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Differing Degrees of Labour Market Regulation in Europe

The high density of labour market regulations is often quoted as an explanation for the unfavourable employment trends in most European countries compared to other nations. These regulations vary considerably from country to country, however. Which are the most important areas of regulation? How is the regulation of the German labour market to be judged compared to that of other European countries?

While the 1990s saw a marked increase in employment and a fall in unemployment to a very low level in the USA, there was only little employment growth in Europe and the unemployment rate rose appreciably. Although differences in the economic cycles played a considerable role in influencing these figures, they alone cannot explain the growing divergence between the employment trends. In the countries of the European Union (EU), 11% of the labour force was out of work last year. The unemployment rate was thus a good percentage point above that of 1985, when production capacities were being utilised to a similar degree as today. At the same time the level of unemployment and its trend over time varies considerably from country to country (Table 1).

The length of time spent unemployed poses a particular problem. While in the mid-1990s in the USA the proportion of long-term unemployed was less than 10%, around half of the unemployed in the EU had been without work for more than a year, with considerable differences between individual countries. The over 55s were particularly badly hit, and their share of the total of those without work for a long period increased appreciably.

Besides weaker growth with less "employment intensity", higher pressure of labour costs, less wage differentiation and poorer workforce flexibility, a markedly higher density of labour market regulations is also quoted as a reason for the less favourable labour market trends in most European countries compared to the USA. Judgements are often too generalised, however, for there are also considerable differences in the density of regulations within Europe itself. Some of the differences relating to important labour market conditions will be considered below.

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The fact that there are marked intra-European differences in regulations is revealed by an indicator developed by the OECD (Table 2). This indicator takes into account flexibility of working hours, the significance of and restrictions on limited employment contracts, rules governing dismissal procedures, the significance of minimum wages, and the rights of workers' representatives. On a scale from zero (very flexible) to 10 (strongly regulated), the United Kingdom is the only European country to achieve a zero rating; according to this indicator, flexibility in the UK is on average as high as in the USA. Germany ranks "at the rear of the main field", together with France.

Working hours, protection against wrongful dismissal and periods of dismissal notice are of particular importance for the OECD ranking. In order to valuate working hours, rules governing normal and maximum daily and/or weekly working hours, regulations on overtime compensation and payment, and the distribution of working hours over the day, the week and the year are taken into consideration. In establishing the order of ranking, it is also of significance whether working hours are statutory – as in Spain, France, Portugal and Greece – or whether they are determined in collective agreements between unions and management – as in Germany, Denmark, the Netherlands and Italy.

Limits to the duration of the working week are predominantly stipulated by collective agreements; only in Denmark and the UK are there no general rulings. The number of working hours per week laid down in collective agreements is now less than 40 in most EU countries, yet there are considerable differences (Table 3). There are also significant variations in the number of days of annual leave. However, since countries in which workers have less claim to leave often have a greater number of public holidays, the differences from country to country in

Table 1
Indicators for Labour Market Trends in Europe 1985-1996

	Employment trend 1985=100		Unemployment rate[1]				Long-term unemployment rate[2]			Part-time employment rates[3]	
	1990	1995	1985	1990	1995	1996	1985	1990	1995	1990	1995
Belgium	105.7	103.9	11.3	7.2	9.4	9.8	68.2	68.7	62.4	10.9	13.6
Denmark	101.3	99.2	7.1	9.5	7.1	6.0	30.7	30.0	27.9	23.3	21.6
Finland	101.2	84.9	5.0	3.4	16.6	15.7	19.2[a]	9.2[c]	32.3	7.2	8.4
France	104.4	103.8	10.2	8.9	11.7	12.4	42.6	38.0	45.6	12.0	15.6
Germany[4]	107.1	107.1	7.2	4.8	8.2	9.0	45.7	46.8	48.3	15.2	16.3
Greece	103.7	106.6	7.0	6.4	–	10.2	44.4	49.8	50.9	4.1	4.8
Ireland	105.7	116.1	16.9	13.3	12.4	12.3	61.5	66.0	62.5[c]	8.1	11.5[c]
Italy	103.4	97.2	9.6	10.3	11.9	12.0	63.5	69.8	62.9	4.9	6.4
Luxembourg	118.1	127.5	2.9	1.7	2.9	3.1	44.4	42.9	22.4	7.0	7.9
Netherlands	111.8	119.0	10.6	7.5	6.9	6.3	54.8	49.3	43.2	33.2	37.4
Portugal	110.2	103.4	9.5	4.6	7.3	7.3	54.5[c]	44.8	48.7	6.4	7.5
Spain	115.7	110.8	21.1	15.9	22.9	22.2	52.4[a]	53.9	52.6	4.8	7.5
Sweden	105.7	94.0	2.8	1.8	9.2	10.0	13.3	4.7	15.7	23.3	24.3
United Kingdom	110.0	106.5	11.2	6.9	8.8	8.2	40.3	34.4	43.5	21.7	24.1
for comparative purposes:											
United States	110.9	116.6	7.1	5.5	5.6	5.4	13.3[a]	5.6	9.7	16.9	18.6

OECD standardised unemployment rates. [2] Proportion of those unemployed for more than a year in relation to the total number of unemployed. [3] Proportion of part-time workers in relation to the total number of people in employment. [4] Unemployment rate for 1995, 1996: Germany as a whole, other figures Germany (West). [a] 1983. [b] 1986. [c] 1991. [d] 1994.

Sources: OECD: Employment Outlook; Labour Force Statistics; Main Economic Indicators.

the total number of days off work are smaller. Germany is among the leading group as far as the total number of days off work is concerned, even though the introduction of nursing care insurance has led to a reduction in the number of public holidays by one day.

For workers in manufacturing, the standard number of annual working hours is lower in most EU countries – in some cases much lower – than in the USA (Table 4). The divergence has increased still further compared to the mid-1980s because the standard number of working hours has remained unchanged in the USA but has fallen markedly in Europe. Admittedly, the extent of reductions in working hours has varied considerably between individual countries. While in Germany, for example, working hours were again shortened appreciably in the 1990s, they remained almost unchanged in most of the other EU countries; in France, the UK and Sweden in particular, they remained approximately at the mid-1980s level.

As far as additional work is concerned, all the countries have particular arrangements for the remuneration of overtime and for compensation in the form of time off work. In the great majority of countries, overtime is paid at time and a quarter, but in some countries up to time and three quarters. On the whole, however, the differences are not very large.[1] A comparison with the USA shows that although the number of weekly working hours is not generally regulated there, overtime allowances are paid in industries where the unions have agreed to the 40-hour working week.

With regard to overtime compensation in the form of time off work, progress towards more flexibility has been made almost everywhere in recent years. In Belgium, France, Germany, Italy and the Netherlands, unions and management have agreed to an extension of the compensation period such that nowadays the average number of working hours per week only has to be achieved over a period of one year.[2]

All in all, the OECD regards Belgium, Denmark and the United Kingdom as having the most liberal working hours regulations in Europe; the gap between these countries and the USA is relatively small. Greece, Ireland and Spain are the most regulated; Germany ranks in the middle.

Relatively favourable employment trends in the Netherlands have shifted the spotlight increasingly onto part-time work; the fall in unemployment there coincided with a considerable expansion in the number of part-time jobs (Table 1). With a part-time employment rate of 37% in 1995, the Netherlands lead the field in Europe by a clear margin. Germany, on the other hand, ranks in the middle with a

[1] Cf. OECD: Employment Outlook 1994, Table 4.2, p. 143.

[2] On working hours flexibility in Belgium, Denmark, Germany, France, Italy and the Netherlands see also W. Däubler, W. Lecher (eds.): Die Gewerkschaften in den 12 EG-Ländern – Europäische Integration und Gewerkschaftsbewegung –, Cologne 1994, pp. 118 ff.

Table 2
Regulation Density in Europe
(1990-1994 figures)

Austria	5
Belgium	4
Denmark	2
Finland	5
France	6
Germany	6
Greece	8
Ireland	4
Italy	7
Netherlands	5
Norway	5
Portugal	4
Spain	7
Sweden	7
Switzerland	3
United Kingdom	0
for comparative purposes:	
United States	0

Source: OECD: Employment Outlook 1994, Tab. 4-8, p. 154.

proportion of 16%. It is striking that countries in Europe with below-average unemployment rates have a relatively high proportion of part-time employment which in most cases has risen in the 1990s. This implies that the favourable labour market trends in these countries were achieved to a certain extent by means of more part-time employment.

There are a wide variety of rules and procedures aimed at protecting workers from unfair dismissal. These include not only general regulations but also special procedures for mass redundancies, particular protection for individual employment groups as well as regulations for limited or temporary employment. Protection from dismissal is based in part on law, in part on agreements between unions and management; it includes arrangements governing dismissal notice and compensation payments. Almost all the EU states provide for statutory compensation payments in the case of mass redundancies; in Germany there is even an obligation to draw up a social compensation plan.

Regulations governing protection from dismissal impede companies' planning flexibility and cause considerable costs which can greatly dampen their willingness to take on new employees. According to the European Commission, the costs to companies arising from dismissal notice and compensation payments in the EU countries in 1989/90 corresponded on average to 22 weeks pay.[3] In Ireland, Portugal, the Netherlands, France, Germany and Denmark, the costs were below this average, while in Spain, Italy and Greece they were higher. Since for most European employees the level of protection from dismissal increases with the number of years of service with a company and with age (Table 5), the costs resulting from dismissal protection for employees over 50 years of age were around 40 weeks pay, while they were less than ten weeks pay for workers under 25 years of age.

In summary, Denmark, Ireland and the United Kingdom are the EU countries with the most liberal rules governing dismissal protection, while the

Table 3
Annual Working Hours in the EU
(1993 figures)

	Standard weekly working hours	Standard annual holiday in days	Public holidays	Total days off work
Belgium	37.8	20	11	31
Denmark	37[a]	25	7	32
France	39	25	10	35
Germany (West)	36.9	30	8.6	38.6
Greece	40	22	9	31
Ireland	39	21	8	29
Italy	40	32	7	39
Luxembourg	40	27	10	37
Netherlands	38.8	32.5	5.3	37.8
Portugal	42	22	14	36
Spain	38.8	24.5	14	38.5
United Kingdom	38.8	25	8	33

[a] Valid for individual employment groups only

Source: EC Commission.

Table 4
Working Hours in Europe 1985-1996

	1985	1990	1996[a]	1985-1990	1990-1996
	Standard annual working hours[1]			Average annual change in %	
Austria	1804	1714	1728	-1	0.1
Belgium	1756	1748	1744	-0.1	0
Denmark	1816	1687	1672	-1.5	-0.1
Finland	1816	1716	1724	-1.1	0.1
France	1763	1755	1771	-0.1	0.2
Germany (West)	1708	1648	1579	-0.7	-0.7
Greece	1864	1840	1848	-0.3	0.1
Ireland	1864	1810	1810	-0.6	0
Italy	1776	1776	1752	0	-0.2
Luxembourg	1792	1792	1792	0	0
Netherlands	1740	1732	1722	-0.1	-0.1
Norway	1840	1725	1740	-1.3	0.1
Portugal	2025	1980	1876	-0.4	-0.9
Spain	1808	1800	1788	-0.1	-0.1
Sweden	1800	1800	1808	0	0.1
Switzerland	1936	1873	1853	-0.7	-0.2
United Kingdom	1778	1769	1777	-0.1	0.1
for comparative purposes:					
United States	1912	1904	1912	-0.1	0.1

[1] For workers in manufacturing in hours.
[a] Additional day due to leap year.

Source: Bundesvereinigung der deutschen Arbeitgeberverbände (Federal Union of Employers' Associations).

[3] Cf. EC Commission: Employment in Europe 1993, p. 176 f. The figures relate to EC-12.

Table 5
Statutory Dismissal Notice Regulations in the EU Member States
(1992)

Belgium[1]	3 months for every 5 years of service (min. 3 months)
Denmark[1]	1 month plus 1 month for every 3 years of service (max. 6 months)
France	between 6 months and 2 years of service: 1 month; after 2 years of service: 2 months
Germany[1]	up to 2 years of service: 4 weeks; 2-5 years of service: 1 month; 5-8 years of service: 2 months; 8-10 years of service: 3 months; 10-12 years of service: 4 months; 12-15 years of service: 5 months; 15-20 years of service: 6 months; more than 20 years of service: 7 months
Greece[1]	after 2 months: 30 days; 1-4 years of service: 60 days; 4-6 years of service: 3 months; 6-8 years of service: 4 months; 8-10 years of service: 5 months; thereafter 1 month per year up to a max. of 24 months
Ireland	13 weeks to 2 years of service: 1 week; 2-5 years of service: 2 weeks; 5-10 years of service: 4 weeks; 10-15 years of service: 6 weeks; more than 15 years of service: 8 weeks
Italy[1]	less than 5 years of service: 15 days; 5-10 years of service: 30 days; more than 10 years of service: 45 days
Luxembourg	up to 5 years of service: 2 months; 5-10 years of service: 4 months; more than 10 years of service: 6 months
Netherlands[1]	for those on monthly pay: min. 1 month; plus 1 week per year (max. 26 weeks)
Portugal	60 days
Spain	up to 1 year of service: 1 month; 1-2 years of service: 2 months; more than 2 years of service: 3 months
United Kingdom	1 month to 2 years of service: 1 week; 2-12 years of service: 1 week per completed year (max. 12 weeks)

[1] Special rules for blue-collar workers.

Source: European Commission.

Netherlands and the southern European countries Greece, Spain, Portugal and Italy have the most restrictive regulations. Germany is again somewhere in the middle, along with Belgium and France.[4]

According to European Commission surveys, dismissal protection regulations within the European Union have changed very little in recent years.[5] In some countries such as Italy, Spain and Ireland, they have been tightened. In others the protection has been slackened, as has been the case in France, Portugal and – in particular – the UK. Last year saw a slackening in Germany, too, where now only companies with more than ten employees are subject to statutory regulations on dismissal protection (previously: companies with more than five employees).

In contrast, since the mid-1980s it has become considerably easier in most European countries to conclude limited employment contracts. Nonetheless, it seems that only hesitating use has been made of this instrument which offers companies more flexibility in the face of rigid dismissal protection regulations. During the period from 1983 to 1991 at least, for which figures are available, there was no great general increase in the number of employees on limited contracts.[6] France and Spain were the exceptions here. In France, the proportion of workers with limited contracts increased from 3% of the total employed to 10%, and in Spain – during 1987 to 1991 – from 16% to 32%.

All in all, however, limited employment contracts still play a relatively insignificant role in most European states. Apart from Spain, the proportion of workers with limited contracts only exceeds 10% in Denmark, Portugal and Greece. Rigid conditions clearly restrict the conclusion of limited contracts. In the UK, the low proportion of workers with limited contracts in relation to the total employed can be explained by the low level of dismissal protection which renders this instrument largely superfluous. The same is true of the USA.

This broad synopsis of the state and development of important labour market conditions in Europe demonstrates that, with the exception of the UK, the density of regulations is generally very high. While empirical studies point to the fact that high levels of employment are also possible in regulated labour markets if other parameters are favourable or if there is sufficient flexibility on a "corporate" level,[7] it is questionable whether such conditions still apply, for the situation in the world economy in the 1990s has changed significantly, and this demands a considerable degree of ability and willingness to adjust on the part of companies and workers alike.

Against this background, the stringent regulation of Europe's labour markets is proving increasingly to be an obstacle to more employment. That greater flexibility eases the solution of employment problems is demonstrated not only by the example of the USA. In Europe, too, countries with a greater degree of labour market flexibility such as the UK have seen a decidedly more favourable trend in the employment situation than those with restrictive regulations such as France or Germany. This implies that, given the conditions prevailing in the 1990s, dismantling labour market regulations is a necessary – if not sufficient – condition for more employment.

[4] Ibid., p. 184.

[5] Ibid., p. 173 ff.

[6] Ibid., p. 181.

[7] Cf. the summary of these studies in R. Soltwedel et al.: Regulierungen auf dem Arbeitsmarkt der Bundesrepublik, Tübingen 1990, p. 4.