

Biffel, Gudrun

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Reorganisation of Employees' Legal Protection. Cause and Effect of Flexible Employment Relationships in the Labour Market

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 **WORKING PAPERS**

**REORGANISATION OF EMPLOYEES'
LEGAL PROTECTION**

**CAUSE AND EFFECT OF FLEXIBLE
EMPLOYMENT RELATIONSHIPS
IN THE LABOUR MARKET**

GUDRUN BIFFL

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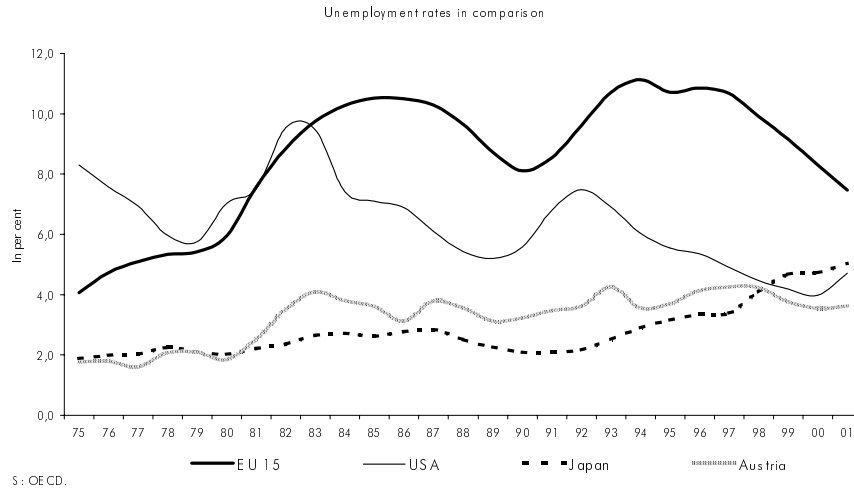
GUDRUN BIFFL

Introduction

Labour market behaviour is changing rapidly under the impact of globalisation, technological innovations and knowledge-intensification of production as well as social change, in particular, the changing role of women in the society. These changes have been associated with greater flexibility in the labour market generated by the forces of demand and supply (*Standing, 1999, OECD, 1994*). Industries have been restructured while traditional work and employment patterns, skills and forms of organisation have been adjusted to fit in with technological innovations and the pressures of international economic integration. The EU has been the economic region with the most pronounced rise in unemployment in the wake of rapid structural change in the early 1980s and 1990s. In spite of concerted action on the policy front, i.e., policy co-ordination in as diverse areas as monetary and fiscal policy, employment and labour market policy, education and social policy (*Biffli, 2001*), the EU 15 remained the economic region with the highest unemployment rates. Within the EU 15, there are, however, countries which have fared better, e.g., Austria, which has one of the lowest unemployment rates in the developed world – in the year 2001: 3.7 percent, compared to 5 percent in Japan, 4.7 percent in USA and 7.5 percent in the EU 15 (Figure 1).

The large increase in unemployment in the EU in the early 1980s and again in the early 1990s is not attributable to an above average rise in labour supply. In fact, labour supply – measured by the sum of employed and unemployed – rose much faster in USA and Japan than in Europe in the 1980s, in the 1990s Japan fell behind the USA and the EU 15 in labour supply growth of (Figure 2).

Figure 1: Unemployment rates in comparison



In Austria, labour supply increased almost to the same extent as in Japan during the 1980s, but growth in the former continued into the 1990s. Even though labour supply growth slowed down in Japan in the 1990s, unemployment increased to unprecedentedly high levels, given the low capacity to create jobs at a time where the pressure for productivity increases dominated economic restructuring (Figure 3). In contrast, employment growth in the EU 15 picked up in the second half of the 1990s, thus allowing a more or less continuous decline in unemployment. This decline is at least partly attributable to the co-ordination of socio-economic reform policies (EC, 2002), which render labour markets more flexible and thus capable to adjust more quickly to the prevailing socio-economic changes. The object of this paper is to analyse the changes which have taken place in the labour market and to explain their economic rationale.

Figure 2: Development of labour supply

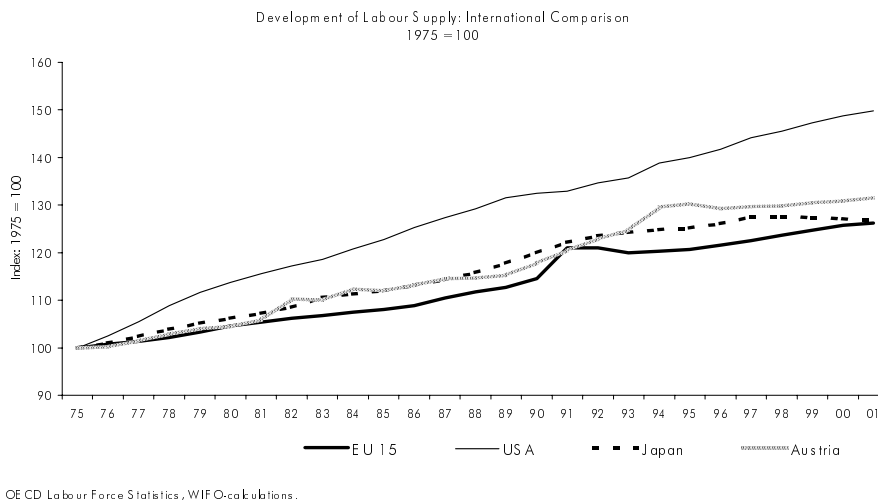
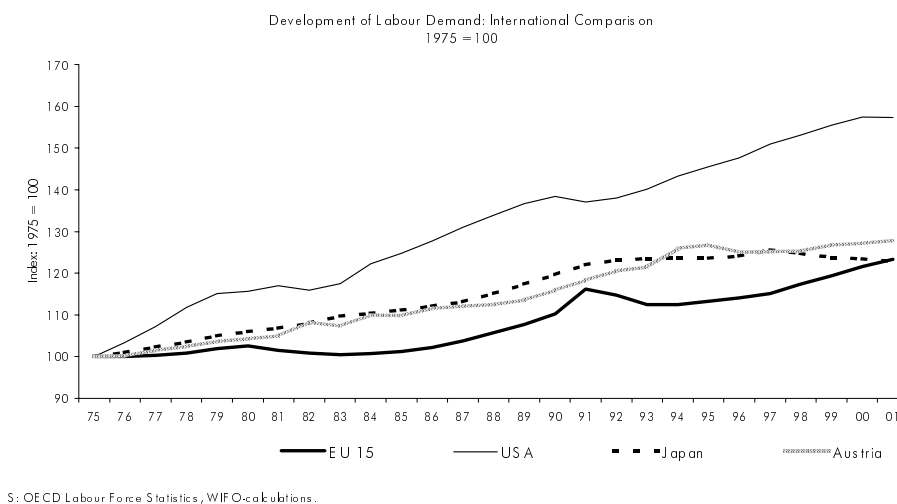


Figure 3: Development of labour demand



The nature of various changes

The traditional norm of jobs as being full-time **and** life-time, is gradually waning. The same may be said of standard gendered work sharing between paid and unpaid work in a household context. (Sorrentino, 1990) The changing pattern of family life, manifested by rising divorce rates and lone parent households – the supply side – is as much an explanatory factor for more flexible work patterns, in particular flexible working hours, as the increasing pressure for adaptability of the work force demanded by employers. The latter arises from the need to reorganise the use of labour and the prospects of global relocation of production (Liemt, 1992).

The changing family relationships

The changing pattern of family can be illustrated on the one hand by the rise in the divorce rates, on the other by the declining proportion of traditional household types. In the case of Austria divorce rates increased from 14 percent of all marriages in 1961 to 43 percent 2000 (Figure 4). Another aspect of changing human relationships is the increasing proportion of nonmarital cohabitation. In Austria the proportion of consensual unions with and without children increased from 2 percent in 1971 to 5.5 percent in the year 2001. Single parents with children and single households are the household types with particularly pronounced growth rates (Figure 5), whereas the more traditional household types, e.g., married couples with children, have declined in relative importance. The latter's proportion of all households has fallen from 41.4 percent in 1971 to 32.2 percent in 2001, i.e., by almost 10 percentage points, while single parent households plus one person households increased from 34 percent in 1971 to 43 percent in 2001.

Divorce rates are rising in most industrialised countries, including Japan. The countries with the highest divorce rates are USA, Canada and the UK followed by the Nordic Countries in Europe. Austria is in the middle range, with levels similar to Germany or the Netherlands. At the lower end are countries like Japan and Italy. However, while divorce rates in Italy have hardly increased, they show a significant positive trend in Japan (Sorrentino, 1990).

It should be noted that divorce statistics tend to understate the extent of family break-up, as marital separations are not covered in the divorce statistics. Neither do we have regular reliable data on separations of consensual couples thus underestimating the extent and dynamics of flexibility of personal relationships. Hand in hand with the loosening of personal ties went a liberalisation of divorce laws.

The changing household pattern goes hand in hand with declining fertility trends and the aging of the population. These contribute to the declining household size. The greater fluidity of personal relationships helps explain the rising labour supply of women as the individual need for paid (market) work increases. It is also responsible for the changing needs for income support and for help in job search, i.e., safety nets, like unemployment benefit systems, and labour market institutions, like employment services. The former are necessary to avoid poverty of fast growing household types for whom the social security or welfare system does not cater adequately, the latter are desirable in order to provide more transparency and guidance in an increasingly complex labour market. The matching of labour supply and demand involves longer search periods as skill requirements for jobs become less standardised and as more and more services are outsourced to specialist firms.

Figure 4: Changing pattern of family life in Austria: divorce rates

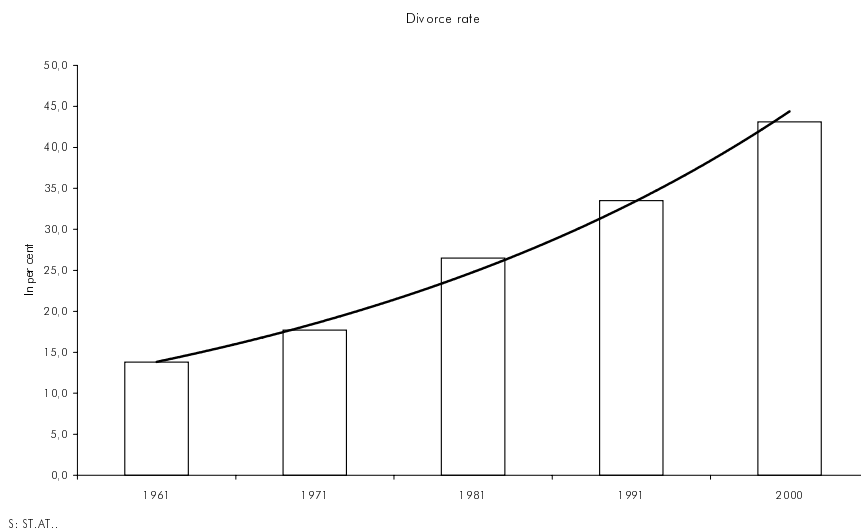
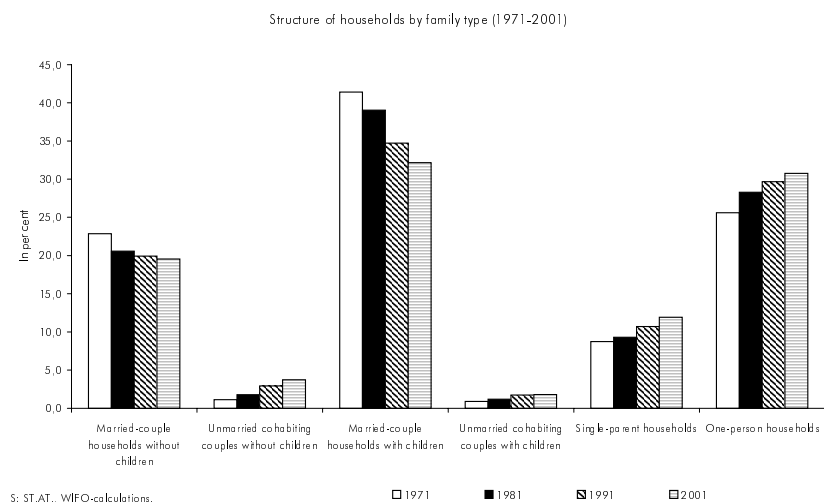


Figure 5: Changing pattern of family life in Austria: household type



The changing employment relationships

Labour market restructuring takes place on a macro as well as micro-level. Sectoral shifts of labour, i.e., macro-economic restructuring, have taken place at different speeds in the various economic regions. While the share of agriculture, fisheries and forestry declined in all countries/regions under analysis, it was most pronounced in the EU 15, in particular Austria, followed by Japan in the period under consideration (1975-2001). In the United States mechanisation and other labour saving technologies of the agricultural sector had commenced much earlier than in Europe and Japan, thus reducing the labour intensity of production to a large extent well before Europe. Today only 2.4 percent of the US-workforce are employed in the agricultural sector, compared to 4.1 percent in the EU 15. In contrast, Austria and Japan continue to have a comparatively high proportion of labour engaged in agricultural production, namely 5.7 percent and 4.9 percent respectively.

Also, the manufacturing sector created fewer and fewer jobs as outsourcing of services to specialists became more widespread and as multinationalisation of production became more common. Since the mid-1970s, the proportion of the workforce employed in manufacturing industries declined to a larger extent in the EU 15 than in USA or Japan. As in agriculture, USA were a forerunner in that development. Again, Austria and Japan, have the highest share of workers in manufacturing industries, i.e., 29.9 percent and 30.5 percent respectively in 2001.

Figure 6: Declining share of agriculture in total employment by country/region 1975-2001

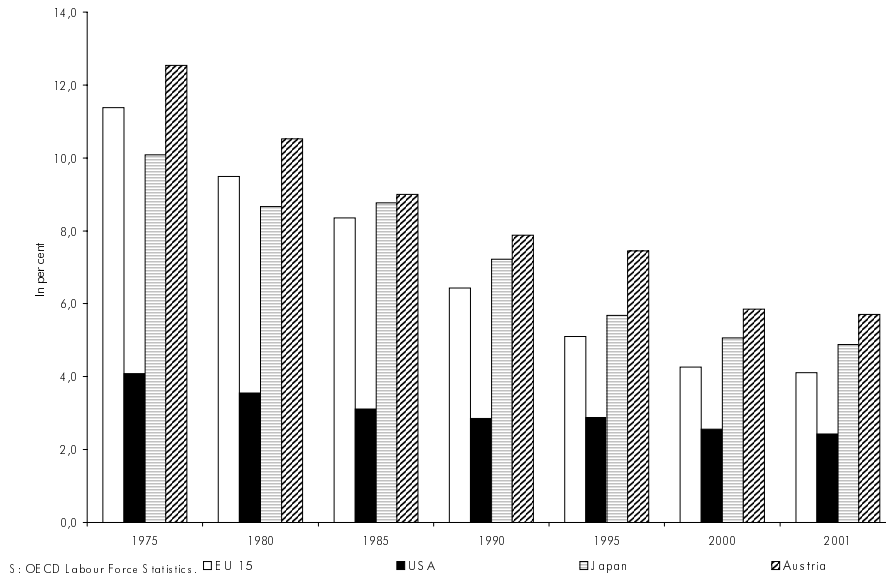
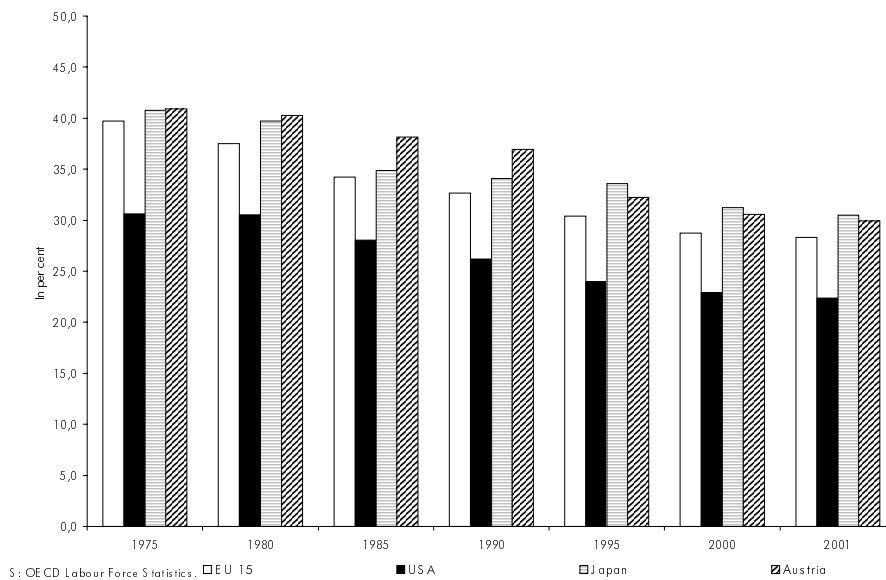
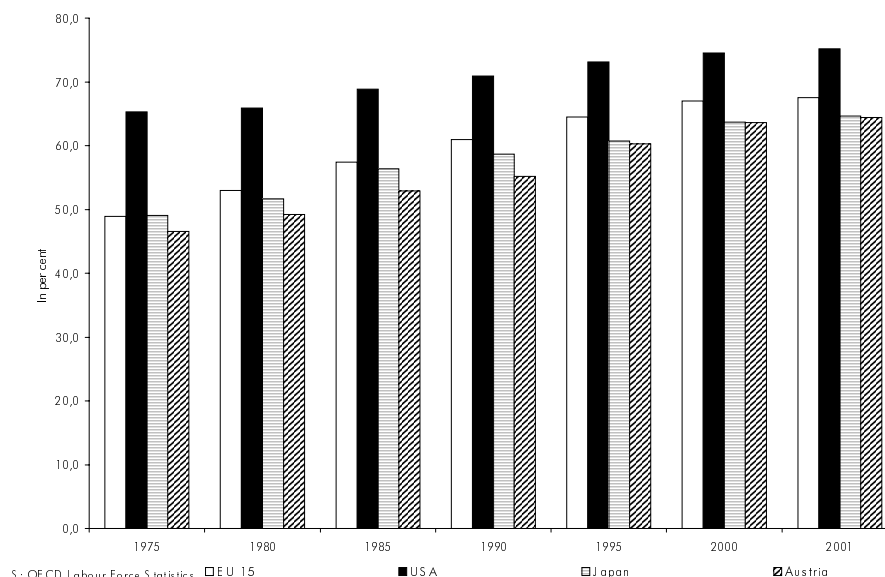


Figure 7: Declining share of manufacturing in total employment by country/region 1975-2001



Consequently, Austria and Japan have the smallest proportion of all the countries/regions under analysis, working in the services sector. While, in 2001, in USA 75.2 percent of the workforce were working in services, and 67.6 percent in the EU 15, only 64.5 percent of all employees do so in Austria and Japan.

Figure 8: Rising share of services in total employment by country/region 1975-2001



In addition to reallocation of labour away from agriculture and manufacturing to services, microeconomic restructuring of labour became more prominent, in particular in the last two decades. As old industries close down or restructure, old skills become obsolete and retraining becomes necessary for all ages, men and women alike, if they are to find employment. Some countries react to the challenge of industrial restructuring by early retirement schemes rather than retraining, thus reducing labour supply and in so doing limiting the rise in unemployment (Biffl, 1999). This is particularly true for Austria, but also Belgium, France and Luxembourg tended to implement early retirement schemes and disability pensions to a large extent to speed up industrial restructuring. Others resort to education and training to adapt the skills of the workforce to the new requirements, while many rely on new types of employment relationships, in particular to more part-time and contingent labour in order to increase the flexibility of employment.

The changing labour market requirements result in a departure from standard age-status transitions. People frequently move from school into work, then into training, re-training or further education, back into work with intermittent phases of unemployment. Thus, lines of economic dependence may be reversed between men and women and even between young and old during their working lives. There are feedback loops between labour demand and supply changes, i.e., the causality runs both ways. For example, the greater uncertainty of continued employment of the main income earners influences supply patterns; family members, be they women, older workers or students, may temporarily enter the labour market to stabilise family income. Thus the supply of casual and contingent workers rises, encouraging employers to use temporary employment contracts and non-standard employment relationships to a larger extent (Figure 9).

The number of jobs involved in mass production, which can be performed by standardised work processes, has declined (quantitative loss of jobs), while the incidence of flexible specialisation has increased – the increase in intra-industry trade is but one feature of Adam Smith's division of labour concept. Flexibilisation does not only encompass alternative forms of employment and working hours but also variable job content and flexible firm networking (qualitative change of jobs), i.e., re- and multi-skilling within the firm due to technical change and restructuring of work processes and increased external orientation, both towards clients and specialist goods and services providers (just in time production).

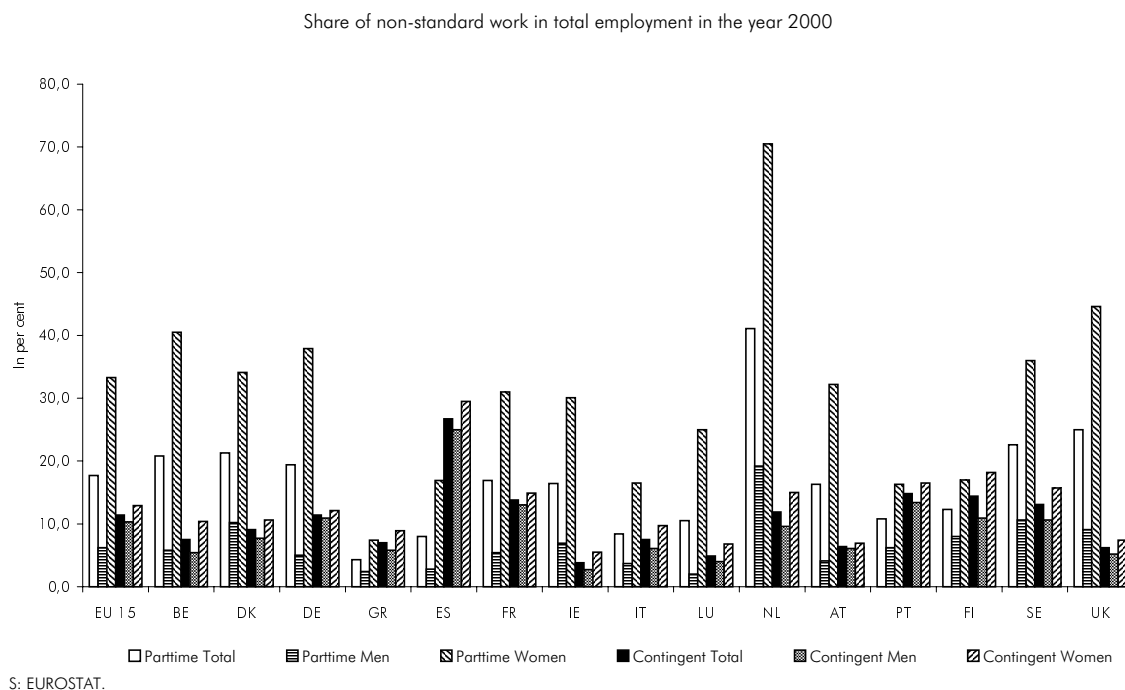
Multi-national production is extended to the provision of services, facilitated by information and communication technology and regulated in GATS (general agreement on trade in services). Examples of modern services mobility range from the outsourcing of programming or accounting services from Europe to India, to the internationalisation of tertiary and, in some cases, even of secondary education.

Financial considerations are the major driving force behind increased inter- and intra-industry trade. Thus, outsourcing of services from the industrial sector to the services sector is not only cost-efficient arising from economies of scale of service providers, but also because of large wage differences between economic sectors. This may in some cases be the result of institutionalised wage bargaining (unionised versus non-unionised sectors), in others, the result of differing market power or technical progress. While technological development has a dynamic of its own (endogenous technological progress), its implementation in work processes is also driven by financial considerations. As a consequence, standardised tasks are taken over by automation and computers, resulting in the total productive system undergoing change and renewal.

International convergence of labour market practices

Comparable forms of labour market flexibility have occurred in most industrial societies despite different labour market institutions and traditional methods of employment regulation. Thus, for instance, since the 1980s, there has been a growth in contingent labour on temporary contracts and temporary work and in the dispersion of earnings and incomes, accompanied by declining job security, in the highly regulated and formalised Austrian labour market as well as in the labour markets of the Anglo-Saxon countries which are less formal and less regulated. In the competitive world, the need for flexibility is generally unquestioned; it is merely a question of the extent to which the various labour market flexibility processes are applied (Figure 9).

Figure 9: Share of non-standard employment in total employment in the EU (2000)



Changes in employment structures, pay systems, working hours, forms of employment and job content cannot solely be attributed to the internationalisation of production – and thus of product and factor market competition – and to technological change. A shift in belief and value systems as well as a convergence of management culture, also play a part – mainly a consequence of transnational economic activity. The transfer of production processes by multinational firms serves to lower costs, while at the same time weakening the bargaining power of traditional national labour market institutions and thus contributing to the loss of membership of employers' associations and unions.

In short, the regulatory capacity of national labour market institutions is reduced as nations compete for export markets and foreign direct investment (Biffi – Isaac, 2002). In addition, in Europe, the Maastricht Treaty brought about an alignment of monetary and fiscal policy, thus leaving relatively little room for Member States to manoeuvre in employment, wage and social policy.

Cost minimisation and productivity

As suggested earlier, the underlying changes outlined, were dominated by financial considerations. Hence the quest for cost minimisation and productivity increases, as enterprises endeavour to improve productive efficiency through better utilisation of capital and human resources. This results

in a more or less continuous use of capital stock, e.g., by a wider spread of daily working hours, by expanding shift work or adding temporary and casual workers to ensure continuing production processes. Another aspect, directed towards longterm productivity improvements, is the replacement of outdated technology with international best-practice technology, which is often linked to downsizing the work force. The third factor is reorganisation of management and workplace structures, emphasising not only inputs and processes but also outcomes, customers and markets. The latter is often associated with a reduction of vertical hierarchies and the application of lateral systems of control (team work).

Further, enterprises organise work around core business units, which may even be turned into separate legal entities (firms/affiliates), along supplier-producer-distributor chains. One aim is to reduce the size of internal labour markets, i.e., those considered as 'permanent' employees with career and pay expectations, in order to minimise labour costs by flexibility in recruitment and wage rates.

The overall wage bill may also be reduced by various measures some of which have already been noted: a reduction of hierarchies, outsourcing from the well paying, often highly unionised, industrial sector to small scale manufacturing or services firms, which are often non-unionised – some may even be unregistered and informal – and to individuals who are working on their own account, and to homeworkers.

Additionally, the work force may be split into core workers and peripheral workers, an arrangement well established in Japanese enterprises. The former constitute the backbone of the work force. Their loyalty to the firm is assured by high wages (efficiency wages), which often have a performance-related pay component and/or stock options (ESOP – employee stock option plan). Peripheral workers may work at all skill levels. They are contingent workers on short term contracts or temporary workers, often with temporary work agencies as intermediaries. The flexible employment forms allow quick adjustment of labour to market demand fluctuations or shifts.

Specialist support may be obtained from a network of business services, e.g., marketing, advertisement, logistics, insurance and legal services, computer-specialists. These services are the fastest growing employment segment in the industrialised world. A veritable explosion of business oriented services, which are more and more available globally, has taken place since the 1980s. This development is partly the result of outsourcing of in-house services of manufacturing industries. As these services increasingly take on the character of a well defined product, quasi 'industrialisation' of business services takes place.

Rapid technological change and economies of scale in the provision of business services result in productivity increases, which can be shared by consumers and the highly skilled workforce alike. This ensures stable or even declining prices of the services despite rising wages in this high-skill segment of jobs. In some cases, in particular in the production of knowledge intensive goods and

services, increasing returns are common, thus contributing to above average wage increases and/or profits in this sector of the economy.

Table 1: Labour force participation rates by level of educational attainment and gender 1998 (for 25 to 64 year olds)

		Below upper secondary education ISCED 0/1/2	Upper secondary and post- secondary non- tertiary education ISCED 3/4	Tertiary-type B ISCED 5B	Tertiary-type A and advanced research programmes ISCED 5A/6	All levels of education
Australia	Men	81	89	92	94	87
	Women	55	66	78	82	64
Austria*	Men	72	86	89	93	84
	Women	48	68	81	85	63
Denmark	Men	77	86	92	95	86
	Women	56	79	87	96	76
Finland*	Men	69	86	88	92	81
	Women	60	78	85	89	75
France	Men	77	89	93	91	85
	Women	57	76	83	83	69
Germany	Men	77	84	93	88	85
	Women	46	69	81	83	66
Japan	Men	87	96	98	98	95
	Women	57	63	62	68	62
The Netherlands**	Men	78	88	x(5A/6)	91	86
	Women	44	70	x(5A/6)	82	62
Norway*	Men	79	91	96	93	90
	Women	61	81	93	90	80
Sweden**	Men	80	89	88	93	87
	Women	67	83	86	92	81
Switzerland	Men	90	94	97	96	94
	Women	65	75	85	84	74
United Kingdom	Men	68	88	91	93	86
	Women	52	76	85	87	73
United States	Men	75	88	92	94	88
	Women	50	73	82	82	73
Country mean	Men	78	89	93	93	87
	Women	51	69	80	83	64

Source: OECD (2000), p. 269. - * Year of reference 1997. - ** ISCED 4 is included in ISCED 5B. ISCED 0 = preschool, ISCED 1 = primary school (class 1-4), ISCED 2 = lower secondary school (class 5-8), ISCED 3 = upper secondary school (class 9 and above), ISCED 4 = post-secondary non-tertiary education, ISCED 5 = non-university tertiary education, ISCED 5A/6 = university tertiary education.

Other tasks, in particular personal services, like care work, health services and the like have built-in limits to productivity growth which put a break on wage increases. The supply of these skills is high and rising, however, as women are increasingly moving from unpaid household work to paid market work; crowding takes place in personal and consumer oriented services – which tend to be female dominated – thus contributing to the downward pressure on their relative wages (Anker, 1998, Biffl, 1996). Also, unskilled workers are in abundant supply, on the one hand as a result of unskilled labour saving technology, and on the other, due to rising activity rates which bring also less skilled workers into the labour market. One may say that the higher the educational attainment

level of a person, the higher the participation rate (Table 1). In the 1970s and 1980s, the better skilled married women tended to enter the labour market in large numbers, to a large extent on a part-time basis. But married women with low educational attainment levels tend to remain longer in the household. In countries with an above average labour force participation of men and women, e.g., Denmark and the UK, a larger proportion of workers with low educational attainment are in the labour market than in countries with low activity rates, e.g., Greece and Italy (Biffi, 2002).

To sum up, it can be said that enterprises tend to keep a portfolio of different types of employment (contract labour, temporary workers, flexworkers, homeworkers, casuals, consultants, core workers), in order to spread risks and increase flexibility, analogous to a firm or an individual holding a portfolio of different types of assets. The wage system becomes complex and spans from the 'capitalist' top level management, who get paid in stock options, to the consultant, who has performance related pay components, and the worker, who gets paid piece rates or an hourly wage with or without social security coverage. The flexibilisation of work and wage systems represents a challenge to centralised modes of collective bargaining and tends to contribute to a widening of wage differentials.

An overview of relative earnings from employment by educational level in OECD countries (Table 2), shows that there is a considerable spread between countries. The wide international differences in the mean annual average earnings before tax reflect a number of factors:

- skill demands in the work force (industrial structure, technology),
- the supply of workers at the various levels of educational attainment,
- minimum wage legislation – may cause the actual wage difference to be smaller than in a labour market with free mobility of wages, implying smaller differences in wages than in labour productivity,
- the coverage of collective bargaining agreements and the strength of unions,
- the range of work experience of workers with high and low educational attainment,
- the relative incidence of part-time, contingent and casual work at different educational attainment levels,
- the division of educational expenditure upon the individual, the state and the entrepreneurs.

The shortfall in earnings due to less than upper secondary education, i.e., of a skill level below ISCED 3/4, is highest in the U.K. (–36 percent) and USA (–20 percent), followed by Switzerland (–26 percent), Austria (–22 percent), and Germany (19 percent). Significantly lower earnings shortfalls apply to unskilled workers in Finland (3 percent), and Sweden (10 percent).

The premium for tertiary education skills of ISCED 5 or 6 compared to upper secondary education skills for the UK is, in contrast, one of the highest in OECD countries with 68 percent. Similarly high returns to higher education can be earned in France (69 percent), Germany (63 percent), and Switzerland (62 percent), significantly higher ones in Finland (86 percent) (Biffi, 2002).

Table 2: Relative earnings of 25 to 64 and 30 to 44 year olds from employment by level of educational attainment and gender 1997

(ISCED 3/4 = 100)

		Below upper secondary education ISCED 0/1/2		Tertiary-type B education ISCED 5B		Tertiary-type A and advanced research programmes ISCED 5A/6	
		Ages 25-64	Ages 30-44	Ages 25-64	Ages 30-44	Ages 25-64	Ages 30-44
Australia	Men	87	83	120	116	144	138
	Women	85	84	113	112	154	154
	M + W	79	75	103	101	136	131
Austria °	Men	78	78	x(5A/6)	x(5A/6)	128	122
	Women	74	76	x(5A/6)	x(5A/6)	132	131
	M + W	78	78	x(5A/6)	x(5A/6)	139	135
Denmark	Men	86	86	124	121	139	139
	Women	88	88	119	115	136	144
	M + W	85	85	115	110	140	142
Finland*	Men	95	92	129	125	189	174
	Women	101	99	123	122	179	172
	M + W	97	96	121	117	186	173
France**	Men	88	88	130	137	176	175
	Women	80	81	132	138	161	168
	M + W	84	85	126	132	169	171
Germany	Men	88	87	106	108	156	144
	Women	87	84	111	110	156	159
	M + W	81	82	108	106	163	153
Italy***	Men	73	77	x(5A/6)	x(5A/6)	173	161
	Women	76	77	x(5A/6)	x(5A/6)	129	133
	M + W	76	80	x(5A/6)	x(5A/6)	156	148
The Netherlands*	Men	87	86	x(5A/6)	x(5A/6)	136	129
	Women	75	74	x(5A/6)	x(5A/6)	141	145
	M + W	84	84	x(5A/6)	x(5A/6)	137	132
Norway	Men	85	85	x(5A/6)	x(5A/6)	138	140
	Women	84	90	x(5A/6)	x(5A/6)	140	143
	M + W	85	87	x(5A/6)	x(5A/6)	138	138
Sweden	Men	88	88	x(5A/6)	x(5A/6)	135	135
	Women	89	87	x(5A/6)	x(5A/6)	125	121
	M + W	90	89	x(5A/6)	x(5A/6)	129	128
Switzerland**	Men	81	82	119	122	145	139
	Women	74	82	123	122	157	164
	M + W	74	79	137	140	162	156
United Kingdom**	Men	73	70	125	124	157	157
	Women	64	61	135	133	188	192
	M + W	64	63	125	125	168	172
USA **	Men	69	67	113	114	183	182
	Women	62	60	127	130	180	191
	M + W	70	68	116	116	184	184

Source: OECD (2000), p. 297. a Austrian Institute of Economic Research. - * 1996. - ** 1998. - *** 1995.

While it is difficult to compare levels of inequality due to different income measures, equivalence adjustments and other factors in the various studies of income inequality (*Atkinson et al., 1995, 2001, Gottschalk – Smeeding, 1997, 2000, Gottschalk et al., 1997, Atkinson, 1999, Forster, 2000*), it is safe to say that from the late 1980s to the late 1990s, inequality rose in practically every OECD country.

Table 3: International trends in income distribution

Summary results from national and cross-national studies

	Early/mid 1970s to mid/late 1980s	OECD study 1980s	Mid/late 1980s to mid/late 1990s
Australia	0	+	+
Austria	0	0	++
Belgium	0	+	+
Canada	–	0	+
Finland	–	0	+
France	–	0	+
Germany	–	+	+
Japan	0	+	++
The Netherlands	0	+	++
New Zealand	0	+	+++
Norway	0	0	++
Sweden	–	+	+
United Kingdom	++	+++	++
United States	++	++	++

+++ Significant rise in income inequality (more than 15 percent)
 ++ Rise in income inequality (7 to 15 percent)
 + Modest rise in income inequality (1 to 6 percent)
 0 No change
 – Modest decrease in income inequality (1 to 6 percent)

Sources: *Atkinson et al. (1995), Gottschalk – Smeeding (1997, 2000), Atkinson (1999), Forster (2000), Atkinson – Brandolini (2001)*
<http://www.lisproject.org/keyfigures/>, *Statistics Canada (2002)*.

The growing income disparities are only partly attributable to increased wage inequalities. The changing family structure is equally responsible (*Burtless – Smeeding, 2000, Borland – Gregory – Sheehan, 2001*). While skilled married women tended to fill in the middle income group by entering employment, single parents tend to fill the rank of lower income groups. Single parent families easily fall into a poverty trap. They do not have the time flexibility the labour market tends to require thus contributing to the rising proportion of jobless households, many of them with children.

Macro and micro-economic labour market flexibility

It is useful, in the light of what has been said, to distinguish between macro and micro labour market flexibility. The former refers to implications of labour market changes for the whole economy, while the latter focuses on the activities of the enterprise.

In respect to the former, it will be apparent that flexibility or adaptability involves interaction between socio-economic conditions and scope for technological applications. Technological innovations are one driving force for the prevailing restructuring of the labour market; institutional reforms are another. The latter may occur in the area of industrial relations, to preserve labour standards in an era of increased competition, while education reforms take place to promote the development of a Learning Society (*Biffi*, 2001). According to *Calmfors – Driffill* (1988) and *Rodrik* (1996, 1997) industrial relations systems can make a difference to economic performance, as well as networks, trust etc., to which *Powell* (1991) draws attention. *Mancur Olson* (1982) points out that vested interests, established positions, customary relations among firms and between employers and employees may represent obstacles to change. The extent to which established norms are enshrined in institutions, laws, codes of honour etc., will affect the speed of adjustment to new requirements. The significance of the speed of adjustment is that it has a bearing on macro-economic labour market flexibility and its contribution to economic growth.

Micro-economic labour market flexibility, on the other hand, refers to the adaptability of individual enterprises and their work force to changes in market demand, new technology and thus skill requirements and production processes. Enterprises do not only have to adapt to new requirements in the product market but also to new labour supply conditions, e.g., the increasing labour supply of women and the aging of the workforce. The interaction of supply and demand conditions has contributed to the increasing importance of non-standard employment contracts. So far, women tend to be more prone to intermittent employment than men, in the main as a result of childbearing and rearing. But more and more, men are experiencing the same job instability as women, thus putting the current norm of the gender-division of household and market labour as well as the social security system, which builds on it, in question. The increasing instability of marriages as well as jobs (in particular of prime-age male workers) impairs the efficiency and equity of the current social security and/or welfare system, as well as taxation and wage policy.

Typology of micro-economic labour market flexibility

Elaborating on a point made earlier, in the main, an enterprise has four options to adjust its human resources to new requirements: numerical flexibility, working time flexibility, functional flexibility and wage flexibility

1. Numerical Flexibility: adjusting the level and composition of the work force to minimise costs, e.g., by introducing new technology, by reorganising work and production processes. Flexibility may affect core workers (usually fulltime wage and salary earners) as well as peripheral/marginal workers (fixed term contracts, part-timers, personnel leasing, casual workers).
2. Working Time Flexibility: working time has become an important strategic instrument to increase productivity. Since there is a certain fixed cost element linked with every individual

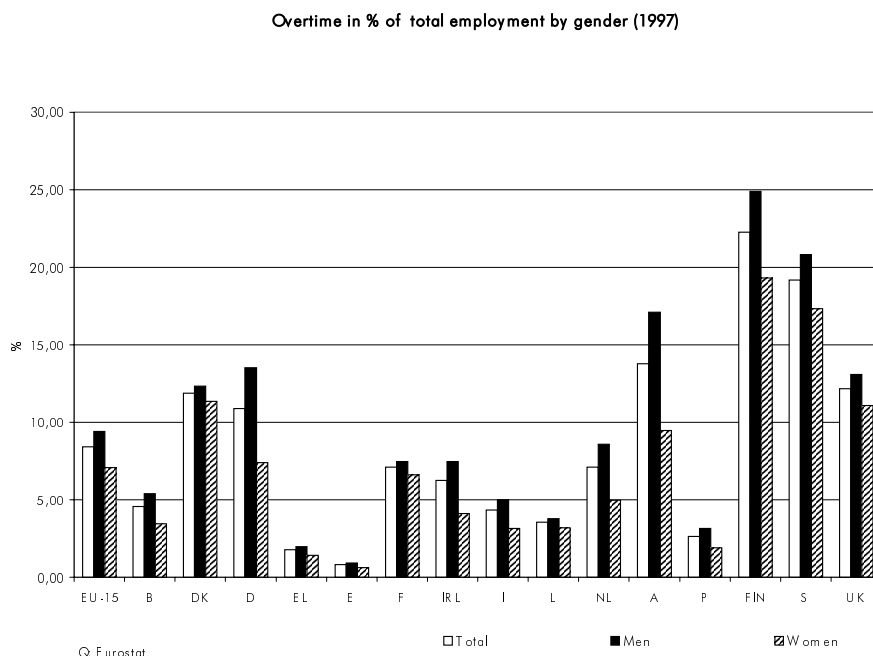
employee (search and training cost), it makes sense to adjust, as far as possible, individual working hours rather than numbers of employees to demand fluctuations. Another aspect of working time flexibility is the using up of productivity capacity embodied in machines and equipment, by a more efficient and continuous use of capital (thus increasing multifactor productivity), assuming that market demand for the product or service is growing. In cases of cyclical or seasonal demand fluctuations, working hour flexibility allows cost minimisation, by using more or fewer hours of labour, as necessary. Another form of hours flexibility is exemplified by the flexibility model of the construction industry in Austria in which, since the 1990s, overtime is paid only above a certain fixed level of annual working hours.

3. Functional labour flexibility: concerned with the skill adaptation of the work force. The adaptive capacity of the employees to new job requirements is an important element of cost minimisation and competitiveness. It is relevant to the application of vocational skills (arising from new technology) as well as to social competencies (team work) in connection with the reduction of standardised work practices (mass production often referred to as 'Fordism'), and the implementation of flexible specialisation. This requires multiskilling of the work force and increased team work in more continuous work processes.
4. Wage flexibility: firms may need to adjust the pay system to new economic circumstances affecting employment, distinguishing between type of employment arrangement and contractual relationship, as outlined above, and moderated by considerations of traditional norms of equity.

In an ideal situation, firms may use a mix of all four types of flexibility measures to increase their productivity and competitiveness. However, very often, this is not possible, for institutional reasons, since the implementation of one instrument may be in conflict with another. For instance, in the highly regulated German labour market, hire and fire are less of an option for firms due to employment protection legislation. Thus, in contrast to Anglo-Saxon labour markets, numerical flexibility and functional flexibility usually do not go hand in hand. It is, however, not to be assumed that these two processes are substitutes, but one can show that enterprises with high transaction costs tend to use functional flexibility as the preferred process, while those with low transaction costs arising from recruiting labour, resort to numerical flexibility.

Some processes tend to be complements, e.g. functional and working hour flexibility. In cases where functional flexibility is the preferred adjustment path, seasonal or cyclical demand fluctuations tend to be met by flexible working hours (overtime, flexible working hours within a specified time period). The choice of flexibility measures depends on many factors, e.g. industry, size and locality of the enterprise, and the regulatory mechanisms of the labour market. Thus internal (to the firm) and external forces impact on the type and degree of flexibility measure used. Few regulatory requirements in the labour market and a low density of unionisation, can be expected to favour numerical flexibility.

Figure 10: Overtime as a means to gain flexibility



Strong corporatism and an effectively structured system of industrial relations, as in the case of Austria, is likely to favour functional and working hours flexibility. The relatively large amount of overtime in Austria indicates high fixed labour costs associated with recruitment, i.e., transaction costs, are high, and tend to be a barrier to labour market entry (Biffi, 2000). In the year 1997, for example, 14 percent of all employees were working overtime in Austria (men: 17 percent, women 9 percent), while only 8 percent (men: 9 percent, women: 7 percent) did so in the EU 15 on average. In contrast, countries with a larger proportion of flexible employment relationships (contingent work), e.g., Spain (Figure 9), do not resort to this instrument of flexibility to the same extent.

Labour market restructuring and flexibilisation of employment contracts: The case of Austria

Austria provides an interesting case of labour market adjustment to the changing economic and technological environment. Labour markets in the 1960s and 1970s were affected by mass production technology in which standardised work processes dominated. With the onset of flexible specialisation in the 1980s, unemployment began to rise. The types of skills demanded and supplied became less obvious, thus increasing the need for specialised job matching institutions. The Public Employment Services, a state monopoly, was deregulated following a ruling of the Coalition Government in 1990. This was the beginning of a process of modernisation of PESs,

which became an integral part of EU-employment policy coordination in the second half of the 1990s (EC, 1998).

Increased employment turnover since the 1980s

For the reasons noted, in particular the onset of flexible specialisation in the 1980s, macroeconomic restructuring of labour and microeconomic reform, the volume of labour reallocation, measured by the sum of the yearly inflows into employment and outflows from employment, increased abruptly in the mid 1980s and then again in the mid 1990s¹.

Since the mid-1980s, 60 percent to 70 percent of the wage and salary earners experience some job status change in the course of a year. About two thirds of the flows are the result of a movement within internal labour market, i.e., movement along internal career ladders or intercompany transfers, and seasonal demand fluctuations. Thus about 25 percent of the Austrian work force or some 760,000 persons are, on average, recruited externally by firms annually. This figure is very high by international comparison. It puts Austria's labour turnover into the top league of EU member countries, in spite of rather strict employment protection legislation (Mayrhuber – Url, 1999).

The concurrent rise of employment inflows and outflows in 1984 and 1996 was the result of massive structural change in labour supply and demand. In 1984 it was the beginning of a new era of labour market mechanisms, which is marked by high and rising labour turnover. Women and younger workers (baby boom) with limited seniority entered the labour market in large numbers while older workers, who had stable jobs, took early retirement². But it was not only the composition of labour supply which led to high labour turnover. Tertiary employment growth also brought about a change in employment practices, in particular a marked increase in part-time work and casual employment. Thus factors on the labour supply side as well as the demand side contributed to a rise in labour turnover.

¹ Social security data provides information about the extent of job turnover for wage and salary earners, the major groups of workers on the labour market.

² Downsizing of nationalised industries, the backbone of Austrian manufacturing industries, was in the main achieved through early retirement and disability pensions in the first half of the 1980s. In the mid 1990s Austria's membership to the EU and the opening up of trade with CEECs brought about a break of the competitive position of Austria's industry and the need for privatisation of quasi public sector services like banking, insurance, telecommunication and transport.

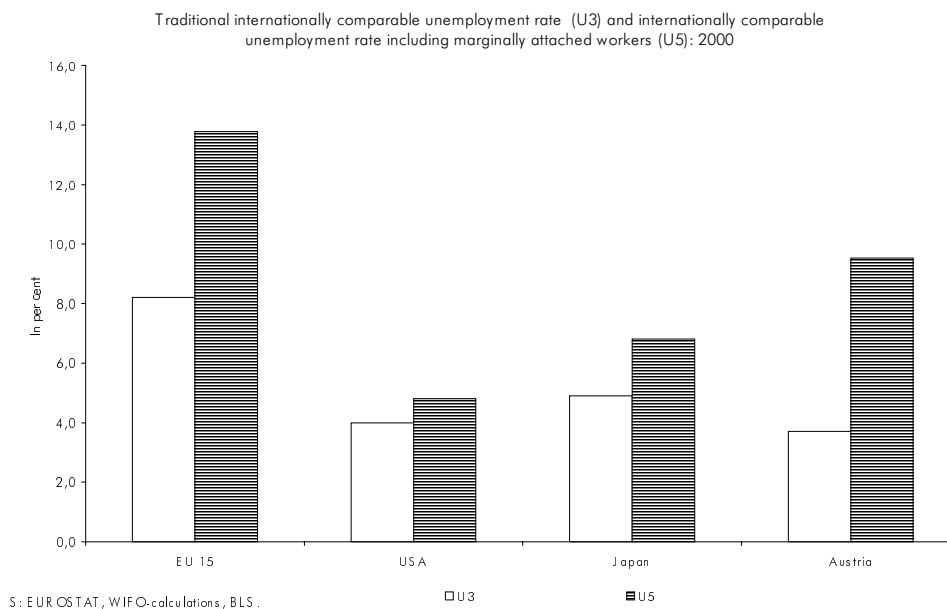
Figure 11: Employment and labour turnover in Austria



Visible unemployment and discouraged workers

The strong increase in employment turnover since the 1980s is not adequately captured in the growth of unemployment. This is so because the internationally comparable unemployment rate (U3), takes a very narrow view of unemployment. Thus, anybody who works for one hour or more per week is counted as employed – many people who lose their jobs accept less than their normal desired working hours, even casual work, and hope to find more and better jobs at some later stage. Moreover, anybody who has given up searching for a job, i.e., who is not actively searching in the survey week – either because of an economic downturn in which one does not expect to find an adequate job (discouraged workers) or because one turns temporarily to unpaid work in the household sector (care for sick or elderly) or to informal work, is not considered unemployed but only marginally attached to the work force. If we include the marginally attached workers, who say that they would like to work but are not currently searching actively, among the unemployed, we get a less minimalist measure of unemployment – U5. According to the latter, unemployment is considerably higher in Austria than in Japan (Figure 12). It was 9.5 percent in the year 2000 compared to 6.8 percent in Japan. This measure conveys a better picture of the degree of unemployment, or rather the extent of unused labour resources, than U3 (Yamagami, 2002). Apart from being a better indicator for untapped labour resources, U5 is also a more reliable indicator for changes in disposable income and thus of pending poverty.

Figure 12: Unemployment rates including the marginally attached workers, selected countries/regions (2000)

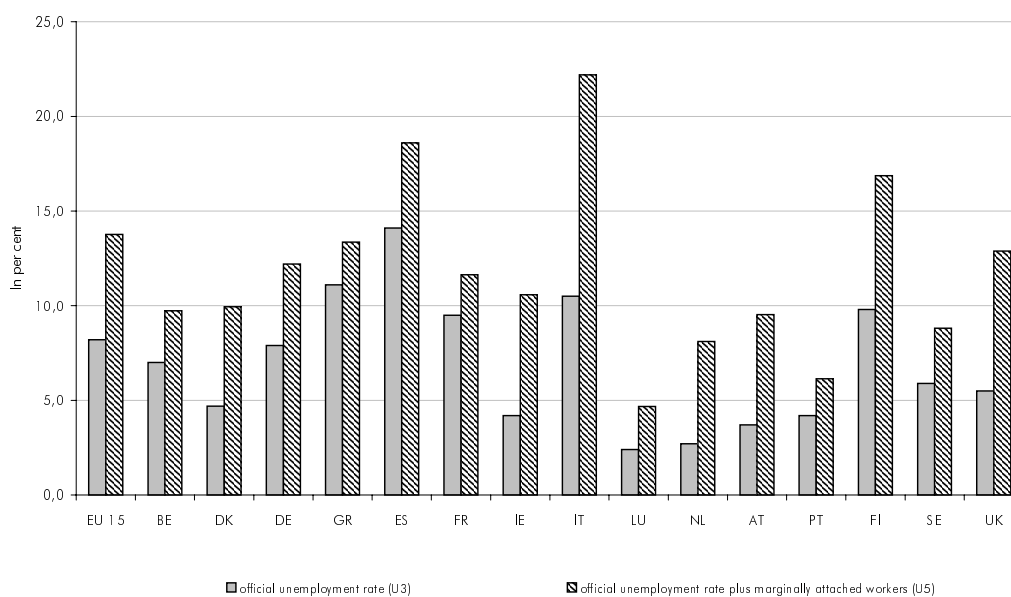


In the EU 15 there are pronounced differences between the degree of integration of the unemployed as measured by U3 and U5. While Austria scores number three – behind Luxembourg and the Netherlands – in the case of U3, it is only number 5 – behind Portugal and Sweden – if the marginally attached work force is taken into account as well. On the U5 measure, the unemployment rate is 9.5 percent in Austria compared to an EU average of 13.8 percent, and 4.8 percent in USA³.

A cross-country comparison of the different unemployment indicators and non-participation rates in the EU suggests that in a country like Luxembourg, those who are in the labour force tend to be employed (lowest unemployment rates (U3, U5) in the EU, i.e., rank number 1). The proportion of the population (of working age) that is not in the labour force is comparatively large, however (rank number 12 in the EU). The socio-economic institutional system (tax system and wage policy), the education system (full-time schools with limited opportunities to work part time) as well as social and labour market policy (early retirement schemes) tend to promote late entry into the labour market and early exit. Strong family-related elements in the tax system as well as other institutional factors account for a relatively large difference in labour force participation of men and women in the main working age. All these factors taken together imply a policy stance which promotes a lower labour supply which in turn tends to keep unemployment low. Of course, the socio-economic composition of the population also plays a part.

³ For more details on the calculation of different unemployment indicators see *Bregger – Haugen (1995), Castillo (1998), OECD (1999), Sorrentino (1993/1995), Yamagami (2002)*.

Figure 13: Unemployment rates including the marginally attached workers in the EU 15



S: EUROSTAT, WIFO.

In contrast, countries like the UK, exhibit a high degree of integration of the working age population into the labour market (one of the lowest non-participation rates in the EU – rank number 3); but a large proportion of the labour force is unemployed (U3: rank 7) or marginally attached (U5: rank 11). Institutional arrangements may also account for this type of labour market behaviour.

While the non-participation rates of the UK and the Netherlands are almost the same (24.6 percent and 24.8 percent), the employment intensity of labour market participation, i.e., the proportion of the labour force with gainful employment, is substantially higher in the Netherlands.

All that said, it is clear that the institutional setting of a country has an impact on the type and degree of integration of the population of working age into the labour market and into employment. The changing character of the employment relationships, in particular the increasing flexibility of employment relationships, may call for a revision of established unemployment benefit systems, provision of education and training by the state and other means to alleviate financial hardships for workers and their families in a world of increasing instability.

Concluding observations

Globalisation and the economic integration involved, both within the EU and the world at large, offers opportunities as well as posing problems for the countries concerned.

The opportunities come in the form of increased productivity, that is, getting more goods and services with a given unit of labour and capital. This enables countries not only to be more competitive and to grow faster, but also to enjoy the potential of a higher standard of living in material terms and in terms of the quality of life in its various manifestations. Furthermore, it has accommodated the changing role of women in society by opening up employment opportunities for them.

However, in order to tap these opportunities, there are problems of adjustment to the forces of demand and supply and the interactions between them. An important feature of globalisation in the last 20 years or so, and one which has given considerable impetus to it, has been the development of technology on a wide scale and within reach of all countries, namely, the electronic revolution and its impact on production methods, and on the collection and communication of information.

This has imposed inter-related requirements for changes in the structure of industry and its sectoral components, on the nature and pattern of work, on new forms of skills and the manner of their use, on hours of work, on the stability of employment and career structures, on gender composition, on management and organisational techniques, on education and training, and on occupational, industrial and locational mobility – all conveniently summed up by the word 'flexibility'. Moreover, institutions such as trade unions, have found it necessary to accommodate their traditional practices and doctrines to the needs of the changing industrial world.

But flexibilisation, particularly the complexity, range and speed of its application, results in some sections of the population falling by the wayside. Unless assisted by the community, these people will be the basis of social disintegration of a kind endangering social stability and the viability of economic integration itself. This is a task which calls for politically courageous action by governments on labour market, education and training, and welfare policy, balancing economic and social considerations, so that those who are disadvantaged by the changes, are sustained by welfare entitlements and, more importantly, reinstated into employment, by retraining facilities, if necessary.

Moreover, these problems of change are compounded in many countries by falling fertility rates and ageing populations, both of which call for an extension in retirement age in order to sustain the productive capacity of countries and so ensure that the advancement in living standards goes on.

Globalisation is a new word, but it is not a new phenomenon. The economic world was even more integrated at the end of the 19th Century than it is today. But the technological basis of the present phase of globalisation is different – it is more complex and more far-reaching in scope. The social, institutional and governmental forces which make up its infra-structure, are different, while community expectations on employment prospects and welfare support are much more compelling. Furthermore, for the EU, the stringencies of Monetary Union, impose constraints on

economic and social policy of a significantly different order from that which prevailed a century ago.

This Conference is concerned mainly with the legal implications of changes in the labour market. I trust that I have provided an economic and social perspective and sufficient material to underline the challenge which face those concerned with these implications.

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