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Institutional Aspects of the Governance of Labour Markets in the Euro-Mediterranean Case

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The present contribution is composed of two separate papers. In the first, Christophe Lavialle analyses the functioning and the institutional coherence of labour markets in Western Europe. The second part by Elif Unan is a study of the main difficulties of the South and East Mediterranean Countries (SEMC), confronted with mass unemployment and a growing young labour force.

PART ONE: Governance of Labour Markets in Europe (Christophe Lavialle)

In Western Europe, two principal phenomena characterize the state of the labour and employment field since the beginning of the 1990s:

- Firstly, disequilibria of labour markets, measured approximately by the unemployment rate, have reached levels not seen since the Great Depression of the 1930s. Next, there is the lingering question of an eventual 'Euro-sclerosis', i.e. the existence of a structural incapacity of Europe to create enough jobs to ensure and support the right to work.

- Secondly, the new stepping-stones of European construction, i.e. the adoption of the Maastricht (1992) and Amsterdam (1997) treaties, opened a debate on the operational modes of heterogeneous labour markets in a unified economic space.

For the interpretation of these two phenomena, there are two conflicting schools of thought, two conflicting conceptions of what a labour market is:

- The standard (neoclassical) approach applies its general conception of markets to labour. In terms of employment policy, its normative recommendations are logically that every reinforcement of competitive mechanisms (the so-called 'flexibilization' or 'deregulation' of labour markets) brings the market nearer to equilibrium and economic optimum. This way of thinking was clearly dominant from the beginning of 80s to the end of 90s, notably in the recommendations of international institutions (for instance, OECD, 1994).

- Another conception, which may be called the 'institutional approach', studies the functioning of markets as the result of a set of rules, norms, conventions or institutions that guarantees a social regulation of the conditions of exchange. The main goal of this approach is to analyse and display vectors of coherence or contradiction in social compromises, which are considered temporary and evolutionary in relationship with global economic and social dynamics.

The taking into account of the role and importance of institutions in labour market dynamics now largely extends beyond the intimate circle of heterodox traditions and is henceforth part of standard analysis. Thus, the debate on the two questions just mentioned above has shifted from a discussion of the vices and virtues of deregulation to the controversy over the possibility of defining, from an economic point of view, a unique optimal and efficiency set of institutions that corresponds to the present state of economic dynamics, and which then must be adopted by economies whose goal is to remain competitive and dynamic in the age of the knowledge economy.

Our method will be the following:

- In a first part, we will recall that behind the overall bad performance of the European economy as a whole in the fight against unemployment, it is possible to spot among European countries some 'success models' (and even some 'resistance models'). Thus, a first fact we shall have to bear in mind is the great diversity of national achievement in overcoming mass unemployment.

- In a second part, we shall question whether this factual diversity of national performance can really be so easily associated with the diversity of national labour market regulations. We shall see that this **is not the case** and that **it appears impossible to establish a simple and direct link between labour-market performance and institutional features** and modes of governance characterizing the various European economies. We shall stress particularly that among 'success models' great differences remain in institutional practices and thus, it appears definitively established that **it is impossible to describe what ought to be the 'one best (institutional) way' to return to full employment.**

- Quite the reverse, we will infer the existence of an irreducible variety of capitalisms from this first statement; that is, of a multiplicity of possible ways to coherently institutionalize and organize market economies. There are obviously several 'roads' to success. We will then voice the hypothesis that institutional choices for a large part thrust their roots into historical, cultural and political currents. This is a way of pointing out the limits of benchmarking in this domain and the impossibility of hoping to import the 'best institutional practices'. There are definitely no 'best (universal) institutional practices' (i.e. that are independent of cultural, political and historical determinants).

- We will then conclude with scenarios remaining open for the European economy's future and especially for the European Employment Strategy.

1. Europe Facing Unemployment: the Overall Picture and National Achievements

As we shall see in a first paragraph (I.1), the persistence of an important level of unemployment in Europe is an established fact. This situation contrasts strongly with the American labour market, providing arguments for the hypothesis of a sclerosis particular to the European economy, perhaps associated with the inappropriate institutional structure of its labour markets.

In a second paragraph (I.2), we complete the survey of the main stylised facts, recalling that the global situation of persistent mass unemployment in Europe covers a wide range of performances among national economies, a diversity from which it is difficult to draw clear conclusions about 'best institutional practices'.

1.1. Stylised Facts: A General Rise of Unemployment in Europe

A) Unemployment Rates

Whatever the chosen indicator, the global performance of European labour markets seems poor. This is especially the case if we compare Europe with the USA.

Disregarding cyclical evolutions, the unemployment rate has continuously increased in Europe from the beginning of the 70s to the middle of 90s (**Graph 1**[1]). From this period onward, one can observe a decrease (OECD, 2006), but which is perhaps mainly due to the improving worldwide conjuncture at the end of the 90s and without any guarantee for the future in terms of unemployment during the present phase of the business cycle.[2] During the 90s, from 1990 to 1997, the unemployment rate rose in Europe by 2.3 points, while it fell by 0.6 points in USA. Over the 1990 to 2000 period, it remained constant in Europe, while falling by 1.5 points in USA. The same result is apparent over a longer term: from 1982 to 2000, the unemployment rate in Europe remained constant; whereas, it diminished by 5.5 points in the USA. Finally, over the long term, one can observe that the rate of unemployment in the United States remained the same in 2001 as it was in 1970; over the same period, the unemployment rate rose by 5.5 points in Europe.

B) Employment Rates

The same superiority of the American economy is apparent in job creation, as indicated by the employment rate. Indeed, the employment rate is a very global measure of the ability of an economy to create jobs. For instance, this indicator permits the distinction between two economies that obtain the same results in terms of the unemployment rate - but one by creating jobs, the second by reducing the level of the active population (by means of 'Malthusian' policies such as financing early retirements). It is well-known that henceforth this indicator is considered central in the recommendations of international institutions (such as the OECD or the European Commission), which insist on measuring the performance of labour markets by means of employment rates (rather than by unemployment rates) and then define well-oriented employment policies by their capacity to 'activate' employment expenditures (which means specifying the goal of improving employment rates rather than settling for a reduction of unemployment rates).

One can observe in **Graph 2** that the employment rate has continuously increased in the United States, finally reaching 76% in 2000 (and 71.5% in 2004); whereas, the European economy displayed stability of the employment rate (59% in 1970 and 59.9% in 1994), even if this trend gave way to a constant progression over the last decade (64.9% in 2004).

C) Total Hours Worked

Even if we accept the idea that economic efficiency is just a matter of creating employment, the ideal way to truly evaluate the capacity of an economy to create employment is to examine the evolution of the volume of labour (as measured by the number of hours worked), whatever the way this volume is divided among the number of jobs and length of hours worked. Thus, **Graph 3** that plots the evolution of total hours worked in the USA and the EU from the beginning of the seventies illustrates two key facts:

- First, the total volume of labour carried out on both sides of Atlantic grew, from nearly 400 billions hours worked in 1970 to 500 billions today.

[1] Please turn to the graphs in Annex.

[2] This is in spite of the fact that the lowest point reached in 2001 (7.4% of average unemployment in Europe), lower than points reached during the precedent cycle (8.3% in 1990), could indicate a reduction in structural unemployment.

- This increase was concentrated in the USA, where the volume of labour increased from 150 to 250 billions hours worked, which is to say an average annual increase of 1.43%; whereas, it remained constant in Europe at roughly 250 billions.

Consequently, these facts would seem to reinforce the previously mentioned impression of European economic sclerosis, while the USA undoubtedly appears to be the ‘great Job Machine’.

1.2. The diversity of performance in Europe: models of success and others

In the spirit of Fitoussi and Passet (2000) or Freyssinet (2000) for instance, we believe it is interesting (and necessary) to examine the various national situations. In this way, it will be possible to distinguish the countries that have succeeded in their fight against mass unemployment, even in Europe, or that have never experienced it. Then we will be able to attempt to associate the eventual performance with an identifiable institutional framework and, more generally, with a particular mode of governance of labour markets.

In their work, Fitoussi and Passet distinguished six different medium-term trajectories and, studying unemployment patterns during the 90s, chose to associate each unemployment situation with one or the other of these paths, thus classifying the European countries into the six different groups below.

What has become this classification six years later? We can examine the current position of the different European economies over the 1990-2001 cycle[3] and in 2002[4] (**Graph 4**). We then can clearly distinguish two groups: a first one comprises countries still suffering from mass unemployment: Spain (11.5%), Finland (9%), France (9%), Italy (9%) and Germany (8.6%); a second group comprises countries enjoying a low level of unemployment: Sweden (5.2%), the United Kingdom (5.1%), Portugal (5.1%), Denmark (4.7%), Ireland (4.2%), Norway (3.9%) and finally the Netherlands (3.1%).[5]

If we now, *à la* Fitoussi and Passet, try to place these current positions with respect to medium-term trends, we roughly find the same ranking as they did (**Graphs 5**), except perhaps for Spain, which seems hard to fit within the group of continental European economies. Like these countries, Spain obviously still suffers a high current unemployment rate and should be classified likewise in the group of economies with ‘persistent mass unemployment’; however, the medium-term trend experienced by Spain in fighting unemployment, with the passing of time, seems notably different and prompts us to move it closer to the first group, made up of economies enjoying a trend of continuous reduction in unemployment rate, persisting in the medium-term.

In the same manner, we turn our attention to the two Nordic countries, Sweden and Finland. Fitoussi and Passet place them both in a separate group of countries that suffered a sudden adverse break at the beginning of the 90s that disturbed their effort to overcome unemployment, contrasting strongly with the precedent decade during which their economies had managed to avoid any major labour-market imbalances. Here again, with the passing of time it becomes possible to doubt the pertinence of this classification. The rupture did of course occur and did negatively impact the two countries. As a consequence, the current level of unemployment did ratchet upward. In the case of Finland, the unemployment rate fell from an average 4.66% in the 80s (Sweden’s average rate was 2.68%), touching a trough in 1990 at 3.1% (1.6% in Sweden) before exploding to 16.4% in 1994 (Sweden: 10.2% in 1997), and stayed in 2002 at a level of 9% (5.2% for Sweden).

We would however stress two facts. Clearly, even if these two economies apparently experienced a similar path, the performance of Finland was worse than Sweden’s over the period

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[3] 1990 and 2001 were ‘low points’ of the cycle in terms of unemployment.

[4] 2002 was taken as the ‘final’ position reached at the end of the cycle. Since that date, and over the last four years, unemployment rates generally begin to increase again.

[5] To complete the picture, we could add that at that date these countries experienced relatively high levels of employment rates: 76.1% in Denmark and Norway, 73.5% in Sweden, 73.4% in the Netherlands, but also 73.1% in the UK and 72.9% in Portugal. Ireland alone is not situated much above the European average (65.9% against 64.3%) from this point of view. Moreover, Norway enjoys a high level of GDP per capita, similar to the figure for the USA.

studied, which explains that today Sweden, with an unemployment rate of less than 6%, can be classified in the group of 'success models'; whereas Finland, with an unemployment rate of more than 8%, must be placed in the group of 'bad pupils'. The main point is not there however: examination of the medium-term pattern of the two economies shows that they both seem again in position to return to a low level of unemployment,[6] thus deserving to be brought closer to the group of other Nordic countries, among the success stories.

Summing up, we can then establish two principal country groupings for the sake of simplicity. On one side, we can group economies enjoying a low level of unemployment today, whether they reached this state by recovery from a dynamic and/or continuous fall ('dynamic models'), or whether they never suffered any major imbalance in their labour market ('models of resistance'). We find here: Ireland and the United Kingdom, Portugal and the following Nordic countries: Norway, Denmark and the Netherlands. On the other side, we find countries having not yet succeeded in their attempt to overcome mass unemployment. This group is made up of the 'big' continental economies: France, Germany and Italy. Finally, three countries do not easily fit into this ranking: Spain on the one hand, Sweden and Finland on the other. Their current situation brings them closer to the last group, but the dynamics of their situation could lead us to place them soon in the first group of successful economies.

We come now to our main point: The question raised is whether or not it is possible to establish links between the diverse national achievements in reducing unemployment and the variety of institutional frameworks and modes of governance (including employment policy contents) of the different national labour markets. As we shall see, this is far from being a simple matter.

	DECREASING UNEMPLOYMENT	*PERSISTANT TREND*	*BREAK*
MASS UNEMPLOYMENT	*Spain*	*France, Germany, Italy*	*Finland*
LOW LEVEL OF UNEMPLOYMENT	*United Kingdom, Ireland, Netherlands, Portugal, Denmark*	*Norway*	*Sweden?*

2. Institutional Diversity of European Labour Markets

A widely held view during the 1980s and 1990s was that bad European performances in the fight against unemployment must be linked to institutional features of European labour markets making them too 'rigid' in comparison with what should be a self-adjusting, purely and perfectly competitive market. International organizations such as the OECD and the IMF, particularly, were promoters of this thesis. In opposition to this theory, since the relatively bad average performance of Europe taken as a whole masked in reality a wide diversity of national achievement in overcoming unemployment,[7] such a theory should lead us to clearly identify 'good' institutions (those that facilitate a high level of employment would therefore characterize governance of labour markets in 'models of success') and 'bad' institutions (those preventing self-adjustment of labour markets being systematically present in countries still suffering high levels of unemployment).

As we demonstrate in this section, the real world is more complicated. We can indeed point to the great variety of labour-market institutional frameworks in Europe. However, it is impossible

[6] This is not yet the case for Sweden because the unemployment rate has risen over the last four years, having, it would seem, a non-negligible influence on the result of recent elections, which were lost by the Social Democrat Party.

[7] Cf. Lavialle (2006).

to establish an objective relationship between institutional features and the ability to overcome unemployment. In other words, it is difficult to identify best institutional practices by this approach, and we must give up the myth of a 'one best way' of reforming labour markets. We are on the contrary led to taking into account the irreducible variety of capitalisms and, therefore, of the multiplicity of 'roads to success'.

2.1. The Institutions of Labour Markets and their Diversity in Europe

Three main institutional dimensions are generally studied: (1) the employment protection legislation, (2) the modes of wages bargaining (including minimum wage legislations), and (3) the nature of employment policies (particularly the respective importance of unemployment benefits systems and active labour-market policies).

A) The Varieties of Employment Protection Legislations (EPL).

1. <u>Definition and potential impact</u>

An employment protection exists if an employer is not able to use some particular form of labour organization or work contract, even in accordance with his employees, without risking legal sanctions or invalidation of the clauses of the contract in question.

A priori, such legal protections could have two types of consequences on the labour market. First, employment protection modifies the extent and speed of the *quantitative* adjustment: indeed, such regulation, coming for instance in the form of costs of hiring, training and firing, determines an insensibility zone of the *level* of employment to economic activity.

Secondly, regulation could impact *qualitative* adjustment: it indeed influences the *structure* of employment, encouraging other specific employment forms, those less regulated and/or more flexible.

2. <u>Evaluation and results</u>

The EPL strictness is hard to evaluate. We certainly have to take into account several aspects of regulation: rules of hiring and of dismissals, differentiation between permanent and temporary work contracts (and the associated costs), regulation of working-time, restrictions on some work forms (night work, shift work, weekend work). Furthermore, effective constraints depend not only upon employment legislation, but also on jurisprudence or collective bargaining.

To build a synthetic index that would permit the measurement of the degree of EPL strictness, the method henceforth employed by OECD consists of imputing a score to a complete set of indicators, which are then weighted and aggregated in three main components. This method leads to the measure of an 'overall summary index', according to which the EPL strictness is evaluated on a graduated scale from 0 to 6. Confining ourselves to the countries that we have chosen to consider in this study,[8] we can represent the EPL strictness in each country as in **Figure II.1**[9] (Countries are ranked from left to right in ascending order of the overall summary index).

We can observe the great variability of EPL among European economies. In the 80s, employment was strictly controlled in South European Countries, in most of the analyzed aspects of

[8] From this point on, we add the case of Poland to enlarge our screen to transition countries.
[9] In Annex.

regulation, and conversely it seemed unregulated in the United Kingdom and Ireland (Grubb and Wells, 1993). For the others, some aspects were strictly controlled, while others were not. In this case, it was difficult to establish a clear diagnosis about overall EPL strictness. At the end of the 90s, the same ranking still existed: the United Kingdom, Ireland and Denmark, like the USA, had the least strict legislation; whereas, the South European Countries had the strictest (OECD, 1999). Finally, in 2003 we find again the same hierarchy. Relative positions of countries have remained globally the same, despite a slow convergence trend since 1994.

Particularly, the five European countries (the United Kingdom, Ireland, Denmark, the Netherlands and Norway) that now enjoy a low level of unemployment (let us say less than 5% in 2005) obviously have very unequally strict employment protection legislation today. It is (very or relatively) soft in the United Kingdom, Ireland and Denmark, and moderately soft in the Netherlands and Norway. Furthermore, among economies that have experienced a decrease in the level of their unemployment, some are still characterized by a relatively strict EPL (Portugal and Spain for instance).

In summary, it seems that EPL strictness does not have great impact on the global level of unemployment. Most empirical and econometric studies have moreover confirmed this conclusion - see for example the recent work of Bassanini and Duval (2006). However, if EPL strictness does not have influence on the *level* of unemployment, it does have some impact on both the *structure* and the *improvement* of unemployment. Indeed, a stricter EPL goes hand in hand with lower job and workforce turnover (Passet and Jestaz, 1998). One could thus put countries with high job turnover and more flexible EPL (Denmark, Ireland and the United Kingdom) beside those with low turnover and stricter EPL. Among the latter, the weakness of inflows and outflows in the labour market characterizing them tends to increase unemployment duration (Blanchard and Portugal, 1998), and thus the proportion of long-term unemployed in global unemployment. Furthermore, most econometric studies (cf. OECD, 2006, chapter 3) stress the fact that EPL could have some impact on labour-market performance by way of its interaction with macroeconomic shocks (cf. Blanchard and Wolfers, 2000). The resilience to such shocks could be greater in the case of low turnover and could facilitate the emergence of what are generally called ‘hysteresis effects’ in the trend of equilibrium unemployment.

This point leads us to another, which is that strict EPL, lowering turnover in the labour market, tends to reduce possibilities of being hired for those groups having the greatest difficulties finding employment: young people, women, long-term unemployed… In the case of a macroeconomic shock, the number of labour-market ‘insiders’ decreases, and the equilibrium rate of unemployment could thus increase definitely if they are not able to return to employment quickly. In this case, for instance, hysteresis could result from long-term unemployed human capital becoming obsolescent.

Finally, a strict EPL could lead to a segmented labour market, separating protected regular workers from the others groups, on which workforce turnover concentrates, and which become trapped in a sequence of insecure jobs. This is particularly the case when the EPL of permanent work contracts remains strict while being softened for temporary forms of employment.

3) Policy recommendations

In the light both of empirical and econometric studies and of recent reform experience in several European countries (Austria, the Netherlands and Denmark…), these last years the debate over the best way to reform EPL has focused on the advantage of attempting to conjugate flexibility (i.e. a less strict EPL, perhaps favourable to both the employers in the management of their workforce and to the worker ‘outsiders’ on the labour market, whether they be unemployed or trapped in precarious professional careers) with security (protection of the employees from unemployment, precariousness or social exclusion). The idea then is to:

- Reinforce EPL efficiency, whatever its level of strictness (which, as we have seen, is not a determinant factor in the fight against unemployment), reforming its implementation in such a way as to become more rapid and predictable for employers and less discouraging to workforce turnover,
- Coordinate EPL with others dimensions of employment policies such as, in particular, unemployment benefits systems and labour-market activation policies.

Therefore, the recent experience of Denmark is often held up as a good example because of their policy combining:

1. A moderately strict EPL, resulting in relatively high worker mobility, a high turnover rate (cf. Bingley *et al*., 1999) and one of the lowest average professional seniority figures appearing in comparative international statistics (cf. OECD, 2001, chapter 3),
2. Relatively high unemployment benefits, assuring economic security for the unemployed and giving them time to search for and find a new job that meets their expectations as far as possible, and
3. Strong ‘activation’ measures to prevent the potential negative effects of such a generous unemployment benefit system such as the disincentive to work.

In the end, this ‘flexicurity system’ seems to have succeed in associating a ‘liberal’ EPL (and thus both flexibility for firms and substantial workforce turnover, preventing the possible formation of a dual labour market) with great sense of security for workers, (ensured by a high level of expenditure for employment policies (see below), securing both large unemployment benefits and the efficient accompaniment of the unemployed).

This point leads us now to the study of other characteristic institutional features of labour markets.

B) Varieties of Wage Bargaining Regimes and Minimum Wage Legislation

Two types of institutional devices are under the microscope: wage-bargaining regimes on one hand, minimum wage legislation on the other.

Clearly, the analytical *a priori* on the subject is that any institutional mechanism resulting in a lower sensibility of wages in reflecting labour-market imbalances will be unfavourable to employment. Then, as we shall see, there exists in the standard approach a prevention against non-decentralized bargaining regimes (because of their distance from the productive reality of firms and because of their divorce from the way competitive labour markets should function) as well as a prevention against the creation of a minimum wage legislation (which obviously introduces price rigidity on the market).

Here again, stylised facts as well as empirical or econometric studies, on these two points, have led over time to a reassessment of policy recommendations, taking into account the great diversity of institutional frameworks among European labour markets in a less instrumental way - and, what is probably most important, even among ‘models of success’ in overcoming unemployment.

1. <u>Definition and potential impact of wage-bargaining regimes</u>

Since Calmfors and Driffill (1988), wage-bargaining regimes have been characterized by their degree of centralization. This indicator refers to the formal structure of bargaining and leads to the distinction of three different levels: wage bargaining could even take place at the national level (centralized systems), at the level of an industry or a profession (intermediate systems), or finally at the sole level of the firm (decentralized systems).

Moreover, whatever the level at which bargaining formally takes place, the output of bargaining also depends on the informal degree of coordination between social partners, which refers to both the degree of coherence between the different levels of bargaining and to the existence of a consensus between social partners about the aims they should pursue. From that point of view, Soskice (1990) considers that a strong coordination on these two levels is equivalent to formal centralization. The three distinctive bargaining systems could be characterized as follows: centralized and/or coordinated systems, decentralized and no-(or few) coordinated systems, and 'others', these being described as intermediate systems.[10]

In addition, one has to take into account the *true* influence of the bargaining regime, which now depends on the unionization rate and/or on the formal coverage of collective agreements.

The relation between bargaining systems and labour market performance depends on the relative importance of two effects: external effects[11] on one hand, competitive effects on the other.[12]

Logically, both centralized and decentralized systems can be efficient: centralized ones because the internalization of external effects can more than offset the increase in trade-union monopoly power and the decrease of competitiveness in goods markets, decentralized systems because competition in goods markets can limit external effects since decentralization permits bargains that are more thorough and closer to the firm's productive reality. Along these lines, Calmfors and Driffill (1988) demonstrate the existence of a 'ring curve', illustrating the fact that both decentralized and centralized bargaining regimes lead to good performance in terms of wages and unemployment; whereas, intermediate systems cumulate the inconveniences of the two extreme regimes, precisely because they are 'intermediate'. They are not centralized enough to overcome external effects and not decentralized enough to be disciplined by competition in the goods markets or to reduce trade-union monopoly power.

2. Evaluation and results

By adopting the summarized presentation of ranking constructed by OECD,[13] the great diversity of institutional practices can also be observed (cf. below).

Among the 'models of success', centralization and/or coordination remain strong in Denmark Ireland, Norway, the Netherlands and Portugal. Within the group of successful economies, the United Kingdom, characterized since the 80s by an extreme, low-low bargaining regime (low centralization and low coordination), thus appears to be more of an exception than a model setting the rule.

Moreover, following Calmfors and Drifill, it seems confirmed that the worst system is the intermediate one because of the exercise of a type of monopoly (or duopoly) power by trade unions that is not balanced by the capacity to self-discipline wage claims, whether under the pressure of competition or by sharing macroeconomics constraints. We find in this group France (over the three periods), Italy (but not in the last period), Spain and Sweden (since the 80s).

Particularly if we look at the evolutions, we clearly see that after a move toward decentralization (and sometimes de-coordination) during the 80s (probably under the pressure of policy recommendations from international institutions), the 90s witnessed a come back, not necessarily to centralization, but to greater coordination.

[10] When we attempt to rank countries according to one dimension only, imprecision is recurrent: we are able to define two opposite 'poles', and all countries that cannot easily be ranked and identified with one or the other pole end up belonging to an 'intermediate case' along the axis. This inconvenience is clearly the consequence of a too instrumental and linear view of the impact of institutions and of ignoring the systemic character of their relations.

[11] The concept of external effect brings us back here to the fact that a bargained wage increase could result in a price increase, followed by a lower real wage for those workers who are not concerned by the initial bargaining (and thus by the wage increase).

[12] See Cahuc and Zylberberg (2006) for an extensive survey of wage-bargaining models.

[13] OECD (2006). See also Lavialle (2006).

Coordination / Centralization	STRONG	INTERMEDIATE	LOW
STRONG	**70's**: Dk, Fl, Irl, Nw, Ptl, Sp, Sw **80's**: Fl, Nw **90's**: Fl, Irl, Ptl, Nw		
INTERMEDIATE	**70's**: Ger **80's**: Ger, Dk, Nth **90's**: Ger, Nth, It	**70's**: Fr, It, Nth **80's**: Fr, It, Ptl, Irl, Sp, Sw **90's**: Fr, Sp, Sw	
LOW	**70's**: **80's**: **90's**: Dk	**70's**: UK **80's**: **90's**:	**70's**: **80's**: UK **90's**: UK, Pl

The examples of Denmark and the United Kingdom remain noteworthy: Denmark has systematically pursued it decentralization evolution, while keeping a high degree of coordination. As we have mentioned, the United Kingdom is the only country going against the general trend, retaining its 'liberal' strategy even after the return to power of the Labour Party.

Finally, the examples of the Netherlands and Ireland, and also the capacity of Germany to withstand macroeconomic shocks at least until the beginning of the 90s, are there to remind us that coordination between social partners, after having arrived at shared diagnosis, and the means it probably creates to associate in a cooperative way macroeconomics arbitrages and wage bargaining, has a great favourable impact on the power to overcome unemployment.

So here too, at least two types of 'good (institutional) practices' can be distinguished: as the OECD (2006) remarked, one would be well-advised to take more widely into account the fact that mechanisms and practices characterizing professional relations in each country are part of their political and social fabric, and that it is consequently difficult for governments to reform them, all the more so because recent experience shows the important role that a coordinated bargaining regime can play in the perspective of an overall improvement of labour-market functioning, at least in countries whose traditions and institutions are compatible with this kind of procedure.

3. Minimum wage legislation: definition and potential impacts

For a long time the minimum wage has been considered one of the main labour market institutions causing mass unemployment in Europe, even if minimum wage legislation exists elsewhere (Japan, Canada and USA). Nevertheless, very few studies have in fact been devoted to analysing the impact of minimum wage legislation on employment from the standpoint of international comparisons, while it must be said that institutional features of minimum wage obligations are quite different from one economy to another.

The existing systems can be characterized by three criteria: the level of minimum wage, its modes of determination (legal, according to sectors) and its modes of indexation (automatic or discretionary). Here too, one observes a great diversity in institutional practices among European economies.

The minimum wage is set legally by the government in Spain, France, Portugal, but also in the Netherlands and in the United Kingdom since it has been reintroduced by Tony Blair's Labour Government. In Belgium and Greece (not represented in the table below), there also exists a minimum wage fixed at a national level but through a collective agreement. Everywhere else the minimum wage is fixed by sectors; and in these cases, the situation is more difficult to appreciate.

Depending on the various modes of indexation, the level of minimum wage and its evolution differ from one European country to another. However, taking all elements into consideration since the mid-70s, after an initial period during which levels of minimum wage fell (Spain, Greece, Portugal, the Netherlands) or even minimum wage legislation itself was abolished (the United Kingdom), the recent period shows a global tendency to maintain or even reintroduce minimum wage legislation (United Kingdom, Ireland) and to maintain its legal level (except in Spain). In Europe it is in France, which traditionally uses the minimum wage as a legal tool to impulse purchasing power and consumption dynamics, that the labour cost for minimum-wage workers relative to median-wage workers is the highest.

	Date	Modes of Fixing	Modes of indexations	Level: *Ratio of employers' labour costs for minimum-wage workers relative to median-wage workers (in %)*[b]		
				1997	2000	2004
Spain	1963, 1976	Legal	Prices and Economic performances	33	21	19
Ireland		According to sectors		-	40	39
Poland				45	41	40
Portugal	1974	Legal	Prices and Economic performances	43	46	44
United Kingdom	1909-1993, 1999	According to sectors Legal	Non automatic	-	42	44
The Netherlands	1968	Legal	Average wage, with possibility of suspension	48	50	51
France	1950 1970	Legal	Prices and, for a part, wage rate per hour. Possibility of discretionary boosts	55	55	54

-: Not applicable.
a) Gross wage payment plus employers' mandatory social security contributions, using as a proxy employers' contribution rates for a single worker with no children at the 0.67 average production-worker earnings level.
b) Countries ordered from lowest to highest relative cost of employment minimum-wage workers in 2004.
Source: OECD Statutory Minimum Wages and Taxing Wages databases, reprinted in OECD (2006). CSERC (1999). IRES (2000).

It is not possible to draw a unique theoretical conclusion about the impact of wage legislation on employment. Bassanini and Duval (2006) show that there is no significant effect of the minimum wage on global unemployment, even if the employment rate of young people seems weaker the higher the level of minimum wage.

Moreover, as the OECD has now recognized (OECD, 2006), because the impact of minimum wage legislation, although still centred on employment, appears nil or modest on the employment level, it might be useful to use it as a tool for social policy aimed at overcoming poverty. A minimum wage indeed encourages activity and work, making work financially appealing for low-skilled workers or basic welfare benefits holders (making work pay!). In the same spirit, the minimum wage is a safeguard preventing the possibility for an employer, in the situation where a minimum wage is paid in complement to an activity benefit, to reduce wages so as to appropriate these benefits (Gregg, 2002), even if the existence of thresholds can raise the question at higher wage levels (the possibility of drawing concurrently a salary and an activity benefit – negative taxation – encouraging appearance of low wage traps).

To sum up, here too the true impact of an institutional feature that might be judged *a priori* as introducing an element of imperfection and of rigidity, in what would otherwise have been a freely competitive and self-adjusting market mechanism, finally must be interpreted in a quite different manner: it may be considered as a possible element of a coherent institutional framework.

C) Varieties of Employment Policies: Unemployment Benefits System and Active Labour Market Policies

Public employment policies aim at influencing the volume and the structure of employment, unemployment and the active population.

Two types of employment policies can be used. Active employment policies correspond to measures that aim at facilitating access to the labour market and to employment, as well as improving vocational training and labour market functioning (the quality of matching mechanism). International institutions have thus strongly supported the development of such policies since the beginning of the 90s.

Indeed, the main objective of theses policies is to improve the match between supply and demand on the labour market by the mean of vocational training programs and improved efficiency in public service employment. If labour supplies are available more quickly, hiring costs diminish, which may encourage firms to recruit. Moreover, unemployment is a factor of diminishing productivity, causing human capital obsolescence and the loss of work skills through long-term unemployment. A goal of active employment policies is precisely to improve labour productivity, or at least to diminish the impact of unemployment on productivity. Lastly, the final goal of such policies is to improve participation in the labour market, as can be measured by employment rates, more than to reduce unemployment rates: unemployment could indeed lead to a reduction in labour supply because discouraged workers and old workers (benefiting from financed early-retirements mechanisms) may give up trying to maintain themselves in activity. It is the role of active employment policies to thwart such tendencies.

Conversely, passive employment policies refer principally to out-of work income maintenance and support measures and to early retirements financing measures. They are generally considered disincentives to work, and it is widely believed that a well-oriented employment policy must overweight the role of active measures in the range of its interventions.

It is thus possible to rank European economies according to two criteria. One can first look at the importance (in volume) of their employment policies, measured by the level of public expenditures for employment policy as a percentage of GDP. Then, one can examine the structure of these expenditures to evaluate the relative importance of active and passive policies.

According to the first criterion, three groups can be defined.

A first one is composed of countries spending more than 3% of GDP on employment policy programs. Here are found Denmark (4.49%), the Netherlands (3.67%), Germany (3.46%) and Finland (3.04%).

Then we find economies where the percentage of GDP invested (or consumed?) in employment policies represents about 1.5% or less. Here we find Norway (but as we have seen, these economy have never suffered from unemployment), Ireland, Italy, and especially the United Kingdom (0.81%!).

Finally, we have an intermediate group whose level of public expenditure on employment policy is around 2% of GDP: France, Sweden, Spain and Portugal.

If we now look at the proportion of spending on active policies in the total volume of expenditures, we observe that, logically, economies with low levels of employment policy expenditure devote a high proportion of it to active policies. This is the case for Norway, Italy and Ireland; but here too and above all, it is true for the U.K. where 64% of employment policy expenditures finances active measures.

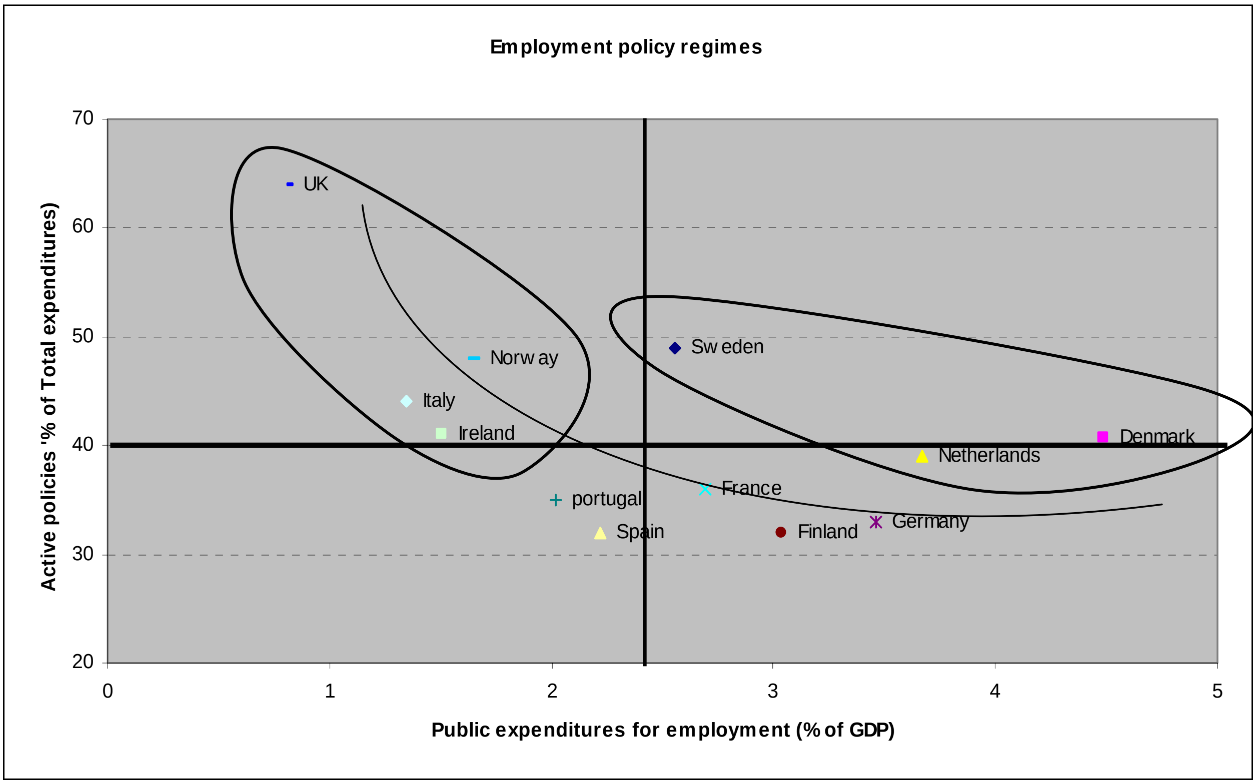
However, we can also find quite similar ‘performance’ for active measures in public expenditure on employment in countries that spend far more. This is the case, among others, of Denmark and of the Netherlands in the first group defined above, but also of Sweden in the ‘intermediate’ group. The others devote around one third of their total expenditures on active programs.

	Public Expenditures for Employment as a percentage of GDP	*Active Policies as a percentage of Total Expenditures for Employment*
Denmark	4.49	40.78
The Netherlands	3.67	39.00
Germany	3.46	33.00
Finland	3.04	32.00
Sweden	2.56	49.00
France	2.69	36.00
Portugal	2.02	35.00
Spain	2.22	32.00
United Kingdom	0.81	64.00
Norway	1.65	48.00
Italy	1.35	44.00
Ireland	1.51	41.00

Finally, it again seems possible to highlight two opposite employment-policy regimes.

The first is mainly represented by the United Kingdom, but also by Ireland and now Italy, where the improving ‘activation’ of public expenditure for employment is obtained by a reduction in size of employment policy, and particularly where the indemnity effort is very weak (the UK and Italy).

Conversely, the second employment-policy regime assembles countries in which the ‘activation’ of employment policy expenditures does not mean simply decreasing passive expenditures such as out-of work income maintenance, but is attained by a systematic articulation of passive and active measures. Here we principally find Denmark and the Netherlands, but Sweden as well, even though its total level of expenditure on employment policies is lower.



The main point again is that it is not possible to establish a direct link between the type of employment policy regime and the ability to overcome mass unemployment. We find 'models of success', even in the first group (the United Kingdom, Norway or Ireland), as well as in the other (Denmark, the Netherlands and Sweden). This finding seems to confirm that the one best 'institutional' way to coordinate behaviours on labour markets and to regulate them does not exist.

2.2. Taking institutions into account: from the 'best practices' hypothesis to the 'varieties of capitalisms' approach

A) The Variety of Capitalisms Hypothesis

The preceding analysis shows that institutional characteristics do not enable us to draw any distinction between the experiences of the 'model' countries and those of other countries. Moreover, it appears that some 'model' countries display quite different institutional features. Neither the persistence nor the response of unemployment to macroeconomic shocks seems to be dependent in a simple manner on the structure of labour markets or on changes undergone by labour-market institutions.

Consequently, it is possible to direct our attention to two other types of explanation.

It is essential not to forget the importance of macroeconomic policy in the performance of labour markets. Fitoussi and Passet (2000) illustrated the important role that macroeconomic policy seems to have played in most success models. During the 90s, in most instances these 'models' were characterized by a more expansionary policy mix than in the other countries, and to an even greater extent by a more accommodative monetary policy.

Even if we were to consider the macroeconomic dimension of the problem as extraneous to the scope of the present paper, in accordance with the approach that takes institutions into account as an important element in the coordination and regulation of market economies we still must abandon the idea that we can be led to identify a 'one best' institutional framework corresponding to the most performing type of capitalism in the period under study. There is no unique type of performing capitalism, and it is therefore impossible to consider international comparison as a benchmarking operation and public policy as a problem of importing best institutional practices. Such practices neglect the obvious diversity of possible institutional coherences and the consequent variety of capitalisms. Indeed, separate analysis of the different institutions characterizing labour-markets regulation and coordination, even if it permits a better understanding of the diversity of national labour markets regulations, leads to disappointing conclusions about the explanation of respective national performance in overcoming unemployment. First, the method of analysis is limited in its underlying principles: it consists in accumulating partial indicators (flexibility/rigidity, centralization or coordination/decentralization, active/passive employment policies), then attempting to find correlations between unemployment and employment rates. This process implies that if all the indicators point 'in the right direction', performance will be excellent. However, this is obviously not the case. For instance, we have shown that within the 'success models', the 'resistance models' are characterized by a high degree of coordination and centralization of labour-market institutions and that, as a consequence, they have the capacity to favour shared diagnosis and negotiated general agreements. A better hypothesis seems to be that overall efficiency can result from sometimes original overall coherences assembled between rules or legislation, which may *a priori* appear to be derived from opposing logics. For instance, a high level of unemployment benefits combined with active measures of individualized accompaniment of unemployed workers can promote a better reallocation of the work force in a more fluid labour market. Another example: centralized collective bargaining can make compatible, politically and socially acceptable overall moderation in wage claims, reduction of wage inequalities, reasonably good social protection and the pursuit of greater flexibility in labour organization. The point is this:

rather than studying partial indicators, taken one by one, then analyzing them from a linear and causal point of view, we must understand the possible deep coherences in social consensus built up around different possible types of labour-market regulations.

B) Lessons: Reform paths and possible European scenarios

For all it is worth, the acknowledgment of the great diversity of national labour-market regulations and of their evolution over even the last fifteen years does not lead us to conclude by a diagnosis of an irreducible heterogeneity of labour-market institutional frameworks. Explicitly or implicitly, the main lessons that can be drawn from this article are the following:

- The overall performance of labour markets is fundamentally determined by economic growth. Therefore, the capacity of the European economy as a whole to overcome unemployment permanently will depend essentially on its ability to manage both a favourable macroeconomic *policy mix* that fosters strong and durable growth in the short run and the construction of structural reforms that define a performing model of economic growth and development in the long run.

- It is in this context, rather than directly by them, that employment policies and collective regulations exert a deep influence on labour markets. They indeed order both the adaptability of employment structures to massive economic changes and the ability to resist an increase in inequalities on labour markets, inequalities that could without doubt be destructive of our whole societies.

- In each European economy, one can observe a tendency to increase flexibility, both in the wage-formation mechanism and in employment management. The systematic 'activation' of employment policies is also currently observable, but the ways of organizing such an evolution remain widely differentiated.

- From this point of view and with the passing of time, it seems that countries opting for systematic deregulation of their labour markets, taking advantage of the collapse of wage owners' bargaining power provoked by massive unemployment, suffered high social costs without obtaining greater capacity to create jobs as a counterpart. Consequently, in these countries, particularly in the United Kingdom and Spain, a reinforcement of collective rules by collective bargaining or even by government intervention can be observed. However, these countries (we especially think of the U.K.) remain characteristic of what can be called a 'social-liberal' model.

- Conversely, countries having at their disposal powerful collective bargaining mechanisms (particularly northern European countries and Germany) have agreed to decentralize its implementation. However, the ability to build up new compromises on that basis totally depends upon labour-market performance, which remains today very unequal within this group. Nevertheless, it seems that what can be called a 'social-democratic' model, typical of northern European countries (including the Netherlands), could be presented as a coherent alternative to Anglo-Saxon 'social-liberal' model.

In Europe, it is evident that liberal policies of systematic deregulation of labour markets have not demonstrated their superiority in favouring both full employment and social cohesion. In any case, these policies are now called into question, at least in their extreme modes. Countries with important collective regulations have experienced widely different results for their part: schematically, good ones in northern social-democrat countries, bad ones in continental corporatist countries. The problem for all is their ability to sustain the coherence of the preservation of collective regulations in the labour market and a high social protection with the continuation of deregulation in the other markets. This problem is clearly of institutional consistency and, beyond that, of institutional hierarchies.

Moreover, the European Union, which has assembled countries that predominantly fall within this second group, is also confronted with the problem of defining 'its' economic and social model: how to reconcile the deepening of the principles of a single European market with the elaboration of community norms and regulations applicable to *a priori* heterogeneous labour markets.

According to IRES (2000), it seems that four scenarios remain possible today for Europe:

The first is the continuation of current trends and the 'preservation' of a 'divided social Europe'. Following this scenario, we may observe the persistence of resistance to the transformation of national labour-markets institutions and welfare-state systems. The principle of subsidiarity may prevail and result in limiting European employment strategy to a procedural mechanism built on the sole definition of simple recommendations, inspired by 'best practices' and the necessity of coordination along broad economic policy guidelines. Such a scenario seems unstable, however, because it maintains the coexistence of heterogeneous social models and national labour markets. In such a context, non-cooperative behaviour is bound to arise (fiscal competition, competition on wage levels…), which would threaten political and social cohesion in the EU. For this reason, such a scenario would obstruct even the homogenization of national models or the improvement of community solidarity.

Then, the second scenario postulates that the construction of a homogeneous European social space is out of range. The solution to the problem could be found in a higher degree of solidarity between European countries, which would permit the preservation of national institutional settlements. In this scenario, the role of community institutions would be greater, in order to edict more constraining guidelines, to develop community financing, and perhaps balancing budget resources to finance welfare systems.

Conversely, the third and the fourth scenarios come with the ambition of setting up a truly homogeneous European social and economic development model, but this homogenization could be attained by two quite different paths. First, it could be the result of the deepening of the principles of fiscal and social competition among European economies. This perspective would be built on complete market liberalization. Priority would be given to the respect of broad economic equilibria (budget stabilization and low inflation). It would converge on a free-competition model of labour markets in order to benefit from all the hoped-for favourable effects of the single market. Such a scenario remains compatible with the preservation of a minimum security for individuals by means of the intervention of authorities in endowing individuals with the capital needed to preserve their empowerment, and especially their employability (human capital, social capital, financial capital…). In this scenario, the homogenization of the European model would be the construction of a particular type of 'flexicurity' inspired by English experiments. It obviously comes with particular choice of society, conception of the individual and conception of the social State.

In the end, a fourth scenario could be confronted with these particular choices and to this particular homogenization scheme. This last scenario could be built on the progressive widening of community rights, on a deep coordination of national employment and social policies, and on the improving of dialogue between employers, governments and trade unions in collective bargaining on a European scale. In this last scenario, it is not the market and the competition between European countries that would be the main vectors of homogenization, but collective regulations, European solidarities, and political will. It would probably involve a deepening of political integration of the European Union. Nevertheless, such a scenario remains compatible with the extension of flexibility in labour markets and finally would appear in the development of an alternative type of 'flexicurity', inspired by northern social-democrat European countries. In that case, the possibility of improving flexibility of labour markets is thought as the result of compromises, collective bargaining and political initiatives to secure professional paths and to ensure the 'capabilities' of individuals. There too, the fourth scenario obviously would come within other particular choices of society, conception of the individual and conception of the social state.

In any case, the proven existence of numerous scenarios shows that there is no single best and indisputable way to reform labour markets and to improve European performance to overcome unemployment and favour social inclusion. The problem now is the political determination, among the collective alternatives, of the type of society we want to build together in Europe.

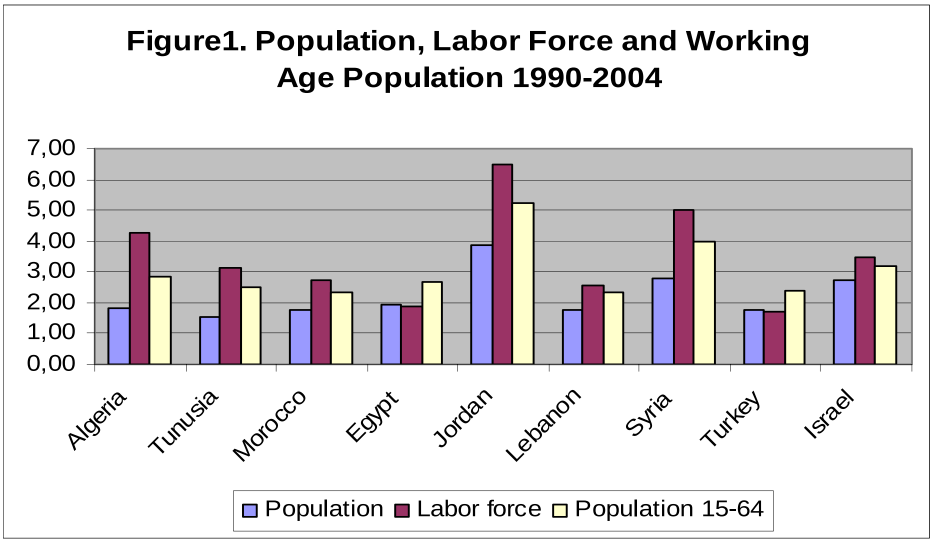
PART TWO: Labour Market Dynamics of South and East Mediterranean Countries (Elif Unan)

One of the most important problems of the South and East Mediterranean Countries (SEMC) is the high unemployment rate associated with an increasing, young labour force. The unemployment pressure and the existing labour-market structure increase in turn migratory pressure and make job creation a top priority for the region.

This section is organized as follows: In the first part, the labour market structure in the SEMC will be analyzed. In the second part, the study will focus on the governance of labour markets in the region.

1. Labour Market Structure in South and East Mediterranean Countries

The labour force consists of people of working age who are *participating workers*. Participating workers are those who are actively employed or in search of employment. The first remarkable finding for the SEMC is the pressure of young workers on the rapid, labour-force growth. High population growth rates between the 1950s and the 1980s have led to the rapid expansion of the working-age population. On the other hand, in all of the countries of the region, except for Turkey and Egypt, in spite of this pressure of young workers, the increase in labour force has been faster than the increase in working age population over the last 15 years (see Figure 1). This means that many of the working age population who were discouraged workers are increasingly becoming participating workers, a phenomenon that can be explained by the rising female labour participation rates.



Average annual growth rates

Source: World Bank – World Development Indicators (WDI)

The *Labour force participation rate* is the ratio between the labour force and the overall size of the national population of the same age range. This rate indicates the impact of demographic pressures on the labour markets. Labour-market participation is affected by various factors, including:

- The level of education, which increases participation rates;
- Inclusion of women to the labour markets, which increases participation rates;
- The duration of schooling, which lowers participation rates for the young labour force; and
- The availability of job opportunities, which raises participation rates (while the lack of job opportunities decreases participation rates).

Table 1 shows the participation rates of the total population for the chosen SEMC. In the Maghreb countries, labour force participation rates have gradually increased over the last 24 years, especially in Algeria. This trend can be explained by the fact that more girls and women have been receiving education. For example, female participation rates increased during the 1990s by 6% for Algeria, 4% for Tunisia and around 2% for Morocco. However, the trend is different in Mashrek countries. For Jordan and Syria, there is a progressive increase in participation rates, as opposed to a more stable trend for Lebanon and Egypt. In spite of a 4% increase in the female participation rates during the 1990s for Egypt, the participation rate of the labour force has roughly remained stable or decreased. From the 1980s to the early 2000s, the participation rate of the labour force has increased around 4 percentage points for Israel. Turkey has experienced an important decrease in its participation rate since the 1980s. There are three reasons for this decrease: the early retirement system adopted in 1980, the increase in average education duration and the rural migration to urban centres. With rising labour force participation rates since 1980, the growth of labour supply and the increase in the absolute number of new labour market entrants have augmented over time.

Table 1. Participation Rates, 1980-2004

	Algeria	Tunisia	Morocco	Egypt	Jordan	Lebanon	Syria	Turkey	Israel
1980	51,47	52,85	54,33	46,82	46,27	59,14	54,21	69,64	57,97
1985	50,59	51,76	54,42	51,23	47,51	58,20	53,99	63,29	58,53
1990	52,53	51,50	54,87	52,89	47,55	57,26	57,79	61,51	59,33
1995	55,39	52,59	55,52	49,51	54,44	59,17	61,61	57,68	61,73
2000	60,59	54,03	58,42	49,18	54,04	60,02	63,98	53,23	62,47
2004	63,81	56,12	57,90	48,88	55,71	60,21	65,86	56,13	62,27
Average	**55,73**	**53,14**	**55,91**	**49,75**	**50,92**	**59,00**	**59,57**	**60,25**	**60,38**

Source: LABORSTA, International Labour Organization

Table 2 shows the labour force participation of the SEMC by type of economic activity for selected activities. For Algeria, Morocco, Egypt and Turkey, agriculture occupies the biggest fraction of the labour force. On the other hand, compared to the main European countries, manufacturing occupies a small part of the labour force of the region except for Israel and Turkey. For example, the share of manufacturing in the labour-force participation is 17% for France and 22% for Germany and Italy. Insurance, finance and real estate occupies a very small part of the region's labour force except for Israel. This ratio is 10% for Italy, 12% for France and Germany, 15% for the United Kingdom and 16% for the Netherlands. This can be a good indicator because it may demonstrate the lack of solid financial markets in the region, which in turn may have implications for the investment environment, and as a result on the new job creation capability of SEMC.

Table 2. Labor Force Participation by Type of Economic Activity, Selected Activities, 2003 (%)

	Algeria	Morocco	Egypt	Jordan	Lebanon	Turkey	Israel
Agriculture and fishing	21,1	43,9	29,9	3,9	6,7	33,9	1,9
Manufacturing	9,2	12,4	10,9	12,6	14,1	17,3	16,2
Construction	11,9	6,8	7,4	6,3	9,4	4,6	5,6
Trade, Restaurants and Hotels	14,7	14,6	13,5	20,4	35,2***	19,2	17,5
Transport	6,0	3,6	6,3	10,2	6,9	4,8	6,4
Insurance, Finance and Real Estate	2,0	1,3	3,0	5,7	-	3,5	16,3
Public Administration and Defence	16,0	5,1	11,2	32,7**	8,4	5,6	5,2
Education	9,4	11,29*	10,9		10,0	4,1	12,7
Health and Social Work	3,7	-	3,0		4,0	2,5	10,7

Source: LABORSTA for Algeria, Morocco, Egypt, Turkey and Israel, Femise Country profiles for Lebanon and Jordan

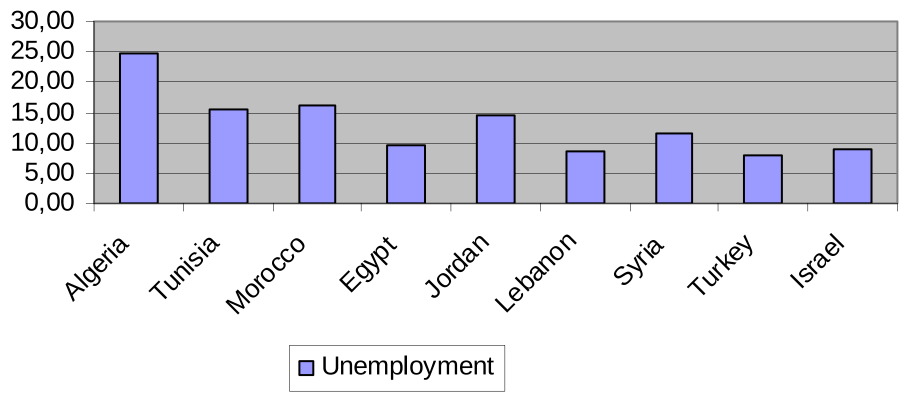
* Education, Health and Social Work reported together

** Reported as public administration and social services in the country profile document

*** Reported as services in the country profile document

If the labour supply exceeds the level of employment, the unemployment rate rises; and over the past decade the growth in the labour force has exceeded employment growth in most countries of the region. Figure 2 shows the average unemployment rates of the SEMC for the 1990-2002 period. The region entered the 1990s with relatively high unemployment rates that continued to climb in most countries. The unemployment rate for the region ranges from 8% in Turkey to over 25% in Algeria. The average unemployment rate for all of the countries of the region rose from 12.6% in 1990 to 14.12% in 2000. On one hand, this situation is a result of insufficient growth in the region and, on the other hand, a result of rapid population growth and growing labour participation rates, specifically for women. The average unemployment rate of the region is about 13%. This rate was around 6.5% in OECD countries for the 1999-2002 period.

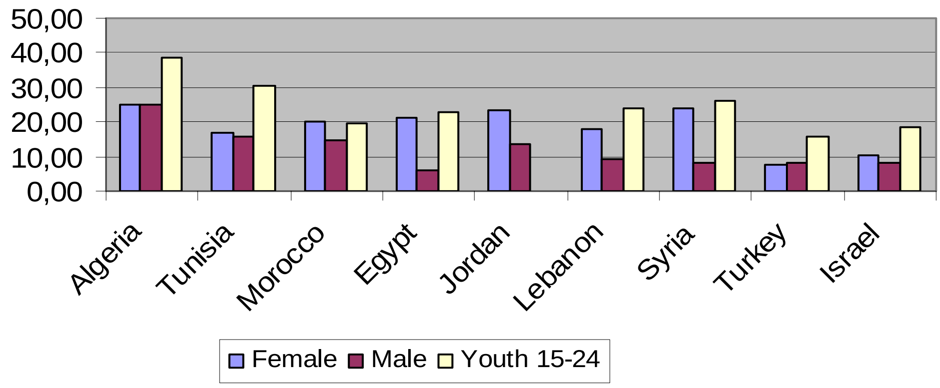
Figure 2. Average Unemployment Rates, 1990-2002



Source: World Bank, WDI

Jordan has faced the highest growth in labour force and working-age population of the region (see Figure 1), but the unemployment rate decreased over the decade. This trend can be explained partly by the migration of skilled workers to countries of the Gulf Cooperation Council and partly by a decrease in domestic market participation rates. Algeria has the highest unemployment rate of the region, which was about 24.7% between 1990 and 2002. This was due to the increase in labour participation rates. On the other hand, it is possible that the unemployment rate of Algeria is overestimated because of the difficulty of fully capturing employment in the informal sector. Although Turkey had the lowest average unemployment rate for the 1990-2002 period, its overall unemployment rate was about 10%, and the non-agriculture unemployment rate was about 15% since the financial crisis of 2000-2001. Tunisia and Egypt experienced small declines in unemployment rates in the 90s, but the trend changed for Egypt at the beginning of 2000s with rising unemployment rates.

Figure 3. Average Unemployment Rates: Female, Male, Youth (15-24) 1990-2002



Source: World Bank, WDI

Figure 3 shows the average unemployment rates of male, female and youth populations for the SEMC. The unemployment rate among youth lies between 15 per cent and 38 per cent. For all of the countries of the region for which data are available, the unemployment rate of youth is the highest, which makes the job creation an important challenge for the region. In order to absorb this growing young labour force, the economies of the region need economic growth accompanied by an increasing labour demand. The unemployment rate of youth also has a migration dimension. The unemployed young labour force may attempt to emigrate in order to try their chance in the industrialized countries of the North. It is also important to control these pressures of the unemployment on the migration dynamics. There is also a gender dimension of unemployment. Unemployment rates as a whole for all countries are 50% higher for women (18% for women, 12% for men). This is a result of the increasing participation rate of the female population in the economy.

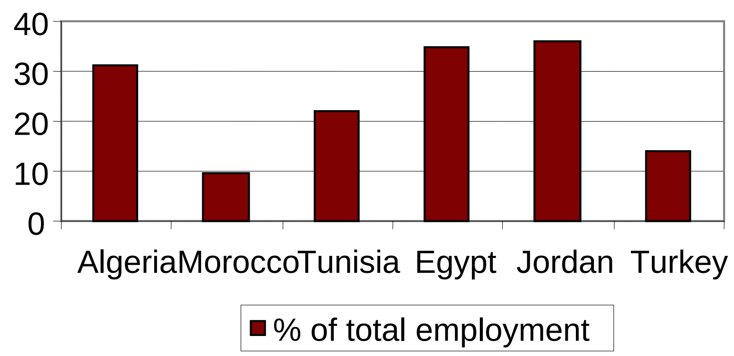
The IMF[14] reports that rising unemployment has hit mostly first-time job seekers, particularly those with a secondary education, suggesting that unemployment is mainly the result of the inability of the countries to create jobs fast enough to accommodate new entrants into the labour force. It may also reflect the willingness of educated young workers to wait for jobs in the formal and public sectors to open up and to register themselves as unemployed in the interim, as well as the educational system's failure to provide its students with the kinds of skills needed for private sector jobs.

[14] *Creating Employment in the Middle East and North Africa*, Edward Gardner, IMF, 2003.

2. Governance of Labour Markets

The governance of labour markets plays a crucial role in limiting unemployment pressures and enhancing job creation in the region. Figure 4 shows the average public sector employment rates for the 1996-2000 period of the countries for which data are available. The public sector accounts on average for about 24 per cent of total employment for all countries. On this fact, the World Bank[15] reports that such a proportion of government job creation negatively affects labour productivity and GDP growth. It says that large public sectors probably affected GDP growth because public employment had to be financed by higher taxes, cuts in other (and most probably more productive) spending or by larger deficits.

Figure 4. Public Sector Employment 1996-2000 (%)



Source: LABORSTA, International Labour Organization

One of the most important indicators of trends in labour demand is the output growth. In the region, faster output growth goes hand in hand with lower unemployment rates. Table 3 gives the GDP per capita and the unemployment growth rates for the region. Since the 90s, weak output growth, coupled with fast labour force growth, caused high unemployment rates.

In order to create new job opportunities, boosting the output growth should be one of the main objectives of the region so as to accommodate the increasing young labour force. Governments of the region should contribute to the creation of productive income-generating job opportunities through economic growth by initiating reforms that include improving the education system and the business environment.

Table 3. GDP/capita Growth and the Unemployment Rate

	Algeria		Tunisia		Morocco		Egypt		Jordan		Turkey		Israel	
	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)	Unemp Rate	GDP/capita Growth % (Cst $)
1997	28.00	-0.44	15.70	4.00	16.90	-3.34	8.40	3.53	14.40	0.20	6.80	5.61	7.70	1.06
1998	28.00	3.62	NA	3.46	19.10	6.45	8.20	4.26	NA	-0.09	6.90	1.28	8.50	1.35
1999	29.20	1.77	15.80	4.68	13.90	-1.22	8.10	4.10	15.60	0.28	7.70	-6.34	8.90	-0.24
2000	29.50	0.95	15.60	3.49	13.60	-0.20	9.00	3.41	13.70	1.11	6.50	5.56	8.80	4.86
2001	27.30	1.10	15.00	3.67	12.50	5.08	9.40	1.54	16.00	2.25	8.40	-8.99	9.30	-2.58
2002	25.90	2.55	14.90	0.55	11.60	2.01	10.20	1.24	NA	2.84	10.40	6.24	10.30	-3.11
2003	23.70	5.18	14.30	5.01	11.90	4.32	11.00	1.14	15.50	1.40	10.50	4.17	10.70	-0.13

Source: LABORSTA

15 MENA Development Report, *Unlocking the Employment Potential in the Middle East and North Africa*, World Bank, 2004.

Table 4 shows government and public sector employment for selected MENA countries. Public sector employment is about 20 per cent of total employment and about one-third of non-agricultural employment in the 7 MENA countries. High unemployment rates can be a result of reduced demand from the public sector and slow growth of the private sector. The educated young new entrants to the labour market want to enter the public sector, and the unemployment is higher for this group. Unemployment rates are low for those with no formal education who are not eligible for employment in the public sector.

Table 4. Government and Public Sector Employment, 1996–2000
(Percent)

	General Government Employment		Public Sector Employment	
	Percent of total employment	Percent of non-agricultural employment	Percent of total employment	Percent of non-agricultural employment
Algeria	25.7	32.0	31.3	39.0
Egypt	28.2	56.6	34.9	70.3
Iran, I.R. of	. . .	. . .	28.4	36.6
Jordan	33.9	39.5	36.1	42.1
Morocco	8.5	18.6	9.5	20.7
Pakistan	8.4	15.0	9.6	17.1
Tunisia	14.9	19.1	21.9	28.2
MENA7	. . .	. . .	20.0	33.1

Source: World Bank, Public Sector Employment database, 2002, in *Creating Employment in the Middle East and North Africa,* Edward Gardner, IMF, 2003

Another way to analyze the relationship between GDP and employment is the evolution of labour productivity. Labour productivity is the GDP per person employed. Low labour productivity growth limits, in turn, the potential for real wage growth. The IMF reports that real wages in the manufacturing sector declined in Algeria, Egypt and Jordan during the 90s. A slowdown in the rate of capital accumulation and weak growth in total factor productivity in the region caused a weak labour productivity growth. Algeria, Egypt and Jordan, the three countries with the lowest rates of labour productivity, are also the ones with higher share of public employment (see Figure 4). We can say that public sector job creation is also partly responsible for the weak labour productivity rates.

One another interesting finding is that in spite of the weak productivity growth in the 90s gains were made in educational achievement. The IMF reports that the average number of years of education completed by people 15 years of age and older in Algeria, Egypt, Jordan and Tunisia more than doubled in the 1975-2000 period. This low return of the investment in education on the productivity of labour can be partly explained by the mismatch between the skills required in the job market and those provided by the educational system. As we have also seen in the Figure 4, public sector employment accounts for a large proportion of total employment in the countries of the region. The attractiveness of public sector jobs can be responsible for this mismatch. Students can prefer a more public-sector oriented education to one that is private-sector oriented.

An important point in this discussion concerns GDP growth. It is essential to know if promoting labour-intensive production in order to promote job creation is good or not for theses economies. The answer changes if GDP growth is constrained by demand or by supply. The IMF reports that if it is insufficient demand that is constraining GDP growth, more employment can be generated only at the cost of lower wages. This, in turn, induces more labour-intensive production and thus labour productivity. Similarly, by enabling less labour to produce the same amount of goods and services, technological progress would destroy jobs. However, if output is constrained on the supply side because enterprises do not find it profitable to expand production, then technological improvements would raise profitability. They would contribute to higher levels of employment, investment and output without necessarily reducing wages.

Figure 5 shows the female labour market participation and overall unemployment rates in MENA and OECD countries in 2000. An important finding of this figure is the negative relationship between unemployment rates and female participation rates. One of the most important needs of the region is the human capital stock and a non-participation of female labour force represents an underutilization of potential human capital. As women in the region are better educated, the cost of their non-participation is very high. A greater participation of women in the labour force would increase the family level of income, decrease the dependency rates and make labour markets more flexible. Lower dependency ratios imply a potential for higher savings and investment. The governments of the region should encourage, in the private sector, the inclusion of female labour that is becoming more and more important.

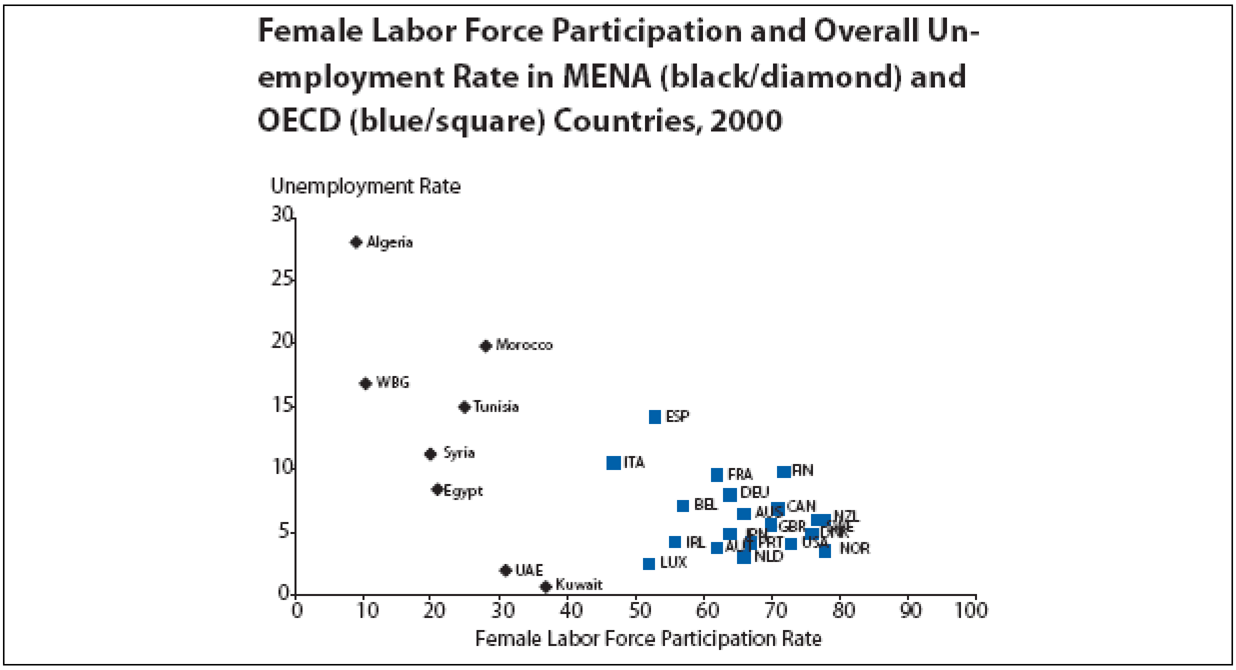


Figure 5 Source: World Bank, *Jobs, Growth and Governance in the Middle East and North Africa*, p. 32.

3. Conclusions and Policy Implications

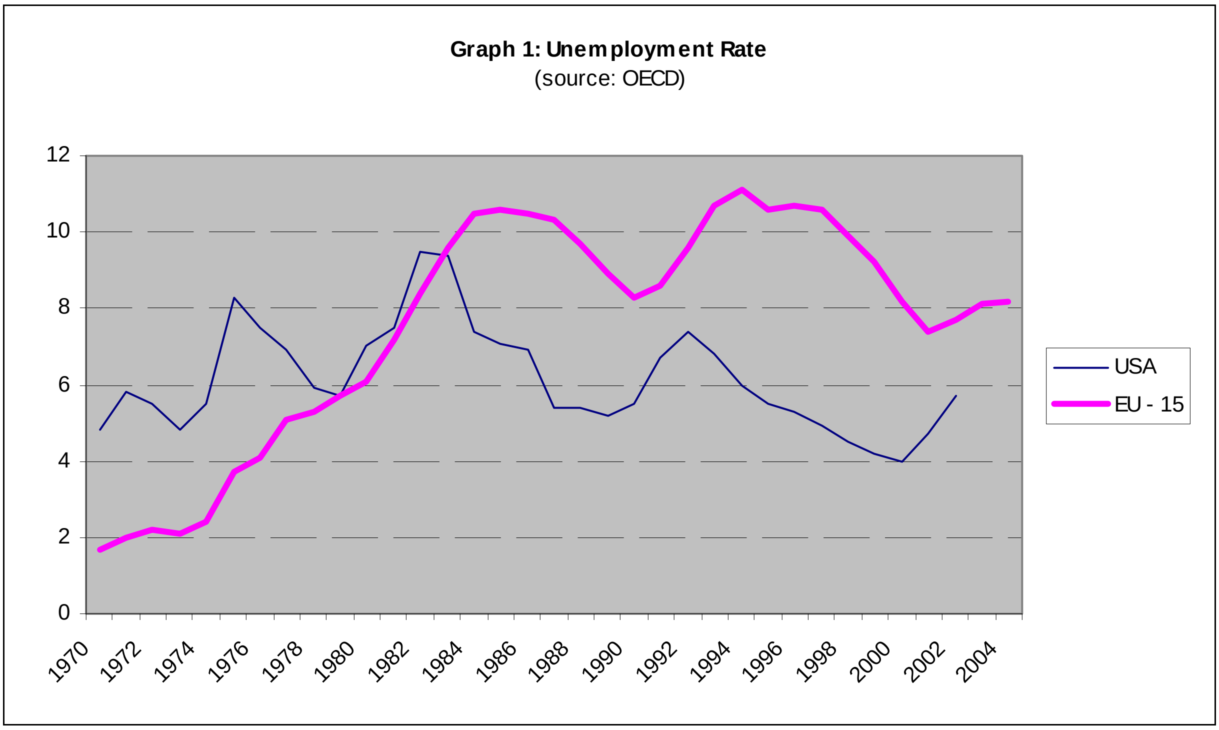
As shown above, labour supply pressures remain high in the region. For the countries of the area, it is important to create more job opportunities in a more stable and solid labour market environment. In this context, the Euro-Mediterranean partnership can play a key role. More integrated trade and financial markets should be complemented with more integrated labour markets. The countries from the North should encourage the labour market reforms and job creation.

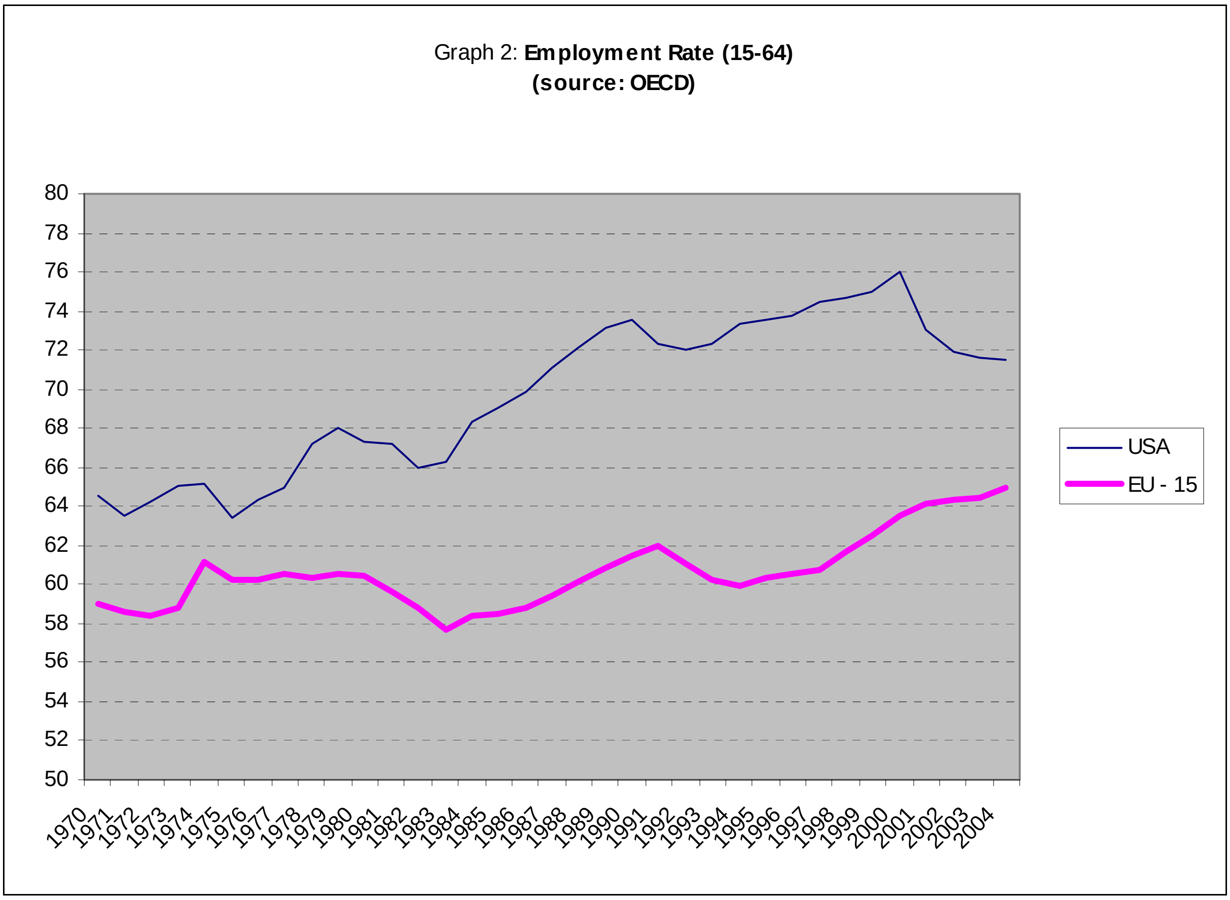
The high level of labour supply also encourages emigration pressures in the region. We can consider two types of migration for the South and East Mediterranean countries: migration within or beyond the MENA region. The Mashrek countries of Egypt, Jordan, Lebanon and Syria have a migratory history among themselves. For Egypt for example, most of the migration flows is the temporary migration in the Arabic Peninsula, especially to Saudi Arabia, Libya, Kuwait and the

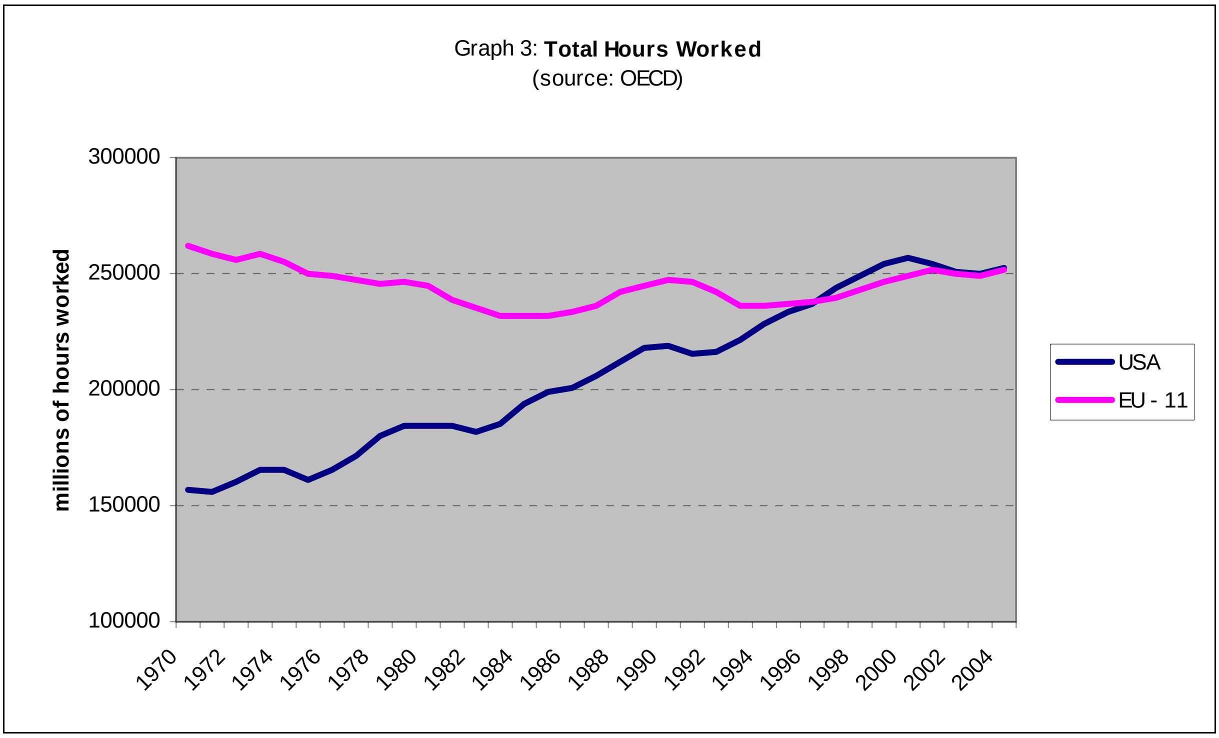
United Arab Emirates. Western Europe is a key destination of migration from the Maghreb. Among the European countries, colonial ties and linguistic communities made France the most important recipient, before Belgium. However, in the past 20 years, the population from the Maghreb in traditional recipient countries such as France and Belgium has decreased both in relative and absolute terms and has increased in Spain and Italy. The main reason for this may be seen as the increasing unemployment rate and tightening migration policies in the traditional receiving countries after the end of the industrial boom of the 1960s. Morocco had a policy of maximizing emigration in order to deal with unemployment problems and to receive remittances. Tunisia and Algeria have also followed a similar policy; however, they encouraged their emigrants to return in the 1970s. The migration of Turkish workers started in the early 1960s, going mainly to Western Europe and especially to the Federal Republic of Germany. After cessation of labour migration to Europe in 1974, the flow of Turkish workers was directed toward the Arabic Peninsula, and after 1990s, toward the states of the ex-USSR. Labour migration of Turkish workers to the Arabic Peninsula and to the ex-USSR states is mostly temporary migration. Israel constitutes an exception. It can be considered as a nation of immigrants. Jews have the right to immigrate to Israel, and they receive Israeli nationality almost automatically. After 1967, Israel recruited non-citizen Palestinian workers from the West Bank and the Gaza Strip. These were day-labourers, entering the country by day and leaving at night. However, since the 2000s Israel recruits such workers from Romania (construction), Thailand (agriculture) and the Philippines (nursing and domestic services).

The dynamics of migration beyond the region are more complex. Given the young and growing labour force of SEMC and the aging population, accompanied by low labour force growth in Europe, we can expect beneficial migration flows between the two regions. Barriers to movement of workers remain high however. Bilateral migration agreements between the two regions can be beneficial for both sides, giving Europe the young labour force it needs and helping the SEMC to decrease its growing population and unemployment pressures and to increase the remittances it receives. For deeper understanding of the situation, future/complementary research should analyze the impact of remittances on the countries of origin and the existence of the 'brain drain' and its effects.

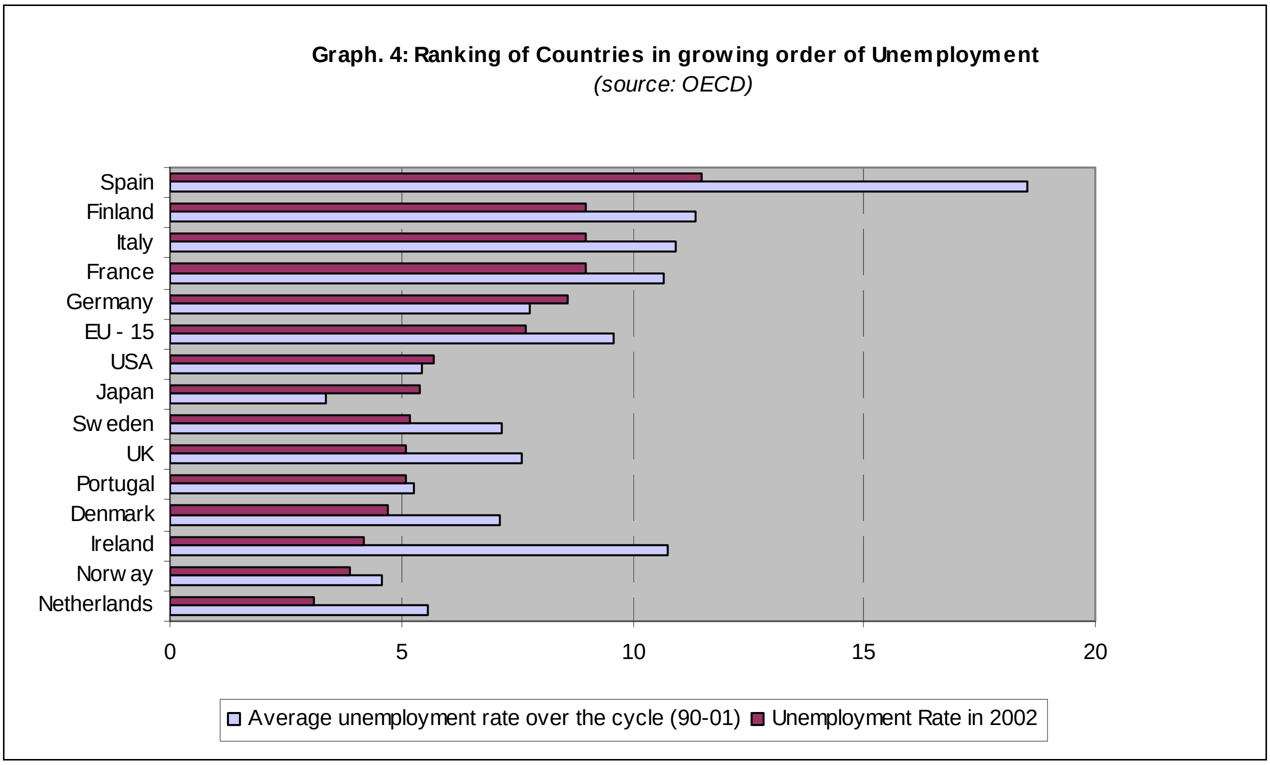
ANNEX : GRAPHS



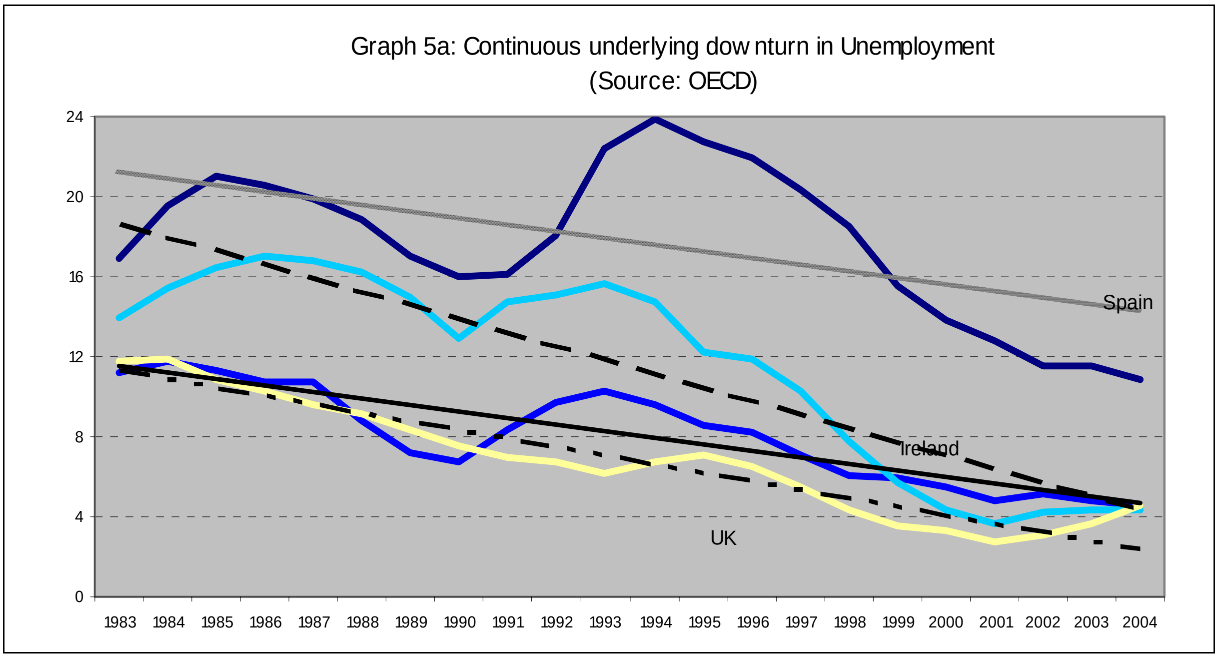




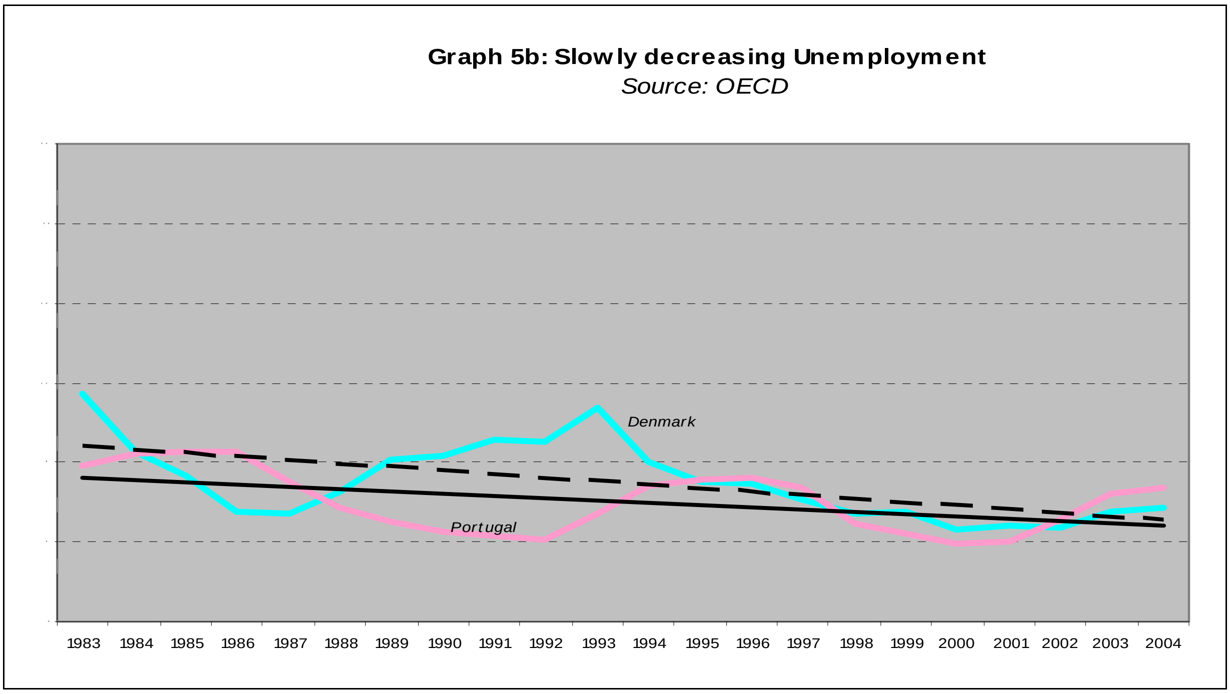
Graph 3: Total Hours Worked
(source: OECD)
300000
250000
200000
150000
100000
millions of hours worked
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
USA
EU - 11



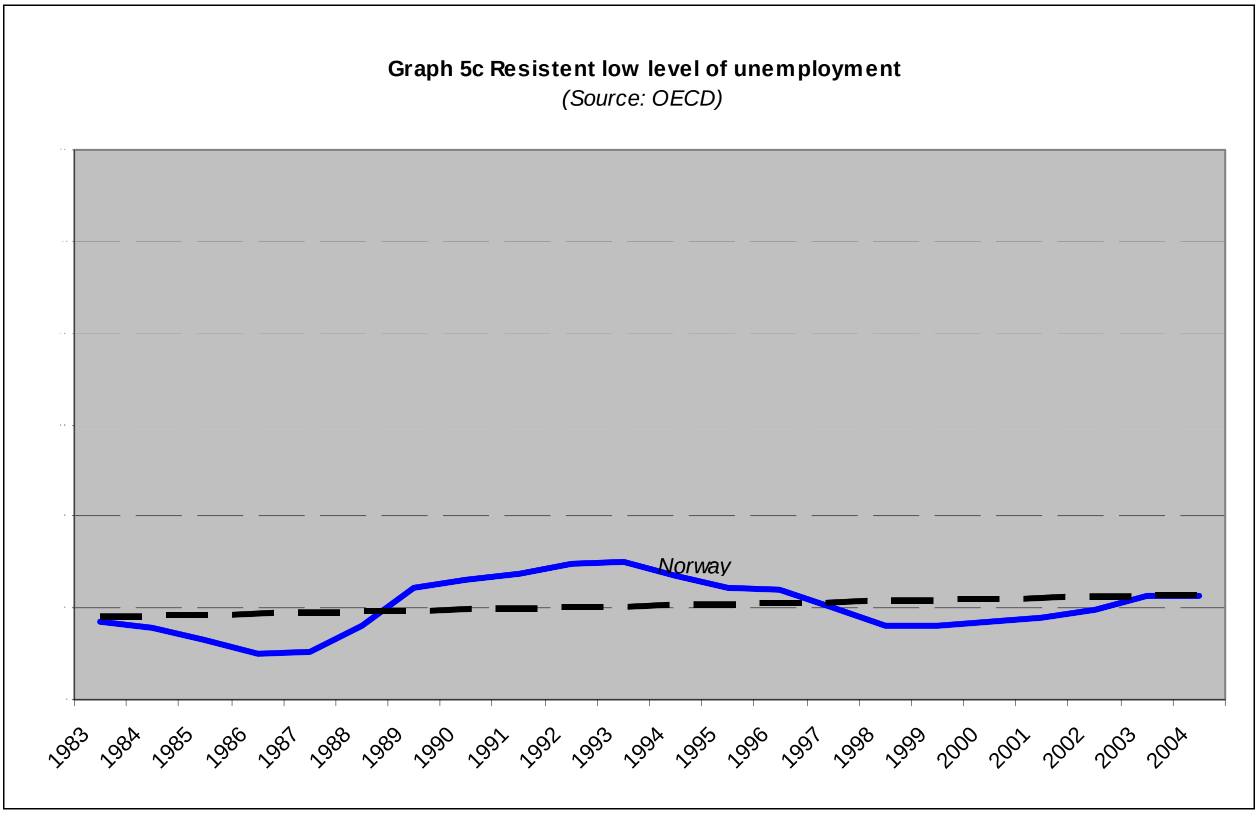
Graph. 4: Ranking of Countries in growing order of Unemployment
(source: OECD)
Spain
Finland
Italy
France
Germany
EU - 15
USA
Japan
Sweden
UK
Portugal
Denmark
Ireland
Norway
Netherlands
0
5
10
15
20
Average unemployment rate over the cycle (90-01)
Unemployment Rate in 2002

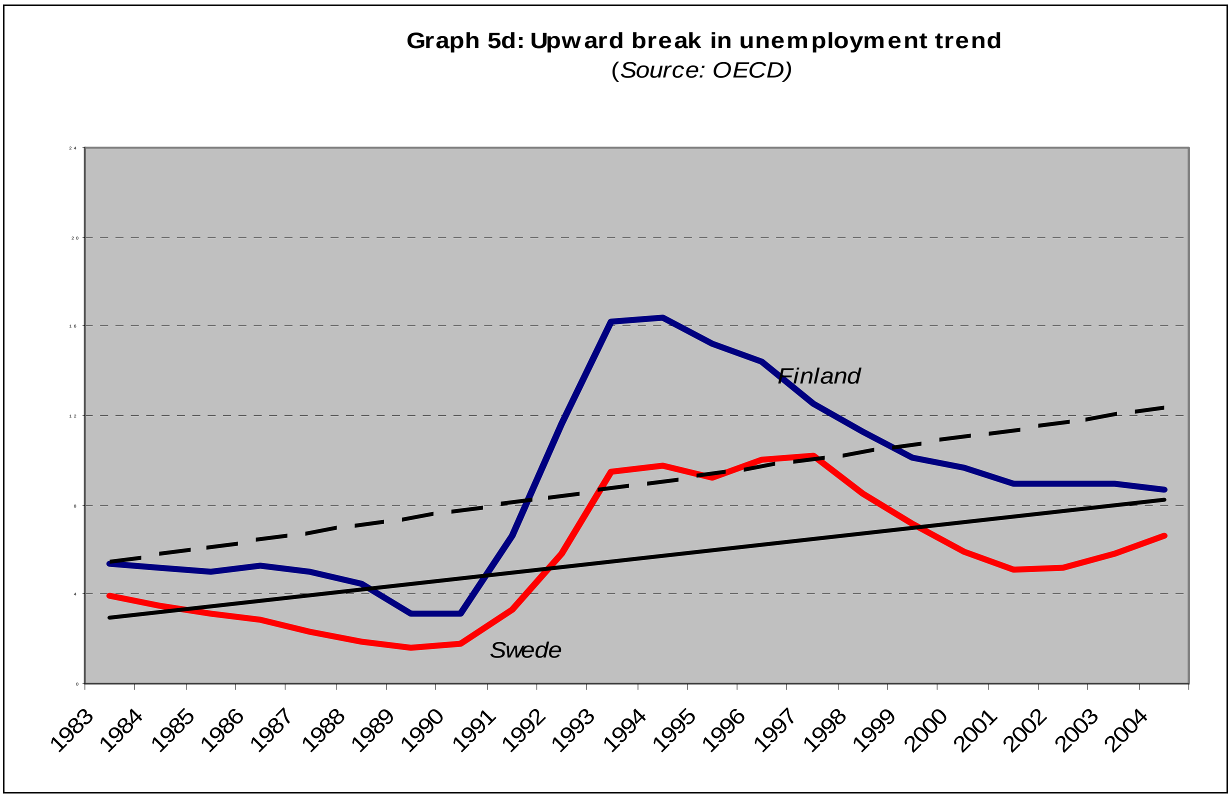


Graph 5a: Continuous underlying dow nturn in Unemployment
(Source: OECD)
24
20
16
12
8
4
0
Spain
Ireland
UK
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004



Graph 5b: Slowly decreasing Unemployment
Source: OECD
Denmark
Portugal
1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004


Graph 5c Resistent low level of unemployment
(Source: OECD)
Norway
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004


Graph 5d: Upward break in unemployment trend
(Source: OECD)
Finland
Swede
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004

Graph 5e: Persistent mass unemployment
(source: OECD)

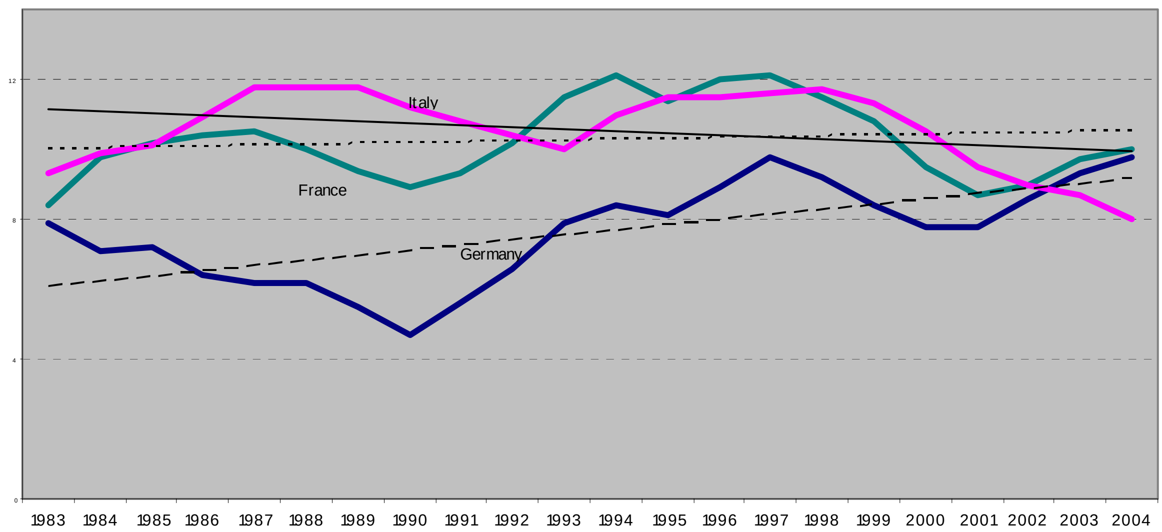
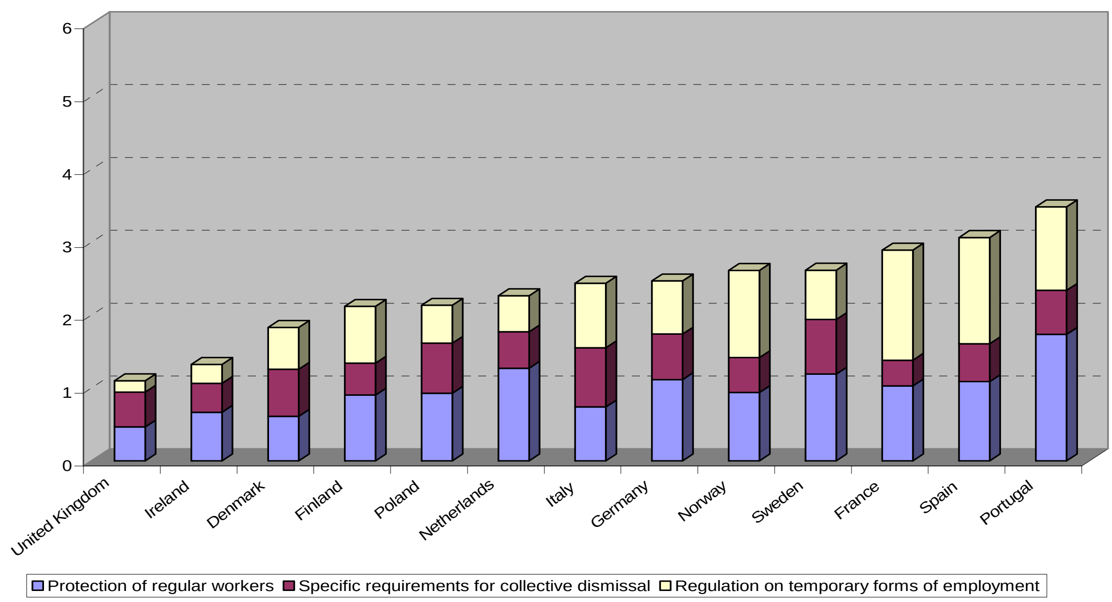


Figure II.1: **Overall summary Index of EPL strictness and its three main components, 2003**
(source: OECD)



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