement, or after reaching the regular retirement age, have emerged. There are reports of increasing employment of "silver haired workers" who after formal retirement are recalled by firms to be used for meeting peak staff demands, alleviating skill bottlenecks and coaching and mentoring younger staff. A recent European study of labour at the transition from work to retirement revealed a large margin of "unused capacity" in the labour force, and room for new pathways to retirement. Cross-national differences in the retirement age are more due to institutional arrangements than to differences in worker health and demographics (Börsch-Supan et. al., 2008).

6.3.3. From static to dynamic statistical analysis

The notion of labour market transitions and their numerical significance suggests yet another dimension of labour market statistics that deserves to be more fully developed: the provision of information on labour market dynamics. The standard analysis of labour market is concerned with labour stocks. It focuses on the distribution of the labour force according to statistical categories at a certain point in time, or over a time period. While the latter permits to learn about rates of change in the distributions, it leaves uncovered the flow of workers between statistical categories that produce a change in the distribution.

For example, a rate of increase of unemployment of three percentage points during one decade can be the outcome of very different levels and kinds of movements of workers. It could simply result from a shift of labour from employment to unemployment; yet it could also be produced by the activation of persons classified as 'out of the labour force' who looked for jobs, but could not find employment, thus calling themselves unemployed; moreover, the increase of unemployment could be brought about by a multitude of worker "migrations", passing recurrently the status of employed, unemployed and inactivity. In other words, the net effect of a three-per-cent change of unemployment can be generated by a small or a large volume of gross shifts between defined statistical categories and the shifts can pass few or many statuses over the period of observation. The degree and velocity of turnover in the stock of unemployed, and the origins and destinations of workers that account for the shift, will be of great importance for labour market analysis and policy guidance. It will permit to arrive at assessments of flexibility and rigidity, and other characteristics of labour market functioning and labour market performance. One would want to know whether numerical flexibility comes about by shifts of labour market status of a small versus a large share of the labour force. In the extreme case, in a certain period, less than five per cent of the total active labour force could generate the adjustment to changing employment structures in terms of industry, occupation, skill, enterprise, and location, while the remaining 95 per cent remain "static" in this period. Being "static" should, however, not be equated with being immobile or inflexible. It could well be associated with internal, i.e. intra-categorical flexibility (in internal labour markets) instead of the external mobility across statistical categories (in external labour markets).

The interest in ascertaining the dynamics of labour markets may be seen as being analogous to the dynamics of political change reflected in the outcomes of elections. Analysis of the size and direction of voter shifts (or voter "migrations") tells us how a particular redistribution of the shares of votes of participating political parties has come about – which obviously is an important political information.

One way to go at labour market dynamics is to compute the magnitude of transits of workers across statistical categories. A matrix of transitions between statistical labour market or employment categories is presented in Table 6.7. The figures show, for example, that 69 per cent of the labour force in the EU-15 who had been unemployed in 1995, were also unemployed in 2001. Close to 19 per cent held a permanent job, six per cent a fixed-term job position, and 1.3 per cent participated in labour market training in 2001. The matrix provides information about the relative continuity and change of labour market status. It also provides clues as to what happens to persons involved in training measures: How many of them ended up in permanent jobs and how many in fixed-term employment. Obviously, such information is of eminent value to policy makers.

TABLE 6.7: TRANSITIONS OF EMPLOYMENT STATUS IN EU-15 COUNTRIES FROM 1995 TO 2001

	Status of employment in 2001				
Status of employment In 1995	Permanent job	Fixed-term job	Self-employed	Unemployed	Training
Permanent job	76.7	4.0	3.1	15.8	0.5
Fixed-term job	55.0	16.4	6.4	20.7	1.5
Self-employed	12.5	2.9	68.3	15.8	0.5
Unemployed	18.7	6.1	4.8	69.0	1.3
Training	41.6	13.4	4.8	16.1	24.1

Source: European Commission, 2004, Table 50, p. 166

6.3.4. Reasserting in statistical analysis the notion of worker hardship

Early studies on unemployment were primarily concerned with the adverse impact of forced idleness on individual workers, worker families, communities and society at large. Like the classic study of the "Unemployed of Marienthal", they looked at individual hardship and social distress caused by joblessness. Some addressed the spread of anomie and political extremism in the event of mass unemployment.

By contrast, with few exceptions, the labour force framework of labour statistics focuses mainly, or exclusively, on the economic notion of the degree of utilization of labour force capacity. It is largely mute on the dimension of worker well-being in relation to employment, unemployment and under-employment. There are exceptions. In the ILO's Key Indicators of the Labour Market Programme, some of the 20 indicators – e.g. KILM 10 on long-term unemployment and KILM 20 on poverty, working poverty and income distribution – provide data that is relevant for the assessment of worker well-being. But, these do not monitor well-being directly. Concerning KILM 8, indicating unemployment by number and rate, it is explicitly said that this indicator "should not be interpreted as a measure of economic hardship or of well-being" (ILO 2008b, p. 337). Similarly, the revised labour force framework presented by the ILO Working Group on Labour Underutilization includes indicators of unemployment, over-employment, time-related under-employment, low pay and employment below workers' educational level. While these indicators provide important information on potential sources of worker distress, they do not directly measure the impact of the labour market status on workers' physical and mental health, or social well-being, and the consequences of these conditions for employability, social integration, participation in community and political life, political stability, and the like, albeit knowledge about these conditions is of great importance. It may suffice to recall the history of the link between high and persistent unemployment and the rise of political radicalism.

To gauge the effect of labour market status on well-being, and particularly the human costs of unemployment, think of the following two configurations: In the case of Marienthal reported above, pervasive long-term unemployment and lacking opportunity for work during the Great Depression engendered individual and social disaster. It caused despair, paralysis and political apathy among many families. It heavily impaired the employability of labour as a set of marketable competencies. It diminished the standard of living by a large margin. It led to a breakdown of moral standards in the community. Pilfering was used to secure the most basic needs of living. In comparison to this outcome, unemployment will be perceived very differently, and definitely less harmful, if there are appropriate alternative roles for the unemployed, or the opportunity for deliberately designed, publically supported labour market transitions (see section 6.3.2). In this case, forced idleness of workers due to insufficient demand or cyclical downturns, or employment frictions due to job change, can be used for economically or socially gainful activities outside normal paid employment. For instance, spells of unemployment and short-time working (or 'partial unemployment'), and part-time work can be used by workers to recover from stress; or care for family members, relatives or friends; or cope with crisis in families; or undertake repairs and maintenance work in the house or on the farm; or take courses or other forms of training and retraining to improve future employability. A supportive environment, such as public income transfers during full or partial unemployment, facilitates such activities, or makes them feasible to begin with. The activities make the event of unemployment and underemployment more tolerable to workers, and more legitimate to society to the extent that they can be regarded as socially gainful.

To provide a second illustration of the differential impact of unemployment: Take the case of a young person who has just completed his or her vocational education, started a family and acquired housing property, fails to get a job after a lengthy search versus an older worker who experiences the same duration of forced idleness but has no (longer) an immediate commitment to family members. The situation will be even more disparate if the older worker receives higher unemployment benefits than the younger one because of the dependency of income support on the duration of contributing to the fund.

The illustrations may suffice to support the call for analysis, including the provision of statistical information, on the dimension of work related well-being of the population that is not captured by standard indicators of labour utilization**.** In this regard, it should be helpful to complement objective statistical indicators of hardship, such as long-term unemployment or the rate of working poverty, with subjective measures of worker wellbeing gained from opinion surveys.

6.3.5. Stepping beyond the 'labour force concept'

In view of the various empirical findings presented in this report, it is time to seek a broader conceptual foundation for labour market statistics than is presently provided by the conventional labour force concept. It is to be recognized that the latter is a historically bound product of the era of extensive industrialization, and particularly the post-WW-II period, in which the quantity of labour input was seen as the primordial factor of economic growth and economic success. According to the model of economic development that prevailed both in the capitalist countries as well as in the centrally planned economy countries, the main sources of economic growth are factor inputs, including labour supply, and the use of these factors to the maximum extent. In this period, a key term used for labour was 'manpower', signalling that the labour force was predominantly male (For quite some time, ILO conventions and recommendations spoke of workers exclusively in the male "he" form as if there had been no women labour force participation at all). When women entered the labour force in greater

numbers and more attention was given to equality of opportunity and treatment, quality of employment and human development, the term manpower was replaced by the term "human resources".

The quantity dimension in the utilization of labour was an integral part of the larger paradigm of economic development based on 'extensive' economic growth, economies of scale and the full utilization of factor inputs. The epitome of that economic development model was the so-called *Fordist* regime of mass production in ever larger, vertically integrated companies which spread more or less through the then industrialized world. This model gave way gradually to another competitive regime based on i) intensive economic growth which for labour meant a greater degree of extraction of effort and work intensification associated with increasing manifestations of stress, overworking and mental disorders; ii) a shift, at least in part of the industrialized world, to a competitive regime of differentiated quality production and the related expansion of support services, partly in response to intensified international competition from the liberalization of trade and capital flows; and iii) a concomitant move towards higher quality of labour resources as an essential input to quality production.

Labour market statistics – and labour statistics in general – cannot insulate itself from these shifts. They have to be responsive to capture the new properties of production and services. As shown above, there is a need and much scope for the elaboration and refinement in the numerical account of the quality of labour resources, the quality of jobs, and the conditions of work. Some inroads in this direction have already been made, as for example the inclusion of the concept of 'inadequate employment' in ILO's normative setting for labour market statistics, the addition of quality-centred indicators in the series of Key Labour Market Indicators, and the venture of translating the Decent Work agenda into a commensurate platform of labour statistics. Similar efforts can be observed in other international organizations, such as the European Union and OECD.

Yet, the efforts have to be driven further. The notion of blurred statistical categories and the related 'halos' provide a fertile ground for continued differentiation and also greater precision in the statistical nomenclature. For part of today's labour force, the status of 'employment' bears little resemblance to the one prevailing during the years of full employment and Fordist-type production systems. While the dependent labour status of paid worker, or "employee", is still the dominant configuration for the majority of workers in industrialized and transition countries, new forms of independent or quasi-dependent employment (e.g. the "own account worker") have emerged and spread. Casualization and other non-standard forms of employment have increased. Doubt has been cast on whether this development can be fully accounted for by the conventional labour force survey. The LFS-data which are based on self-reporting of employment status by individual respondents is said to give a potentially misleading picture of the interaction of the rules defining employment status with the practice of casual work. The Cambridge –DTI survey of 1999 which used a different methodology aimed at a more objective estimate of the different categories of employment came up with substantially different results on the distribution of employment status. Respondents were categorized as 'clearly employees' if they defined themselves as such; were paid a salary or wage; held what they regarded as a permanent job; *and* had no non-standard working patterns (such as fixed-term, casual or part-time work). Conversely, they were rated 'clearly self-employed' if they were either a director partner in their own business, *and/or* employed others. On this basis, 64 per cent of all respondents were classified as employees, and 5 per cent were clearly self-employed. This compares with 86 per cent of the sample who saw themselves as employees, and 13 per cent who saw themselves as self-employed under the LFS survey in the same period. Thus a large proportion of the national

labour force, 30 per cent on this estimate, was employed under conditions of uncertainty over their employment status which was not fully captured by the LFS. In addition, the survey reported a much higher degree of fixed-term employment than the LFS had indicated (Deakin and Wilkinson 2005, p. 310-11; Burchell et. al. 1999)

There are other developments that challenge, directly or indirectly, the standard methodology behind the labour force concept. We have shown above that measured employment, unemployment and labour force inactivity are contingent on welfare state arrangements. However, earlier welfare provisions providing guarantees of stable, long-term, often life-time employment have been partly replaced by much more discontinuous, casual and less protected employment relations. The grip of regulation of labour market activity by law and collective agreement, as well as the comprehensive protection of the labour force against risks of injury, sickness, unemployment and old age, has to some extent given way to weaker or extra-legal labour market conditions. Each of these trends needs to be more fully accounted in labour and labour market statistics. Evidently, this will not solely have to be the job of labour statisticians. Rather, meeting the needs will have to be accomplished through joint collaborative efforts of statisticians, the users of statistics and those concerned with theoretical and empirical labour market research.

6.4. Conclusions

The unemployment rate is an insufficient and ambiguous indicator of labour slack, demand for labour, and labour market performance. It captures only the most visible part of labour underutilization, thus providing at best a partial picture of unused labour resources that are available. In human terms, it usually reflects the most tragic part of underemployment, even though there are labour market situations that may be worse than open unemployment. Think of a young person who has never found a job and who after many trials has given up searching. Statistically, this person is exiled into the category of 'economic inactivity'. The unemployment rate can deceive us when we compare the level of unemployment across countries, within countries and over time. This is especially true for the national measurement of unemployment based on registration, inter alia because of differential statistical treatment of unemployed workers involved in labour market programmes. Consequently, rates of joblessness recorded nationally differ substantially, and to a varying extent, from the rates received from the internationally harmonized measurement of unemployment in line with the ILO definition.

Yet, there are shortcomings and ambiguities inherent in the unemployment statistic even when it is measured in accordance with the ILO standard. There are ambiguities in the wording, understanding and interpretation of the labour force questionnaire. Most importantly, the unemployment rate hinges on the national and local institutional context. We have demonstrated that measured unemployment is contingent on psychological, socio-economic and cultural factors which influence the fitness of an economy to generate employment, the capability of workers to be available for and to actively search employment, and the freedom the worker has in choosing jobs, working time and choosing between employment and inactivity. We have recalled the story of the 'unemployed of Marienthal' during the Great Depression to show that lengthy unemployment spells and lacking income replacement may disable workers to actively look for work, thus rendering impracticable the specification of active search in the ILO definition of unemployment.

Physical and mental capabilities and resource endowments of workers are of critical significance for their labour market behaviour. They affect the rates of employment,

unemployment and underemployment. Financial resource endowments vary according to national and local welfare regimes and social safety nets. The size and duration of unemployment, and the dynamics of entering and exiting unemployment, vary according to the legal regulation and practice of passive and active labour market policies. Unemployment can be higher or lower compared to purely market determined labour market outcomes, depending on the level, duration and eligibility rules of unemployment benefit payment and on the kind and volume of active labour market measures. Public support programmes facilitate labour market adjustment through better matching of supply and demand of jobs. In countries where public transfer payments for the unemployed are meagre, the labour force finds itself in a situation where workers are forced to seek employment without choice and delay in order to secure subsistence, and with little or no freedom to choose between job options. In this respect, some industrialized countries are not much dissimilar from the host of developing countries where income protection is rare or non-existent so that the bulk of the labour force cannot afford to be unemployed. Over the last two decades, public income replacement for the unemployed has been retrenched or the rules for granting benefits tightened in a fair number of industrialized countries, in order to "activate" the unemployed to seek jobs. At the same time, so-called "high quality" employment services have been put in place to encourage, or even coerce, job seekers to increase their efforts to find work. The Public Employment Services have come to intervene earlier and more intensively in the unemployment spell making sure that the unemployed comply with stricter rules and requirements of job search. On the other hand, average spending of OECD countries on active labour market programmes has been declining. In view of the many reforms of public labour market policy during the last half century, and their varying latitude and impact across countries, both the inter-temporal and the international comparability of the unemployment statistic are seriously compromised.

Our analysis lends support to the position of the ILO Working Group on Labour Underutilization that heads for an extension and refinement of the conventional labour force framework of statistics. There is reason to depart from simple dichotomies. Instead of viewing employment, unemployment and labour force inactivity as discrete, clearly delineated statistical categories, they should be depicted as categories on a continuum of labour force status. There are "halos" of unemployment, showing up in various forms of employment and labour market activity that intervene both between employment and unemployment, and between unemployment and inactivity. The halos encompass manifestations of labour slack, including discouraged workers and other inactive persons with labour force attachment, and persons who are underemployed through involuntary part-time work. In addition, the revised labour force framework includes inadequate employment, or "undervalued" employment, indicated by the incidence of low earnings and employment below workers' professional capability. Labour slack and inadequate employment together provide an aggregate measure of labour underutilization. We have shown that the rate of underutilization varies greatly from country to country and has increased in the large majority of countries making the complementation of the unemployment indicator by other indicators all the more compelling.

We have made a claim for the increased recognition of the quality of work, jobs and employment in labour market statistics. There are two reasons for it: Firstly, the failure to account for inadequate employment and other forms of deficient job quality gives rise to serious misjudgements of labour market performance; secondly, starting in the late 1990s, the quality of employment has been upgraded as a goal of labour market policy, and social policy in general. It has been put on a par with the level of employment in the decent work agenda of the ILO and on the employment policy agenda of the European Union. Attempts have been made by statisticians to live up to this policy shift by designing single and composite indices that reflect various dimensions of employment quality. They are centred on low wages and

employment below skill level, and beyond that on various aspects of employment insecurity and conditions of work. It could be helpful for the future design of labour statistics to distinguish more clearly between the quality of employment, the quality of jobs and the quality of work and to ascertain their interconnections. To adequately measure these elements and to permit inter-country and inter-temporal analysis, major investments in data collection and data coverage will have to be made, notably in countries outside the EU and the OECD.

We have suggested crossing the conventional labour force framework to enter new territory for labour statistics. One route would be to spell out further the statistical potential provided by the concept of transitional labour markets. A related, promising route would be to elaborate indicators that measure the dynamics of labour market processes. At present, most of the available standard labour market statistics display labour stocks, not flows. Finally, we have flagged a need to reassert the search for statistics reflecting the well-being of workers explicitly. Most of the tools in the standard kit of labour market statistics measure well-being only indirectly.

Some lessons for the concepts and the use of labour market statistics, and related research and policy making, can be drawn from this analysis. They include the following:

- To enhance the cross-country comparability of unemployment statistic, internationally harmonized unemployment figures gained from labour force surveys in accordance with the ILO definition should be used universally in place of those received from nationally defined indicators; this appeal goes in particular to countries that rely primarily or exclusively on national measures of registered unemployment.

- In view of the various contingencies of measured unemployment, such as the mental disposition of unemployed workers, the impact of transfer payments on the level of unemployment, and cultural factors affecting the employment rate, the comparability of the unemployment metric across countries and over time is severely constrained. The associated risks of misinterpretation and misjudgements could be alleviated by more differentiated analysis of unemployment accounting for the said factors, or the use of additional or complementary indicators for labour market analysis.

- The ILO definitions of unemployment should be reviewed in view of the realism of demanding active search from all unemployed irrespective of the physical, mental, economic or social conditions they live in. In this regard it should be considered not to treat industrialized countries differently from developing countries where the criterion of active search for counting the unemployed has been relaxed (see the 1982 ICLS Resolution, para. 10.1.c). To avoid misunderstanding, we do not make a plea for releasing workers from the requirement of active search, e.g. for the purpose of being entitled for benefits, but we suggest to adapt the definition and measurement of unemployment so that it can capture disguised unemployment;

- The labour force survey (LFS) questionnaire should be revisited in view of in-depth research that found that there can be response errors and erroneous classification of workers in statistical categories depending on the variable and incoherent understanding of the meaning of questions and variable coding by the interviewer;

- The measurement of labour market performance should not exclusively rely on the unemployment rate, but should be complemented by measures of underemployment and inadequate employment as suggested in the revised labour force framework. Efforts

on the part of the ILO Working Group concerned with the broader concept of labour underutilization and a parallel task force by EUROSTAT on indicators to supplement the unemployment rate need to continue their work to sort out methodological issues;

- Given the nearly ubiquitous expansion of forms of precarious forms of work and the growing concern with the quality of employment in national and international labour market policies, the measurement of employment quality should be correspondingly upgraded and extended beyond the present indicators of employment inadequacy.

- Efforts should be made to advance the development and presentation of composite indices aggregating single indicators of labour market outcomes. If displayed in addition to, or in combination with, a series of single indicators, composite measures may help to improve public perception and comprehension of labour market developments and capture greater public attention.

- Awareness of politicians and the general public of the economic and social contingency of labour market statistics should be raised, notably of unemployment and various forms of under-employment. It should be demonstrated in easily understandable language and by using case illustrations that the lowest possible rate of unemployment is not necessarily the most desirable labour market fallout if it clashes with, or is accomplished at the expense of, other policy objectives such as adequate pay, social protection, decent working conditions and social equity and equality. After all, the main Convention of the ILO on Employment (C-122) calls for the triad achievement of full employment, productive employment and freely chosen employment.

- New frontiers of labour market statistics can be reached by increased development and resort to statistics reflecting labour market dynamics, including the analysis of the size and nature of transitions in labour market status. The magnitude and variety of transitions has widened, including shifts between statuses of employment, employment and unemployment or underemployment, employment and general and vocational education, and employment and inactivity.

The agenda for the further development of labour market statistics is not merely addressed to statisticians. As statistical measurement is closely aligned with our understanding of the nature, structure and functioning of the labour market and the objectives, strategies and instruments of labour market policy, progress will best be achieved through the close cooperation of those concerned with theory, policy and measurement.

7. Summary

This report analyzes the state of the art of labour market statistics. It has two stories to tell. They relate to each other like the kernel and the shell of a nut.

Modernization of labour market statistics

The "kernel" part of the story focuses on the enlargement of the labour force framework which has served as the conceptual foundation of labour market statistics. The conventional international standards on the statistical measurement of labour market outcomes cover three main concepts and corresponding indicators: Employment, unemployment and labour market inactivity. To date, they remain at the centre of statistical information on the labour market provided by leading international annual statistical publications, such as the Yearbook of Labour Statistics and Key Indicators of the Labour Market of the ILO, the Human Development Report of UNDP, OECD's Employment Outlook, and the EU Commission's Employment in Europe. The latest Country Profiles Series of the ILO shows data on the three basic indicators for a total of 234 nations. In practically all industrialized and transition countries, and also in a large number of developing countries (at least in the urban areas), the unemployment rate has featured as the paramount labour market statistic. Clearly, it is the foremost measure of labour market performance in the perception of the media and the general public. It has exerted the greatest influence on policy formulation and reforms. It has triggered major policy shifts. Unfortunately, it also has been misused for political purposes.

The original triad categories of employment, unemployment and und labour force inactivity have been supplemented by other indicators of labour slack, as well as measures of undervalued or inadequate employment. Available data for these indicators show aggregate rates of labour underutilization that exceed the conventional unemployment rate by substantial margins. The excess varies from country to country. Yet, while the scope of labour slack goes beyond unemployment, the unemployment rate also indicates more than labour slack. It reflects a multitude of institutional configurations and contexts, above all the impact of labour market regulation and unemployment benefit systems on labour market behaviour.

With the extensions in the range of concepts and indicators, statisticians have tried to cope with the revised normative prescriptions for labour market statistics, specified by the 1982 ICLS Resolution. The state of revisiting and adjusting the labour force framework has been documented by an ILO Working Group on Labour Underutilization (ILO 2008d). The Group has directed attention to the halos of unemployment which have led labour market statistics to depart from the earlier concept of discrete categories or dichotomies and, instead, to conceive of labour market status along a continuum of employment, unemployment and inactivity. The extension of indicators, in conjunction with the notion of workers' intermediary labour market status, has aligned labour market statistics more closely with contemporary realities. As revealed in Chapter 5 of this report, the labour market is much more heterogeneous, differentiated and stratified today than it was in the middle of the 20th century.

The extension of the labour force framework through a set of complementary statistical concepts has helped to remedy a number of shortcomings of the conventional indicators. The most important one: With the integration of low pay and the underutilization of worker qualification as standard labour market indicators, a significant inroad has been made into the realm of employment quality in statistical measurement. The dimension of employment quality is essential to ensure proper statistical representation of contemporary labour market reality and to properly inform the design of labour market policy. We have shown that insufficient

recognition of employment quality has given rise to misguided policy shifts during the last three decades.

Indicators of under-employment and inadequate employment are now regularly used in international statistical series. However, actual data coverage for these indicators is often incomplete, or dated, or unavailable for certain countries or groups of countries. The use of composite indexes has been rare. It needs to be more fully developed and pertinent data sources need to be made more complete.

Even with full recognition of the progress achieved through the revised labour force framework, there is room for further improvement of labour market statistics. We have suggested several directions to go. One is to advance, inter alia through composite indicators, the design of appropriate measurement of quality of work, the quality of jobs and the quality of employment. The dimension of quality has been upgraded as a policy objective through the decent work agenda of the ILO and its variant of better jobs in the European Union. Secondly, there is a need to take account of the increased volume of workers who are in transition from one labour market status to another, or from labour market activity to one outside the labour market, such as education, domestic work, care activities, and diverse activities in between employment and retirement. Thirdly, we should extend our comprehension through measurement of the dynamism of the labour market; i.e. of movements of workers that result in the reshuffling of employment distributions. Finally, it is suggested to measure worker well-being, not merely indirectly through objective indicators, but also through subjective ones obtained through surveys. Each of these proposals implies in one way or another to reach beyond the conventional labour force framework.

The interface role of labour statistics

The "shell" part of the report is aimed at demonstrating how labour market statistics is embedded in the larger realm of labour market studies. Statistical measurement of labour markets interface with labour market theory, policies and normative standards. For this purpose, we have included in Chapter 4 a summary of the evolution of key theoretical concepts and related policy frameworks of the labour market to show how these have influenced the development of statistical concepts and indicators. Chapter 5 presents an account of labour market developments over nearly the full last century until the present day. Chapter 6 dwells on the implications of changing labour market realities and policies for labour market statistics. Once in a while, the development of labour market metrics was ahead of, and inspired, theory building and policy. But more often, the crafting of statistical measurement has trailed the emergence of new theoretical paradigms, and has followed up on new normative standards and policy instruments. Closer coordination and collaboration between the various branches of labour studies and labour statistics would be helpful to attain more realism and higher quality products on each side.

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