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LABOUR MARKETS

Employment Problems in Western Europe's Industrial States

by Heinz Werner, Nürnberg *

Until the start of the seventies the situation on the labour markets of the European industrial states was considered with relative optimism. The high growth rates which most of the countries had achieved seemed to be sufficient to absorb the increases in the available labour force. The author discusses the changed situation and its consequences.

It was early in the seventies that the first menacing clouds began to appear on the horizon of the labour markets: despite conditions of full employment, some categories of workers (e.g. specialised professions) experienced some difficulty in finding suitable employment.

Growing discrepancies were becoming evident between the kind of vacancies to be filled and the qualifications of the people seeking jobs. The latter were largely young new entrants into the labour market; finally the number of immigrant foreign workers had reached such a level as to generate considerable social and political problems.

In the meantime unemployment reached in nearly all European industrial states hitherto almost unknown levels — levels which have since been maintained (Table 1, diagram 1). An analysis of the profound recession is made more difficult by the fact that cyclical aspects of the recession have become entangled with structural ones. At present there are about 5 mn people registered as unemployed in the countries of the European Community which between them dispose of an effective workforce of roughly 106 mn. Moreover, if one takes into account part-time workers as well as workers whose capacity is not fully utilized at their place of employment and people who would

like to work but have temporarily given up hunting for a job, then the total under-employment should amount to something between 7 and 8 p.c.¹.

Demographic Development

The demographic development in the next few years will generally be characterised by an appreciable growth in the population capable of gainful employment. If one looks only at the natural population growth (leaving aside the streams of migrants between states), it becomes clear that the age groups which enter the labour market for the first time are in most countries of the Community larger in number than the groups that relinquish it.

In most EC-member states this situation is merely the continuation of previous trends. In the case of Germany and Belgium, however, it marks a reversal and represents the resumption of the upward trend of the birthrate of around 1960.

The long-term population trend (from 1985 onward) presents a totally different picture. The decrease in the birthrate which all member states have been witnessing since 1968–70 will — everything else being equal — result from 1985 onwards in a decrease of people of working age — gainfully employed or not. In other words the number of people of working age and thus the supply of labour will tend to diminish in the course of the eighties. Till then the main problem in about half of the member states will be how to create jobs for

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¹ Commission of the European Communities: Employment Perspectives until 1980, Brussels 1976, p. 8.

Table 1
The Unemployment Ratios in Important Industrial Countries

Country	Yearly Average			1975				1976									
	1973	1974	1975	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.
Germany	1.2	2.6	4.7	4.4	4.6	4.9	5.3	5.9	5.9	5.2	4.8	4.2	4.0	4.1	4.1	3.9	4.1
France	2.3	2.9	4.9	5.6	6.0	6.1	6.0	5.9	5.7	5.5	5.2	4.9	4.7	4.7	4.9 p		
Netherlands	2.7	3.3	4.8	4.8	4.9	5.1	5.6	5.8	5.8	5.2	4.8	4.6	4.7	5.0	5.2 p	4.8 p	
Great Britain	2.7	2.7	4.4	5.4	5.0	5.0	5.2	6.1	5.6	5.5	5.5	5.7	6.3	6.4 p	6.1 p		5.7 p
Austria	1.6	1.5	2.0	1.5	2.0	2.5	3.1	3.6	3.5	2.8	2.0	1.6	1.2	1.2			
Belgium	3.7	4.1	6.7	7.0	7.9	8.2	8.7	8.7	8.6	8.4	8.3	8.2	8.1	8.4	8.4	8.4 p	
Denmark	2.5	5.3	11.1	10.2	11.0	11.2	14.1	15.8	12.6	11.2	9.6	8.4	7.6	8.4	11.1 p		
USA	4.9	5.6	8.5	8.1	7.8	7.8	7.8	8.8	8.7	8.1	7.4	6.7	8.0	7.8	7.6		
Canada	5.6	5.5	7.1	5.9	5.8	6.4	7.0	8.0	8.0	7.6	7.6	6.9	6.6	7.2 p	6.9 p		
Sweden	2.5	2.0	1.6	1.8	1.7	1.7	1.6	2.2	1.8	1.8	1.7	1.2	1.5	1.3	1.6	1.7 p	
Italy	5.3	5.1	5.7	5.9	6.0	6.0	5.9	6.2	6.2	6.2	5.9	5.9	5.8	5.8 p			
Ireland	7.2	7.9		12.2	12.4	12.8	13.1	14.1	13.0	12.7	12.8	12.5	12.0	12.1	9.8		
Japan	1.3	1.4	1.9	1.9	1.9	1.9	2.0	2.4	2.4	2.4	2.1	2.0	1.9	1.8			

Sources: ILO; OECD and national statistics. p) preliminary estimates.

A comparison of the unemployment figures for the various states reveals certain differences which are due to the fact that in computing their statistics different states start from different definitions of the various groups included in their surveys (methods used in collecting the information and in working out the percentage of the workless in relation to the working population). Still other factors play a role. Insurance law regulations vary from country to country as regards the payment of unemployment benefit, the extension of labour administrations and the reputation they enjoy. In view of all this it may be assumed that a straight comparison between the state of unemployment in Germany and that in the other countries is hardly possible.

a slowly growing labour force. As time goes on, it will become more and more difficult to cope with a constantly deteriorating proportion between the population sector capable of gainful employment and those others who are not and are dependent for their living on the active part of the population like the old-age pensioners, the disabled and the sick. It is in fact by no means impossible that at that juncture labour will once again be in short supply.

This foreseeable reversal of trend within less than ten years must be taken account of in the formulation of an employment policy. Care must be taken to make sure that the short-term and medium-term measures for a better spreading of the work load, and this means especially of working hours, are capable of being reversed. In the following it is

intended to deal in some detail with several difficulties in regard to employment — difficulties which confront nearly all European industrial states.

Problems Concerning Young People and Women

The problem of unemployment among young people has meanwhile become acute also in the Federal Republic, that is some time after it had started worrying other countries. One of its causes has already been mentioned: the entry of a growing number of school-leavers into the labour market. In some countries the unemployment risk of school-leavers is increased even further through differing labour-market conditions for the different groups of the gainfully employed (protection against dismissal, regulations for the training and social welfare of the young persons). Besides, it is argued that there is a growing divergence between training and actual working conditions and that the jobs offered fall short of the expectations of the more highly trained youngsters. During the period of a relatively high economic growth when foreign and female labour acted as a cushion this discrepancy remained hidden.

The process of mobilizing additional labour, particularly women, which was set in motion during the time of labour shortage cannot be stopped at a moment's notice. Compared with the men, the number of women seeking jobs is increasing more strongly. This is due to the fact that the gainful employment of women has remained an essential feature of our society and the desire of women for

Table 2
Gainfully Employed Population

Country	Annual Growth Rate			
	1965-70	1970-75	1975-80	1980-85
Germany	- 0.64	- 0.09	0.35	0.50
Great Britain	- 0.32	0.09	0.61	0.66
Italy	- 0.77	0.19	0.62	0.60
France	0.87	0.91	1.21	1.26
Netherlands	0.99	0.37	0.53	0.80
Belgium	0.42	0.47	0.62	0.49
Denmark	0.89	0.70	0.40	0.56
Ireland
Luxembourg
European Community	- 0.14	0.27	0.67	0.74

Source: OECD.

gainful activity is likely to grow stronger still, however difficult the employment situation.

Training and Occupation

It is generally assumed that a positive relationship exists between economic growth and increased output on the one hand and a general rise in the level of qualifications on the other. Viewed from this angle training — as investment in human capital — is regarded as an essential precondition for full employment and growth. These interdependent functions are a great deal subtler, however. Growth and increasing prosperity created the preconditions for an educational expansion; increasing wealth enabled a growing number of parents to give their children a better and more prolonged education. A rising national product made it possible to release larger resources than hitherto for the state system of education.

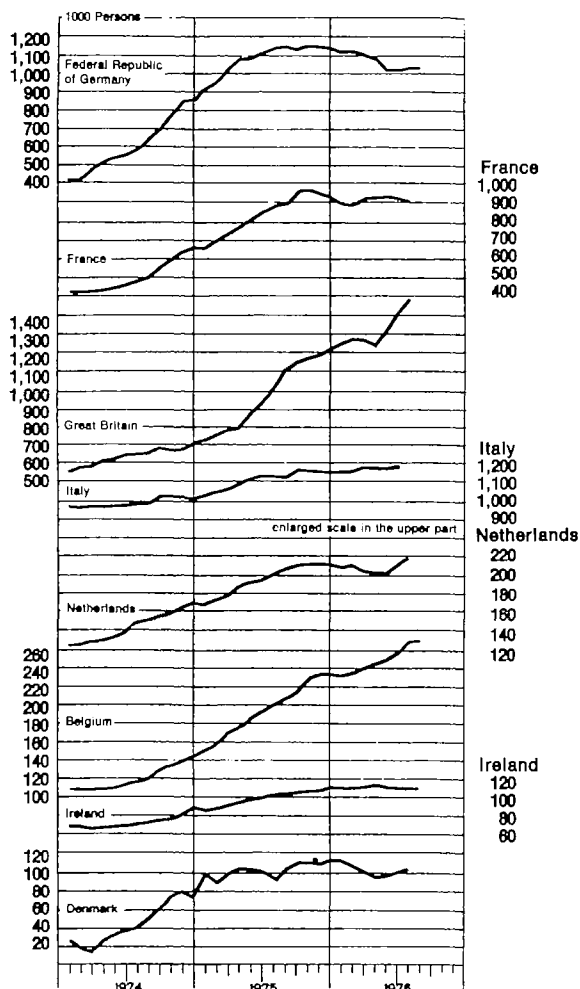
Meanwhile there are growing doubts as to whether the supposed correspondence between social demand for more education and economic need for more education is self-evident and can be realised automatically. For one thing the increases in productivity which make growth possible are brought about in many areas of manufacture and also services through some kind of mechanisation and rationalisation which increase the proportion of little qualified labour needed (foreigners and women). At the same time the schoolleavers of today are less and less prepared to fill vacancies of that type. Besides, most countries met the growing demand for education mainly by a quantitative expansion of the traditional and expensive educational establishments, like grammar schools and universities, without tackling the necessary reform of the system with a view to improving its quality and content. The way university education has developed illustrates the problem. In the industrial states, between 3 and 10 p.c. of the new entrants into a labour market have undergone a complete course at a university or an equivalent establishment as compared with an average of some 3 p.c. of the total of gainfully employed. Even if one assumes a certain flexibility on the part of both demand and supply, it would be dangerous to underestimate the problem. In most European countries the massive expansion of the universities did not begin until about 10 years ago, thus coinciding with a phase of strong economic expansion. Moreover, the greater part of the new university graduates were then absorbed by the public sector, which is unlikely to be the case in the future.

At the other end of the educational range employment problems of a different kind can arise when educationally more highly qualified people compete in ever growing numbers with less qualified men and women for the available jobs; these latter will then run the risk of being pushed into unattractive jobs or even unemployment. What needs to be done, therefore, to even out the chances is to make sure that hand in hand with the general rise in educational standards the gap between the educationally least qualified and the rest of the labour force is lessened.

In rounding off our discussion of these problems it may be worth considering whether from the point of view of the labour market or from that of an individual job-seeker under-qualification constitutes a greater risk than over-qualification. One would have to weigh up which of the following cases to advocate: greater uncertainty in regard to the professional chances of a growing number of graduates or the propagation and acceptance

Unemployment in the EC-Countries

Adjusted for Seasonal Variation according to EC Procedures



Source: Statistical Office of the EC.

of a rising number of unskilled labourers and all the burdens that entails.

In an international review² it is shown that no country has a comprehensive policy, no measures specifically designed to deal with university graduates for the simple reason that that group has so far not been regarded as disadvantaged compared with others. The labour market policy of the Federal Republic of Germany and that of other industrial countries is concerned with groups that are actually disadvantaged such as youths, elderly employees, women, the handicapped and the groups with the lowest qualifications.

By no means an unlimited euphoric expansion of university education is to be advocated. But it would be as well not to fall into the opposite extreme now that in times of recession graduates, too, experience some difficulty — though to nothing like the same extent as other groups — in finding a suitable job. The unemployment among academically trained people as their total number grows does in fact show some specific features of its own, but this is no reason why their employment, and in particular, the placing of new graduates, should any longer be seen as being independent of the general labour market situation.

International Division of Labour

No one knows in which direction a new world economic order and the international division of labour will evolve and this creates uncertainties in regard to future trends of the occupational structure and the possibilities these developments will present. There is amongst others the problem of how to achieve a more sensible integration of the developing countries into the world economy. This problem has many facets; these include: raw material agreements, world monetary system, development policy, financial aid and debt settlements as well as protectionism in both industrial and developing countries, and the relative value of import substitution compared to the diversification of exports.

If one leaves aside institutional and political obstacles and simplifies the whole complex, two strategies would seem to be possible: According to classical theory of foreign trade every country concentrates on exporting those goods in the production of which it enjoys a cost advantage regarding its equipment with production factors.

For LDCs this would mean that they would have to concentrate on the manufacture of goods which contain much raw material and/or are very labour-intensive. The LDCs fear that in these circumstances their economic structures may become solidified while they will remain permanently dependent on the industrial countries.

One would, therefore, have to start from a less rigid and more realistic system of distributing production. Important in this respect is not so much the labour-intensity of each individual manufacturing process as such as the overall labour intensity of the entire range of the technical processes applied in a particular LDC. If inter-industrial ramifications are taken into account, even relatively capital intensive manufacturing processes used in one place can lead to, or help to promote, an expansion of labour intensive production in another place.

In the long run a changed division of labour in the world economy between industrial and developing countries is likely to bring by no means only disadvantages for the industrial countries. The better LDCs manage to insert themselves with their manufactured goods in the international trade, the greater the benefit to the industrial countries as suppliers of products which the LDCs need to industrialise their economies. A process of adaptation in the sphere of foreign trade in which the labour intensive sectors with a below-average net value added become less important and lose workers to sectors with a higher net value added, may well, in the long term, contribute to a rise in the domestic national product. But for the transitional phase considerable difficulties of adjustment must be expected — difficulties which will particularly affect the labour market. True, the growing international division of labour between industrial states also causes certain jobs to become uncompetitive, but frequently all the redundant workers have to do is to change jobs within the same branch of industry. On the other hand, workers whose jobs are threatened by competition from LDCs are more often than not forced to change into another branch or find jobs altogether outside industry.

In view of the problems which at present confront the industrial nations, there is little hope that they will be prepared in the short run to support any processes of adjustment by additional capital and technology transfers or by allowing more imports to reach them from the developing world. In the long run, it will, however, be advisable to attach greater importance to the changes in the employment situation which will be brought about by world-wide shifts in the production structure.

² Manfred Tesslering, Heinz Werner, *Beschäftigungsprobleme von Hochschulabsolventen im internationalen Vergleich* (Employment Problems of University Graduates — An International Comparison), No. 53 of the series of papers published by the Commission for Economic and Social Change, Göttingen 1975.