

Wetenschappelijke Raad voor het Regeringsbeleid

W 40
Social Policy-issues in
Economic Planning

Report of a Conference

TRWB

adviescollege voor sociaal en cultureel beleid

's-Gravenhage, april 1989

This Working Document can be ordered at "Distributiecentrum Overheidspublikaties", P.O. Box 20014, 2500 EA The Hague, by paying f 10,-- on giro 751 or by letter or telephone (070-789880) in mentioning title and ISBN-number and the number of copies you want to have.

Exemplaren van deze uitgave zijn te bestellen bij het Distributiecentrum Overheidspublikaties, Postbus 20014, 2500 EA 's-Gravenhage, door overmaking van f 10,-- op giro 751 dan wel schriftelijk of telefonisch (070-789880) onder vermelding van titel en ISBN-nummer en het aantal gewenste exemplaren.

ISBN 90 346 1890 0

Publikatie van de Wetenschappelijke Raad voor het Regeringsbeleid (WRR) (Publication of the Scientific Council for Government Policy).

CONTENTS

PREFACE

OPENING STATEMENT

1

by Mr. Joop van der Reijden,
chairman of the HRWB

I. Introductory presentations and discussions

1. "STRUCTURAL CHANGES" 9
by prof. Ad Geelhoed (WRR), the Netherlands
Discussion chaired by prof. Bernard van Praag
(the Netherlands)
2. "CITIZENSHIP AND SOCIO-ECONOMIC POLICY IN THE
NETHERLANDS" 23
by prof. Hans Adriaansens (WRR),
the Netherlands
Discussion chaired by prof. Bernard van Praag
(the Netherlands)
3. "LABOUR MARKET INSTITUTIONS AND ECONOMIC
PERFORMANCES" 39
by prof. Martin Rein (MIT, United States)
(summary)
Discussion chaired by Peter Brannen
(United Kingdom)
4. "SCOPE FOR GROWTH AND THE NEED FOR THE
INCREASED PRODUCTION OF SERVICES" 45
by Gerard Keijzers (WRR), the Netherlands
Discussion chaired by Seppo Moisio (Finland)
5. "SUMMARY AND EVALUATION OF THE CONFERENCE" 59
by Simon Miles (Canada)

II. Papers of the participants

6. Willem Dercksen (the Netherlands), 65
"The WRR-report on Active Labour Market Policy"

7.	Ola Ribe (Norway), "Possibility and Contents of an Active Labour Market Policy; some conditions"	75
8.	Costas Kanellopoulos (Greece), "Notes on the Content of Labour Market Policy"	79
9.	Peter Brannen (United Kingdom), "UK Labour Market Policy"	83
10.	Michel Gaspard (France), "Employment and Unemployment in France up to 2000: the Challenge of Service Activities"	89
11.	Michal Malawski (Poland), "Wage Differentiation in Poland"	95
12.	Seppo Moisio (Finland), "The Tripartite Approach in Finnish Incomes Policy"	99
13.	Heiki Palm, Kalevi Luoma (Finland), "Centralization of Wage Bargaining, the Size of Public Sector and Health Care Costs"	103
14.	Simon Miles (Canada), "The Changing Role of the Welfare State: Implications for Redistribution Policies"	117
15.	Erik de Gier (the Netherlands), "Improving the Quality of Society"	129
16.	Peter Bod (Hungary), "A Welfare State of Sorts; the Hungarian Choices"	133

Annex

17.	CONFERENCE PROGRAM	141
18.	LIST OF PARTICIPANTS	145

PREFACE

The Netherlands Government Advisory Council for Social Welfare Policy (HRWB) and the Netherlands Scientific Council for Government Policy (WRR) jointly organized the 11th seminar on the integration of social aspects in macro-economic planning and policy making.

The meeting, held at the premises of the HRWB at The Hague from November 2-4 1988, dealt this time specifically with the theme of "The main consequences of changing responsibilities between the state, the market and the intermediate sector for policies of redistribution".

In this working document the introductory papers and discussions of the seminar are presented in Part I. Part II presents the other contributions of the participants. At the seminar Martin Rein's contribution concerned his booklet "The Dutch choice" (in the series "Dwarskijken", HRWB). Therefore, we here only present a short summary. Added also are the official conference program and the list of participants.

The contents of the papers are presented under responsibility of the authors. The papers were edited only marginally.

The seminar could be successful because of the active contribution of all participants. We do hope that with this seminar a second decade of annual seminars on relevant socio-economic policy issues has started.

The organizing committee:

Erik de Gier (HRWB)
Rieneke Meij (HRWB)

Willem Dercksen (WRR)
Gerard Keijzers (WRR)

The Hague, April 1989

Opening statement by Joop van der Reijden, Chairman of the
Government Advisory Council for Social Welfare Policy and
former Minister of Health

Ladies en gentlemen,

It gives me great pleasure to be the opening speaker today. I will be speaking on behalf of the WRR (Scientific Council for Government Policy) and the HRWB (Government Advisory Council for Social Welfare Policy). I understand from the organizing committee that the seminar today marks the 11th seminar in row on the subject of integration of social aspects in macro-economic planning and policy. This is the second time the seminar is being held in The Netherlands; the first time was in The Hague in 1979. Chairman at that time was the Minister of Social Affairs, Wil Albeda, whom you can meet at the WRR-reception for participants this evening.

Similar to the first seminar, held in the Netherlands in 1979, the central topic of this seminar concerns problems on the labour market. However, there will be no repetition of old facts. The situation on the labour market has changed drastically in the last decade. This holds truth not only for the Netherlands, but also for the majority of the other West-European countries; with the exception of the Nordic countries.

Since the beginning of the eighties unemployment has become an actual and persistent problem in many European countries. This has not been the case since 1945. Especially alarming is the fact that the group of long term unemployed is still in its growing stage in almost all of the Western European countries. This group consists of people who have been out of work for over two or three years.

Nevertheless there are differences which are not only interesting but also easy to recognize between the Western European countries. Some countries like Norway, Sweden, Austria and Switzerland manage to maintain the rate of unemployment below five percent in the beginning of the eighties. At the other extreme, countries like Belgium, the Netherlands and Denmark all have an unemployment rate of over ten percent. The situation has hardly changed by now. In between these two groups there is a number of countries with medium high unemployment rates (between five and ten percent). Examples are France, Germany and Finland. Presently about half of the total number of the unemployed in the Netherlands belong to the group of the long term unemployed. The government has tried to diminish this group by a number of different policy measures like shortening of labour time, a subsidized wage system, training and work experience programs.

At this point the government and the social partners are discussing the possibility of lowering labour costs at the minimum wage level. Employers have to pay a substantial complement to the net wages of their employees because of tax duties and the need to pay social premiums. The hypothesis behind this government plan is that lower wage costs will lead to an increase of labour demand. I am confident that this new policy will contribute to a drop in the unemployment rates. However, I have some doubts whether it will be the ultimate solution to the problem. For it to be the ultimate solution the Dutch unemployment problem is too complex, even more so if we regard it on a short term basis. To give you an example of this complexity, historically the Netherlands have had a low participation rate of married women in the work force. Currently the rate is at about 35 percent, which in itself is the lowest rate in Western Europe. However, the percentage of married women in the workforce is steadily increasing. This means that the growth of the Dutch labour supply will be relatively higher than elsewhere in Europe over a range of years. But this is only one relevant factor; in addition, the Dutch labour market also has to cope with the growing influence of an

aging population. This as you may know is a tendency which also can be noticed on other labour markets in numerous other countries. At the same time the Netherlands experiences, like other western countries, the influence of declining birth rates, a development that started in the sixties.

Another relevant factor is the fact that unlike the Nordic countries, the Netherlands have not really focussed on the development of labour market policies. Much more attention was paid to the development of the social security system. Only a few years ago the Netherlands had one of the most developed social security systems in the world. The system, however, has been subject to change. Important in this respect is the question why they did not choose for a more active labour market policy and to simultaneously work on a more modestly composed social security system. I believe that part of the explanation deals with the fact that the Netherlands have a typically Dutch social and cultural structure based on so-called religious and secularized pillars. For a number of years the institutions involved have coexisted on the fragile basis of national consensus. This consensus was inspired primarily by the dominant christian ideology on charity and caretaking. There was less emphasis on socio-economic consensus between labour and capital.

Summarizing, you can see that the Dutch labour market is a relatively complex phenomenon and to battle its unemployment is a problem that asks for a diversified policy response. I would like to point out to you that the Dutch labour market has shifted its attention to the way labour policies are applied in the United States.

Tomorrow Professor Martin Rein of the Massachusetts Institute of Technology will give you a more detailed description of this recent development. At the request of the Government Advisory Council of Social Welfare Policy Dr. Rein has compared recent developments on the Dutch labour market to developments on the labour markets of Sweden and the United

States. The policy of the latter stands as an outstanding example of supply side labour market policies, while the former seems to focus more on the so-called Keynesian welfare state. I believe he will not mind if I disclose the outcome of his study to you: it shows that despite of a continuous interest in the Netherlands for the Swedish model, the policies are becoming increasingly US-oriented. Again the important question is, why does this happen this way?

We will know more on this subject after the presentation of Professor Hans Adriaansens, member of the WRR, this afternoon. However, not only Dr. Adriaansens will speak on the subject of labour markets, Mr. Gerard Keijzers, staff member of the WRR, will do the same on Friday morning. Hopefully these three introductions will help to give you a better impression of the developments on the Dutch labour market in comparison with the developments on labour markets in other countries. I count on the fact that these presentations will at least stimulate you to participate in discussions these next few days.

No matter how important the labour problem is, the scope of the conference is not restricted to labour market problems. The subject-range of the seminar fortunately is much larger than that. In addition to the need of redistribution of labour, in the socio-cultural structure of the West European countries (the Netherlands in any case) it is important to keep as the subject of policies, the redistribution of income in order to prevent the fact that too many people will drop to the poverty level or below that. I use these words even though I realize that they may have a relative meaning in a global perspective.

Professor Ad Geelhoed, member of the WRR, will particularly focus in his contribution on the changing responsibilities and the main consequences thereof for policies of redistribution of income in the near future. I believe that this topic is relevant not only because it has got everything to do with the apparent diminishing possibilities in our

societies for directing highly complex matters, such as unemployment, new poverty, and the aging of society, but also with another problem which I have not mentioned until now, namely the growing pollution of the environment.

It is my opinion that the extent to which we are able to solve the environmental problems will be decisive for human well-being in the future. Governments have grossly underestimated this problem until now. I would like to point out to you that the Government Advisory Council for Social Welfare Policy has recently paid attention to this problem. A few months ago the council published a report which showed the increasing importance of linking social and environmental policies. The conclusion of the report was twofold. First, the government indeed has to acknowledge this aforementioned connection and second, not only the government but particularly the social partners will have to play an important role in the development and the promotion of a more frugal life style, not only for the people, but also for public and private institutions.

Above and beyond this we need renewed forms of social and industrial citizenship, in which not only rights will be stressed, but public duties as well. I am confident that this is not only a necessity in the Netherlands, but also in other member states in the European Community, in the OECD-region as well as elsewhere in the world. With this in mind I am very happy with the attendance at this seminar of two representatives from Eastern Europe. An exchange of experiences and views between West and East will certainly prove to be successful.

Ladies and gentlemen, I am convinced that the seminar will be a great success and I am sure it will be a worthy successor to all meetings held prior to this one. The HRWB and WRR are happy to be your host in the next few days. By the way, I am not sure if everyone here knows that this effort will mark a unique moment in history for the Dutch present at this conference, but for those of you who do not: the Dutch government has decided to merge both institutions in

one powerful, and, I hope, prestigious advisory body for government policies in the Netherlands. I hope this does not discourage those of you who are accustomed to doing business with just one of the organizations.

In conclusion, I would like to wish you all a good seminar. And let me mention that in addition to the formal part of the program, there is an informal part which will give you ample opportunity to get acquainted with the Dutch culture and Dutch hospitality and to give those of you who already are familiar to this, a chance to re-acquaint themselves.

I now would like to ask the chairman of the day, Professor Bernard van Praag, member of the WRR, to go ahead with the seminar.

Thank you very much.

I. INTRODUCTORY PRESENTATIONS AND DISCUSSIONS

1. STRUCTURAL CHANGES

by Ad Geelhoed, Scientific Council for Government Policy, The Netherlands

The capacities of the national Welfare State to pursue its social welfare and social-security policies are gradually eroding. Economic, as well as socio-cultural and technological developments, which can hardly be influenced by direct state-intervention, are gradually changing the environment in which the national Welfare State operates.

The gradual erosion of the Welfare State's intervention capacity is, in my view, attributable to three distinct major causes.

LOSSES OF INTERNAL SOVEREIGNTY

The capacity of the state and its institutions to act effectively in the design and administration of the typical arrangements of the Welfare State is at present diminishing. Social-cultural, economic and technological developments are making our society more mobile, more heterogeneous and more unpredictable. As our society becomes more heterogeneous and mobile in cultural as well as social-economic respect, as the ideas of individuals on the organization of their personal life and on the ultimate goals of the society, grow more divergent, the formation of a durable basic-consensus on the position and role of government becomes more difficult. The national state cannot manifestate itself anymore as the pre-eminent expression of a broad consensus on the aspirations of the national society. Societal fragmentation, in socio-cultural and socio-economic respects, condemns the state to modesty. We are living in a period of adaptive government; the times of aspiring a "Great Society" seem long ago. But even where still general consensus on the objectives of governmental policy exists, the a-just mentioned developments are making administrative action more and more difficult. For instance: our social-security system has been built on certain assumptions to the effect that behavioural norms and role pattern were reasonable fixed.

- The family, consisting of a husband, wife and one or more children, was considered as the cornerstone of society, and marriage was a contract entered into for life. Within the marriage the husband was the sole income-earner and married woman normally kept to managing the household and caring for the children.

Nowadays none of these basic-assumptions is valid anymore. We see a great variation of households and more and more married women are presenting themselves on the labour market. But the shift to looser family-relations and to an other division of paid and unpaid work within the family has not been a general one. Large parts of the population are adhering to the traditional patterns.

Obviously the social security-system has to be restructured as the basic assumptions on which it was built are not valid anymore. But this is not an easy task, while, on the one hand, the individual opinions and interests are more at variance and, on the other hand, the finding of new solutions is technically much more difficult because of the greater range of various income-situations to be taken into account. Any possible solution to this problem will meet resistance by parts of the population; consequently the administration of the system will become more cumbersome and costly.

It is easy to find numerous comparable examples on practically all fields of governmental welfare and economic policies, as housing, education, public health and regional policies. They all have two aspects in common: the formulation of generally accepted goals has become more difficult, and the execution there-of more onerous.

Not only the state as such is afflicted by the growing mobility and heterogeneity of opinions within our society. The central organizations of labour and employers have also to deal with these developments. The capacity of the so-called "social partners" to represent the interests of their members is shrinking. The margins they have in negotiating with the central government are shrinking too.

Consequently, the organization of consensus on the general directions of governmental policies in the socio-economic field has become practically impossible. Without support and coverage of the social partners, the Welfare State can have only limited ambitions.

The fragmentation and diversification of the social fabric entail, as side-effect, a proliferation of special interest groups. In defence of specific interests they address themselves to the State and try to get involved as much as possible into the decision-making processes. Preferably they seek to ensure institutional and substantive guarantees for the interests they represent. This well-studied phenomenon leads to a situation in which the Welfare State is tied to a still growing number of specific legal arrangements, while at the same time a more mobile society demands the State to free itself from its institutional sclerosis. This paradox is paralysing the Welfare State.

LOSSES OF EXTERNAL SOVEREIGNTY

In its report "The Unfinished European Integration", the WRR has already described the losses of external sovereignty due to the European economic integration process. These losses in capacity to act effectively cannot only be attributed to the process of European integration; they are, at least partially, caused by the growing interdependencies in the economic world system. For the Netherlands the growth rate of the world trade is a dominant factor, a primordial condition for a sustained growth and a return to full employment. Important changes in the Dollar-Deutsch Mark parity are to a certain extent a decisive factor in our monetary and fiscal policies. Thus, the macro-economic context for the specific Welfare State policies is largely determined by forces well out of the scope of intervention of the national authorities of a relatively small country. How frustrating this may be, it is a factor to be reckoned with. More precisely, this leaking away of national capacities to intervene on the market, can be rubricated as follows:

a. Very important and radical economic, technological and ecological developments are coming about on a supra-national scale. These developments are for the smaller national societies and States exogeneous data. They may be able to react upon these data, but they are certainly not able to influence them autonomously. So the national policy-agenda is more and more dictated by external forces. This process demands, especially from the smaller national States, much adaptability in their internal institutions and in the contents and instruments of their various welfare policies. Experience of the last twenty years learned that the Dutch society could only partially meet this demand. In the national Welfare State the actors involved in the national decision-making processes tend to be inward-looking; normally they do not sufficiently and timely take into account changes in the external context. This explains, at least partially, why the autonomous national economic policy-measures of the recent past were so ineffective.

b. Public interventions to influence developments at a supra-national level make in the long run only sense if they are co-ordinated at that level or if the powers to take the necessary measures are attributed to international or supra-national organizations (or institutions).

But the growing intensity of international economic interdependencies also affects the national capacities to act with respect to problems which, in theory, can be solved in a national context.

National measures to correct imperfections in the functioning of the market or to protect interests that might suffer in a situation of unfettered competition - such as statutory requirements in the interests of public health or energy conservation - in principle apply equally to all actors in the national market. But when in a more or less finished common market, Member States begin to introduce such measures, it is likely that those will vary in terms of content and costs. As a result, both the protection of the interests involved

and the ensuing commitments may also diverge. In these circumstances a common market makes it much simpler for the parties in the market to evade the statutory requirements of a particular state by transferring their activities elsewhere within the community. Bluntly said: a national society aspiring a relatively high level of social security or environmental protection may be punished by a high level of unemployment. In order to prevent "a race to the bottom", minimum levels and standards need to be determined at community level. Market integration requires policy-integration: the use of national powers becomes subject to the use of community powers.

- c. Co-ordination of national policies and the attribution of national competences to supra-national institutions entail for national policy-makers legal obligations and restrictions in fields where they possessed hitherto wide discretionary powers. The current practice of the European integration process learns that national governments and Parliaments are ill-at-ease with the ever shrinking margins for their national policy-preferences. As a result they are sometimes confronted with unexpected set backs, resulting from EC-Court decisions. Inevitably the national law-making process becomes more and more a judicial exercise. In this way the national legislative bodies directly meet the losses of their external sovereignty.

THE EROSION OF THE SOCIO-ECONOMIC AND SOCIO-CULTURAL BASES OF THE WELFARE STATE

The socio-economic and socio-cultural fundaments on which, after the Second World War, the Welfare State has been constructed are gradually crumbling away. The expansion of the industrial sector does not entail an expansion in employment anymore. Industrial policies and employment policies are becoming less and less congruent. National governments have lost the capabilities of pursuing autonomously short term macro-economic policy goals. Most of the

classical Keynesian macro-economic policy-instruments have become, wholly or partially, obsolete in the present context. A de facto free movement of capital within the common market has made unilateral national monetary interventions ineffective or even counter productive.

Unilateral fiscal and budgetary interventions to boost aggregate demand are extremely hazardous, because a too ambitious national government may incur, as the French experience in the beginning of the Eighties shows, a growing budget deficit and a trade deficit as well. Public price controls meet the very strict legal limitations of the EC-Treaty and wages- and income-controls can hardly be made operative without the (lacking) consent of the social partners. But even if aggregate demand management would still be possible, would full employment be the result? I have my doubts. The larger part of the present unemployment must be ascribed to structural causes that cannot be remedied by macro-economic demand policies.

Most of the present social security-arrangements were constructed under the presumption that full employment could be assured by governmental macro-economic interventions. As that presumption proved to be invalid, the social security systems of the Welfare State are facing overburdening outlays in benefits and diminishing returns in payments. At first governments tried to meet both, by a reduction of the individual entitlements as well as by a rise of the compulsory contributions. But here, too, the policy margins are narrow. On the one hand the recipients of social security benefits may not be pushed below a socially acceptable poverty line, on the other hand high transfer payments have an adverse effect on labour costs and, hence, on employment.

Comparable problems of shrinking receipts and expanding expenditures have shown up in literally all fields of positive public intervention, as housing, education, public health provisions, etc. All the entitlements the Welfare State promised to the lesser-well-off have proven to be extremely weak. In its promises that State turned out to be

- untrustworthy. The most fundamental question the national Welfare State now faces is a credibility-deficit with those population groups that depend on its provisions.

STRUCTURAL SOLUTIONS?

When seeking solutions for the present problems of the Welfare State, nostalgia to the haydays of that State in the late Sixties and early Seventies would offer bad advice. But the same observation is applicable to those who want to go even further back, to "les beaux temps d'antan" of the "caring society" with a particular corporatist flavour. The traditional social unities, as the extended family, parish, guild or local community, proved to be even more vulnerable for the same developments that have eroded the foundations of the Welfare State. Moreover, the Welfare State came into being just when and just because the traditional unities failed to meet the requirements of an industrializing society. How then could we expect those unities to be able to meet the demands of a post-industrial society? Others are advocating the transformation of the Welfare State into a "safeguarding" state, in which most of the public provisions could be abandoned to the much more efficient market. A market which would, no doubt, also prove its efficiency in the allocation of well-being and happiness for all those individuals which act according to utilitarian prescriptions. This solution, with the flavour of a peculiar Thatcherite bias, leaves one fundamental question open to answer: which safeguards, to what extent and to whom?

In my analysis the prevailing political doctrines do not offer viable solutions to the fundamental problems our Welfare State and our society is presently meeting. First of all because all the solutions offered as self-evident, do not take into account the reasons for the Welfare State and the causes of its present jeopardy.

The basic "raison d'être" of the Welfare State is the demand for safeguarding on a decent level of existence for all those, who temporarily or definitely cannot meet the requirements in skill and education of our post-industrial society.

No doubt such a society will entail higher claims and risks to its members. Could we expect that they are willing to meet them, when a decent level of subsistence is no longer safeguarded?

In my opinion the Welfare State in Western Europe faces important strategic choices:

- a. Restoration of the conditions for an effective macro-economic policy-management. Does this require at European Community level a adequate institutional framework for the co-ordination of national macro-economic and monetary policy goals as well as interventions?
- b. Convergence or divergence in the structure and level of social security benefits and provisions? Is a gradual and differentiated approximation really needed? Can Member States of which the economies have become heavily interdependent afford substantial disparities in their social security-systems?
- c. To what extent will it be possible to combine security and material equality in the administration of social security? Does a dynamic and pluralist society demand flexible and differentiated social security systems or must we go back (or forward) to systems to be based on individual rights and obligations, irrespective of an individual's family situation?
- d. If labour market mobility is necessary to contain the number of permanent unemployed, must unemployment benefits be made conditional to the benefitors' willingness to improve their skills and education? In short: how hard is the case for the "hard" Welfare State?

Plenary discussion in connection with "Structural changes"
by Ad Geelhoed

(chairman Bernard van Praag, rapporteur Willem Dercksen)

Michel Gaspard (France) started the discussion by commenting on each of the causes of the gradual erosion of the Welfare State's intervention capacity mentioned by Geelhoed. In Geelhoed's view the losses of internal sovereignty - the diminishing capacity of the state to act actively and effectively - are caused by the unpredictability of the effects of developments such as growing social heterogeneity and social fragmentation. At present it is difficult for governments to base its policies on social consensus. However, Gaspard stated, societies have always consisted of different social groups with different interests. Possibly individualization is a new phenomenon, but social fragmentation is not. In the 1950s and 1960s government policies could be based on social consensus, even though there was a certain degree of social fragmentation in these periods. This implies that, at least in theory, it must be possible to find a new social consensus. The actual problems for governments are - at least partly - related to financial problems. Compared to the 1950s and 1960s, the present lack of economic growth frustrates the possibilities for active and effective policies. In the 1980s the reduced financial means for state intervention caused a growing competition between interest groups. Consequently, Welfare States suffer from a declining legitimacy.

In Geelhoed's view the losses of external sovereignty are caused by the European economic integration process and the increasing interdependencies in the world economic system. Nations are now less autonomous than in the past and traditional economic policies do not work anymore. According to Gaspard this analysis is too simple. For instance, at this time Germany has large margins for Keynesian macro-economic policy. Japan has these margins as well. The USA showed in 1983/84 a partial success in pursuing Keynesian policies. The results were high economic growth and high deficits.

These examples neither prove or disapprove the bankruptcy of national Keynesian policies; however they do complicate Geelhoed's analysis of losses of external sovereignty. Possibly, the EC can successfully apply traditional macro-economic policies in the future. This certainly implies a loss of sovereignty for the nations involved. A second argument against Geelhoed's analysis is that not all field of society are equally influenced by international economic interdependencies. These fields offer chances for active and effective state intervention. For instance the services sector is not as internationalized as agriculture or manufacturing. Services in many cases are organized on a regional or local basis. Probably they offer a fruitful field for effective national employment policies.

In Geelhoed's analysis the gradual erosion of the Welfare State's capacity to intervene is further caused by the crumbling away of its socio-economic and socio-cultural fundaments. Aggregate demand management became impossible and the social security systems, educational systems and public health systems meet shrinking receipts and increasing expenditures. Gaspard thinks that "inversion" is a better phrase for this process, than "erosion". In the future, economic growth might provide a basis for an other inversion of the present logic. The services sector may become the new source of economic growth.

Michel Gaspard draws three conclusions from his comments:

1. it is necessary to enlarge the financial margins for state interventions. States have to find new sources of power and finance in renewed economic growth. This will provide the necessary means for the maintenance of internal and external sovereignty;
2. social policies must be adjusted to meet the present situation; for instance, to provide for child care. There is a need for new institutional frames. In the future, the state will probably provide less services itself, but might work together more intensively with other partners (communities, regions, social partners) in order to provide services;

3. the state can find new fields of intervention in the services sector; here states will be less sovereign and more partners.

Gerard Keijzers (The Netherlands) puts forward that losses of internal sovereignty are not a new phenomenon. In history there are more examples of interest groups causing losses of internal state-sovereignty.

Ad Geelhoed (The Netherlands) answers that the Welfare State is not suited for all economic seasons. Economic growth is a necessary condition; if there is no growth the Welfare State will disappear. At present national states are not able to manage economic growth. However, this possibility does exist on EC-level. Because of this, he argues that the process of market integration must be complemented by integration of policies. Unfortunately, there is no consensus between countries on major socio-economic objectives. This consensus needs to be developed. As a new source of economic growth, a transformation of social security benefits to social services might be an objective to agree upon.

Bernard van Praag (The Netherlands) asks Geelhoed for further explanation. Does he intend to expand the collective sector or is the intention to create a system of workfare. Geelhoed (The Netherlands) answers that there exists a need for a lot of services. However, the finance of these services is the problem. A transformation of social security benefits to the finance of these services might generate employment in these services fields.

Peter Brannen (United Kingdom) has some additional comments. In his view economic growth is necessary for the future maintenance of the welfare state. But also the existence of the welfare state itself is a necessary precondition for economic growth. In addition, the welfare state is still alive as an important component of the economic system. The EC have the potential for sovereignty on a community level. This sovereignty can be used to fight long term unemployment, as one of the largest problems of a lot of European countries.

- Bernard van Praag (The Netherlands) puts forward that social security is a luxury good. There is a relation with the other forms of economic production. Probably there is an optimum level of social security, depending on the wealth of a nation. In a lot of countries a reduction in the level of social security might generate economic growth.

Martin Rein (United States) criticizes this hypothesis, because there is no empirical evidence for it.

Erik de Gier (The Netherlands) suggests that because of socio-cultural developments a new principle for redistribution is needed. A principle of individual redistribution also requires a new principle of social justice.

Ad Geelhoed (The Netherlands) states that social justice in terms of equality is connected with the Welfare State. Processes as individualization and social fragmentation, however, cause variations in income levels. Thus, the family as the standard for measuring differences in income becomes improper. At present there is no justifiable standard for measuring differences in income.

Michel Gaspard (France) wonders if more social injustice cannot be a source of economic growth. For instance the USA have economic growth, as well as a growing inequality in income distribution.

Ola Ribe (Norway) wonders why Holland has not incorporated employment chances in economic planning. Why has there been no transformation of unemployment through the provision of social services as in Norway or Sweden.

Ad Geelhoed (The Netherlands) answers that there are two reasons: 1. institutional reasons; there is a fear of substitution by organized workers. The existing social security system appeared to be a blockade to this kind of strategy for fighting unemployment; 2. actors in the public sector have lost confidence in finding effective solutions for the unemployment problem.

Karel van den Bosch (Belgium) remarks that in Holland social security expenditure is rather stable now; forecasts on this subject do not foresee major problems either.

Martin Rein (United States) adds that also in OECD-prognoses there is scope for growth in the Welfare State.

Peter Bod (Hungary) wonders if the Welfare State really is a luxury good. Possibly the Welfare State prevents a lot of social problems, for instance crime. In other words, social services pacify and are an alternative for repressive services (police).

Bernard van Praag (The Netherlands) concludes that there is a relation between economic growth and social security/social services and vice versa. Theoretically, there must be some economic optimum for the extent of the Welfare State. In practice, however, it is difficult to indicate this optimum. In any case the sky will not be the limit for the Welfare State.

2. CITIZENSHIP AND SOCIO-ECONOMIC POLICY IN THE
NETHERLANDS*

by Hans Adriaansens, Scientific Council for
Government Policy, The Netherlands

"Holland is an extraordinary country". When Mr. Van Eekelen, our former Secretary of Defence, was forced to resign, he spoke these memorable words in his farewell-address to our House of Commons, and he did put a lot of drama in them. Understandably so, for, unlike Mr. Profumo some decades ago, he wasn't accused of fooling around with call-girls; Mr. Van Eekelen is indeed a very honourable man. And unlike Mr. Carrington some years ago, he couldn't be held responsible for having overlooked a war threat either. No, Mr. Van Eekelen had to leave office because his successor at another government-post was accused of having misled the Parliament with respect to the production of a new Dutch passport. No moral scandal, no war, but just a simple passport: for foreigners, it must be difficult and hilarious at the same time to grasp the deeper codes of our political culture.

However, not only with respect to political culture does Holland have its idiosyncracies; in socio-economic respect, too, Holland is an extraordinary country. Let me give you a few examples. A few number to begin with:

- a. Only 50% of the population between ages 15 and 65 participates in any official economic activity which belongs to what is called the "formal" sector. This percentage is as low as that of Ireland and the Mediterranean countries, considerably lower than that of Denmark, the United Kingdom, West-Germany and France, and it shows, on top of that, a slightly downward tendency. Compared to activity rates in countries with which Holland and the European Community are supposed to compete, the situation is even worse: in Japan, whose

* Transcript of a lecture held on November 2, 1988.

economic system is admittedly not entirely comparable to ours, socio-economic participation rates hover around 70%. In the United States that same level of 70% is reached and the tendency there is decisively upward. In Sweden over 80% of socio-economic participation is realized, and even that already very high number has a slight tendency to grow.

So, of a grand total of almost 15 million people living in Holland, approximately 10 million belong to the age groups between 15 and 65. Only 5 million of them are economically active. The other 5 million are (next to the people who are under 15 and over 65) economic dependent either upon state provisions (like the unemployed, the sick and the disabled, a little over 2 million) or upon family-maintenance (another 2½ million people, mostly women who are not officially registered as unemployed and children between 15 and 18), or on a combination of both dependencies (students!). I think we may conclude that the formal sector in Holland is indeed remarkably small.

- b. There is a second series of interesting facts. No other country in the western world has an extensive "informal" economic sector comparable to Holland. This, very often illegal, side of Dutch economy, in which no taxes or premiums are paid by either the informal employer or the informal employee, has grown very rapidly. Recent studies (by OSA, the organization of strategic labour market research) have shown that about 55% of Dutch households regularly call upon informal paid labour to perform services. No less than 40% of people between age 17 and 65 form the supply-side of this informal labour market. It is estimated that, depending on how many shades of grey are included in the definition of this "black sector", the equivalent of some 400.000 full-time jobs is involved, being almost 10% of total Dutch employment.
- c. But there is more. Perhaps Holland is to a lesser extent a "nation of joiners" than Alexis de Tocqueville said America was, but it most certainly has a very extensively developed voluntary sector. Over 5 million people

(a higher number than that of the formal labour sector) are on an regular and organized basis committed to voluntary work. It has been recently estimated that these activities represent the equivalent of 8% of the Dutch GNP and of 800.000 full-time jobs.

- d. And finally, not unlike Sweden and the United States, Holland shows rather positive signs of economic development; of course, the rise of the per capita Gross Domestic Product hasn't been that impressive as it used to be in the sixties and early seventies, but there still has been a rise and compared to the early eighties there is strong evidence of economic recovery. The same is true for the wages, real wages, that is, for the people who are employed.

So, what do we have: on the one hand decreasing numbers of people participating in the formal labour sector, on the other hand increasing numbers of people working in the informal en/or black sector and the voluntary sector. In relation to these numbers (400,000 jobs in the informal sector and 800,000 jobs in the voluntary sector) it is at least interesting and paradoxical at the same time, to note that official unemployment in The Netherlands is at the level of about 700,000 people.

Let me end this introductory section with two preliminary conclusions: first it seems that very high levels of (formal) unemployment go very well together with comparatively "normal" levels of economic growth. Dutch performance on the score of economic growth is certainly at the same level as that of the United States or Sweden, and maybe even better than that of many EC-countries. This preliminary conclusion contains, of course, nothing new: we simply have to face the fact that high unemployment and a steady level of economic growth go very well together. But we also have to face the fact that it doesn't need to be that way. There is a difference between countries, like Sweden and the USA, who have apparently spent the bulk of the realized economic growth to employment, while others, like Holland show a

relatively rapid growth of real wages and at the same time a steep rise in unemployment. It was Freeman who, among many others, called our attention to this trade-off between real wages and employment, as he said:

"All the calculations show that, holding fixed the growth of output, economies, where real wages grew relatively rapidly had relatively slow growth in employment and conversely. The United States and Sweden, for example, did not have markedly higher growth of real GDP than other countries, but did have markedly lower growths of real wages and correspondingly higher growths of employment. Because rates of growth of GDP vary less than rates of growth of real wages, the bulk of the story about differences in performance is told by the real wage employment trade-off."

As Martin Rein, who will give his contribution tomorrow, will certainly deal with this part of the question, I can go on to my second preliminary conclusion: comparing Dutch performance on the score of employment with the United States and Sweden, but also with various countries of the European Community, it seems probable that on the general level of socio-economic policy some typically Dutch idiosyncracies play a hidden but important part in causing unemployment.

It is with respect to this second conclusion (of the Dutch idiosyncracies in socio-economic policy) that I would like to say a few words. It may be good to tell you my own conclusion in advance. I will call for serious and strong policies with respect to employment. Frankly, I would hate the idea of Holland inventing yet another form of "apartheid": not civil and political apartheid this time, like in South Africa, but a new kind of socio-economic apartheid on an institutionalized basis, in which some people officially work and others are officially forced to refrain from work: full citizenship for some and only half citizenship for others. I would maintain that in view of this threat we need to rethink not only our specific labour market policies, but also the main tenets of our social economic policies in general. In this contribution I would like to do two things. I will try to explain why socio-economic participation in Holland is at such a low level and secondly why it is that

this rethinking of the main tenets of our socio-economic policies is of the utmost importance. In order to do so properly, I need to insert a short intermezzo with respect to the concept of citizenship.

In 1949 T.H. Marshall, the English historian and sociologist, made a distinction between three dimensions of citizenship (cf. T.H. Marshall, "Class, citizenship and development" and B.S. Turner, "On the concept of citizenship"). In the 18th century, he argued, there has been a significant development of civil rights targetted at the legal status of individuals; a system of formal law courts was devised as an institutional defence of these rights. These civil rights were concerned with such basic issues as the freedom of speech, rights to a fair trial and equal access to the legal system. Secondly, with respect to the 19th century, Marshall noted an important growth in political rights. That, of course, was the result of the working-class struggle for political equality and greater access to the parliamentary process. Political citizenship involved the development of electoral rights and wider access to political institutions, such as political parties, secret voting etc. Finally, with respect to the 20th century, Marshall drew attention to the expansion of social rights. They were the basis of claims to welfare and guaranteed the citizen's access to social security in periods of unemployment, sickness and distress (cf. Turner). Thus, corresponding to the three domains of citizenship rights (the civil, the political and the social), we find three types of central institutions of contemporary society (the law courts, Parliament and the welfare system), which all three function as a kind of safeguard, as a guarantee, with respect to the various citizenship rights.

Thus far, I find this analysis of Marshall rather attractive. However, there is one addition I would like to make with respect to his analysis. That concerns the aspect of active participation. The rights which were developed in the last three centuries were not only backed by formal institutions which protected people from the abuse of power. Of

course, those institutions, like the law court system, the parliamentary system and the welfare system, were of eminent importance, but for citizens to participate in a democratic society much more is needed. So civil rights like the freedom of speech became complemented by a system of education. For people to participate in the public debate they need to be educated to the point that they are able to adequately form their own ideas and have their own well-informed standpoints. So the educational system came about as the active or the participation aspect of this first dimension of citizenship. The same is true for the second dimension of citizenship, which, according to Marshall, developed during the 19th century. While the parliamentary system developed as a formal guarantee to the citizen's political rights, political parties and caucuses organized the active political participation of citizens. They so added a more active, participation side to the institutionalization of this political dimension of citizenship.

I want to concentrate, of course, on the social or socio-economic dimension of citizenship. The balance of passive and active institutionalization on this dimension forms, as I see it, the very heart of the discussion about the modern welfare state. It is the discussion between "strong" and "soft" welfare states, between active and caring welfare states. It is considered an elementary part of citizenship that people get the opportunity to take part in the socio-economic process, in very much the same way as we now think it normal for citizens to enact their civil and political rights by way of participation in educational and political structures (although, in Holland more than in the United States and Japan for example, enrollment in educational systems and participation in political parties is also at a rather low level).

It is exactly here that the development of the Welfare State has taken different courses in various countries. In some countries more than in others, passive forms of institutionalization of citizenship rights have superseded the more active forms. That is certainly the case for Holland, as the

Dutch Welfare State developed into a caring society in which some people care and others are taken care of. This is not to suggest that someone, some group or political ideology, is to blame for this situation. The question is, rather, which historical determinants played a part in this passive institutionalization of the Dutch welfare system. The answer to this question may give us also the solution to my main question, namely, why it is, that socio-economic activity rates in Holland are so remarkably low compared to other countries in the modern western world.

There is another way to put the very same question. As various authors have claimed (Therborn, Schmidt, Rein), the level of unemployment in modern western countries is significantly influenced by the extent to which the ideology of full employment has been institutionalized at the level of concrete labour market policies. In some countries, not in all, social policies and labour market policies have had, almost right from the start of the welfare system, virtually no relation to each other. The effect of that has been, that social policies were being seen as contradictory to work, contradictory to the labour market. The reception of the recent WRR-report "An Active Labour Market Policy", in which many active manpower policies were being recommended, by the cabinet as well as the two sides of industry, shows how difficult it is in Holland to develop labour market policies on their own account, that is, independent of any immediate technical-economic goal. It thus seems that the full employment ideology hasn't found a much "active" institutional backing in The Netherlands alongside the rather "passive" but extensive system of unemployment benefits and other welfare benefits.

The question is, then, how this relatively unfavorable or even indifferent attitude with respect to full employment as a value in itself has come about. Hasn't there been a time, particularly in Holland, that work was seen as a holy duty? Did not Max Weber's notion of a mostly religiously inspired "work ethic" particularly fit the Dutch situation? Yes, it did, certainly. But it has become clear by now, that adherence to that workethic and to the value of full employment

has always been more a result of a religiously inspired duty than an autonomous drive to take actively part in the development of oneself and society. The consequence of that has been, that when religious inspiration gradually faded away, labour was seen as mere duty and all hopes went in the direction of a leisure society instead of an active society. Although it may seem improbable, I would suggest that both the speed with which the Dutch welfare system during the sixties, after a very slow start, came into existence, as well as the eagerness with which existing welfare provisions since the late seventies have come under attack, stem from the very same source: the tendency for Dutch people to see themselves as parts of a system of hierarchical, pillarized, top-down, or "passive" care and duty. Because of this superseding of the active side of socio-economic citizenship by its passive side, and because of the gradual secularization of the religious underpinning of the traditional workethic, citizenship has grown into some sort of "clientship", in the same way as citizens have become clients of an all encompassing care system: objects of care instead of autonomous citizens. And just like clients, they are entitled to complain every now and then.

Why do I put so much emphasis on labour? Why do I not agree to the rather fashionable idea of leisure becoming the future's main allocative axis, the main source of future society? I do have a couple of reasons, two of which stem from social scientific thought. First of all, I am very much impressed by the literature which relates to questions of institutional or social integration. Like Durkheim, one of the founding fathers of academic sociology, I think that it is important for a society to have a minimum level of institutional integration. Changes in our modern western society have resulted in what has been called "the erosion of intermediary structures", that is, the erosion of traditional structures which, in combination with each other, were able to give identity to people. The family, the church, the school, the city as well as all kinds of organizations and, as they were called by America's Founding Fathers, the "lesser societies", they were all organized

around this religiously inspired notion of work ethic and together they defined the individual's self-esteem and formed the basis of societal integration. These intermediary structures managed to relate individuals to the great bureaucracies, granting them a place and an identity in society. Having a social identity is important for a person, "for we should not forget that democracy has its very foundation and raison d'etre in a participating, active, politically conscious demos, whose proper Sitz im Leben ought to be the social realm between the public state and the private individual" (cf. Zijderveld, in "The Demise of Democracy"). This intermediary field has become under a lot of pressure and it has gradually lost much of its identity-granting power. I am pretty sure that the intermediary field which will come instead (and there certainly will develop such an intermediary field), will most probably not be a restoration of the old and traditional "societal community" - that is, a sort of corporatist, in the Dutch case also pillarized, society.

Traditional intermediary institutions, such as the family, the neighborhood, the city, the church, the voluntary associations, may certainly regain or keep some relevance, but for the central task of achieving a certain degree of institutional integration they are no longer equipped. What about "new social movements", like the peace movement, the feminist movement, will they be able to handle this task? To a certain extent, they certainly will, but not entirely and only for a rather limited period of time, until the issue for which the movement has come into existence has lost its appeal, as Zijderveld once wrote (cf. *ibidem*). What then, is there some other mechanism which may function as an integrating device for society? There may be many, but they all need some axis around which they can be organized in order to gain in identity-granting and integrative power. Personally I think, that labour constitutes such a mechanism, such an axis. This time, however, not as a religiously inspired duty, but as a chance for personal and societal growth and development. Let us be mindful of the fact that labour, particularly the labour of post-industrial society, is not

inimical to personal and societal development, but rather a necessary condition. Therefore, we better take labour, labour market policies, and social policies in general even more serious than we have done thus far. They form part and parcel of a democratic society.

I just said that there were two reasons for me to put so much emphasis on a rethinking of labour and the role labour can play in forming a democratic society. The second reason has to do with chances and problems for policies in general (this, in fact, gives me the chance to elaborate on some notions Mr. Geelhoed has discussed this morning, particularly his idea of the loss of internal sovereignty). It has gradually come to the fore, that for policies to be effective (whether it be governmental policies with respect to ethnic minorities, the enforcement of law or policies directed toward specific groups like the young and the elderly), they should be embedded in a stream of basic and unproblematic societal process, that is, a minimum level of institutional integration. I would like to launch the suggestion that in a situation, like in Holland, where only 50% of the people between 15 and 65 take part in the socio-economic process, this minimum level is not reached, and that therefore the effectiveness of many governmental policies leaves much to be desired. That is certainly true for the sectors I just mentioned. Full employment, where employment is defined or redefined in an active way and not just seen as penance for the Fall of Man, may then constitute a precondition for effective governmental policy.

Recently some positive signs can be discovered in Dutch socio-economic policy. Very important in that respect has been that people gradually shifted their attention from the official unemployment ratio (which in fact is based on a very narrow definition of unemployment) to the broadest definition possible: non-participation. The remarkable difference between 13% unemployment and about 50% non-participation in the productive sector has made organizations, political parties as well as employer's organizations and trade unions more inclined to change toward active forms of

labour market policy. Considering the longstanding Dutch inertia with respect to active institutionalization of the full employment ideology, this may be an indication of a new era coming up, in which citizenship will get its active socio-economic dimension and the welfare state becomes a true participation democracy.

A couple of days ago I received this new HRWB-report written by Rein and Freeman, The Dutch Choice. I read it with great interest and I particularly liked their plea for a social policy complementary to work. In fact, in this contribution I also tried to relate social and economic aspects of citizenship and welfare state. I therefore may be allowed to end this contribution by quoting Rein's and Freeman's conclusion:

"...we hope that he or she will accept the main message: there is nothing intrinsic about social policy that makes it inimical to work. Some policies are inimical. Others are not. The task is to devise policies that are complementary to work."

These words are as true as the words I started this contribution with: Holland is an extraordinary country.

- Plenary discussion in connection with "Citizenship and socio-economic policy in the Netherlands" by Hans Adriaansens (chairman Bernard van Praag, rapporteur Rieneke Meij)

Seppo Moissio (Finland) in his reaction refers to the concept of the active society, as was recently put forward by the OECD. This concept deals with the relations between the economic, social, labour market and educational policies. The OECD considers the question whether full employment is a prerequisite for an active society. Additionally, he draws some comparisons between Holland and Finland. The figures relating to the participation rate of Dutch women are surprisingly low, when compared to Finnish figures. In Finland, recently a new, individualized tax system has been introduced. Social premiums have been reformed too.

Peter Brannen (United Kingdom) discusses the various models pertaining to labour market policy. First of all the positive model (Sweden); secondly, the welfare model (the unemployed are passive); thirdly, the market model; and finally, the liberal model (United Kingdom). The liberal model refers to a restructuring of welfare in combination with industrial relations. Modifying the Welfare State means in the liberal model less universality and more targetting. More targetting means for instance, setting up programs on education, especially in technical areas, and a move to a positive labour market policy on the Swedish line by picking up the unemployed into training. In the UK liberal model the responsibility of employers for employment is explicitly stated. The model stresses the active relations between macro-economic, labour market and social policies. The concept of citizenship changes in this model from collective income rights to rights on training.

According to Martin Rein (US) the debate in the United Kingdom and the USA does not focus on citizenship, on entitlement, but on responsibility, on the obligation to work and to educate.

Bernard van Praag (The Netherlands) points out that there are two types of training: training of the still employed persons and training of the unemployed (meagre prospects, if any, on the labour market). He would like to learn about the experiences in different countries regarding these two types of training.

In reaction Peter Brannen (United Kingdom) emphasizes the demographic factor. Because of the steadily declining numbers of young people on the labour market (in 1995 25% less in the UK) and because of the increasing numbers of early retiring people, employers have a stake in the education and training of women.

Simon Miles (Canada) points out that there is an imbalance between the lack of commitment to specific jobs on the part of the workers and the high costs of training. Retraining however, is needed on a much larger scale as is provided at present.

Costas Kannellopoulos (Greece) wants to know more about the difference between the informal and the black sectors in the Netherlands. He emphasizes the economic effects of a huge "black" economy, like in the Netherlands, where 1/3 of the national product remains untaxed. On the other hand, people in poverty are served by the informal sector.

In his reply Hans Adriaansens points out that the level of labour costs determines to a large extent the volume of the informal sector. Because of the high costs of labour, regular activities have been thrown out of the formal labour market.

According to Michel Gaspard (France) there is a definite relationship between the participation of women in the labour force and the development of the service economy. If the service employment in the public and private sector thrives, the participation of women increases. On the other hand, if the participation of women increases without a concomittant development of the service economy, unemployment will be growing.

Hans Adriaansens explains that the low participation of Dutch women is caused by the religiously inspired "bread-winners" model. This model is at the basis of all institutional arrangements in the Dutch socio-economic sphere.

Erik de Gier (The Netherlands) would like to hear more about other integrating forces in society next to labour. He fears that pressing people to participate in the labour force, as in Sweden, could be considered as an intrusion into the private lives of citizens. Would it not be wiser to follow the Italian model instead of the Swedish one? In Italy the black economy is prospering and everybody seems to accept that.

Hans Adriaansens points out that in his view labour meets the need for societal integration best, now that the intermediary organizations are losing importance and new social movements do not as yet replace the remarking integrating powers. The focus on labour as an important integrating force recognizes the importance of the quality of labour and of labour conditions.

Simon Miles (Canada) fully agrees with this last viewpoint. Work activities do have relevance for human development. Environmental issues are of utmost importance as well. Future generations will have to pay the debts we are making now. It seems to be necessary to reconsider the role of the state, of the decision making process, in the light of these problems. Production methods have to be changed. Citizens have to reconsider their responsibilities in these fields.

Erik de Gier points out that social policy will have to be broadened to include besides the issue of distribution of incomes, the questions regarding environment as well.

Michal Malawski (Poland) brings to the fore that the solution of environmental problems will be complicated by the international dimension of these problems.

3. LABOUR MARKET INSTITUTIONS AND ECONOMIC PERFORMANCE
by Martin Rein, Massachusetts Institute of
Technology, United States
(Summary of Martin Rein's introduction and the
plenary discussion in connection with this presen-
tation, chaired by Peter Brannen, reported by
Gerard Keijzers)

In his introduction Martin Rein (United States) dwells on
three - interrelated - subjects:

- I Social policy as an instrument of labour market policy.
 - II Industrial relations and the manpower system as the two
other institutions in the sphere of labour market policy.
 - III What can Holland learn from the different labour market
policies of respectively the USA and Sweden?
- I Martin Rein argues that because of the existence of a
trade off between work and leisure, there is an equally
strong relation between paid labour and the social
security system. In this sense one must speak of social
policy as an institution that influences the functioning
of the labour market. Martin Rein illustrates this
relationship with three examples:
- a. Through its transfers but also through its provi-
sion of public services, the system of social
security and social policy generates employment.
Martin Rein states that this is a very important
"by-product" of the existing social welfare system.
He argues that future growth of employment will be
generated predominantly in the social services
sector and that therefore social policy becomes an
important instrument of employment policy. The
social services market (health care, education,
home help, care for the elderly) is a growing
labour markt. There are, however, differences

between various countries with respect to the level in which social services spending leads to employment creation.

Martin Rein points at differences between the USA and Germany; these countries have comparable levels of health care spending but the corresponding employment ratio is 1.5 to 1. Hence, it is worthwhile to take into account the employment effects of the various alternative possibilities for social services spending.

- b. Social security makes paid-non-work possible and thus influences the degree of participation in paid work. Paid-non-work like sickness-leave, maternity-leave, educational leave, holidays and so forth became institutionalized. But it is hardly measured statistically and thus not very visible. Martin Rein states that it is necessary to provide full insight into the magnitude of this paid-non-work phenomenon. Also because of the shift in boundaries between private and public arrangements from which these entitlements for paid-non-work originate, it is required to keep track of the size and the effects of the increasing part of the work-force in paid-non-work.
- c. "Early exit" is another result of the social security system which strongly influences the participation rate in the paid-work-force. During the 1960's and 1970's this aspect of social policy became a main instrument in solving labour market problems related to economic phenomena like, de-industrialization and increased technological progress. Redundancy resulting from these trends in especially the manufacturing sectors was accommodated by social policies which made early exit possible through early retirement schemes and through disabled schemes.

Summarizing the first part of his introduction Martin Rein concludes that, at the level of the individual, the choice between work and leisure is an antagonistic one. At the macro level, however, social policies are complementary to labour market policies, since they accommodate non-participation and enhance employment through the provision of social services.

In the brief discussion that follows Ola Ribe (Norway) argues that in Scandinavian countries full employment is a goal in itself. Possibly social policy accommodates the realization of this goal, but social policy has its own intrinsic values. Willem Dercksen (The Netherlands) expresses his doubts as to the effectiveness of the arrangement of social services as an instrument for employment policies. Peter Bod (Hungary) adds that the high costs of social policies, which are financed by increasing costs of labour, have a counter productive effect on the employment goals.

Martin Rein agrees with these points, but argues that in the past social policy made non-participation possible and at present and in the future social policies (in the broad sense of providing public services) will create employment and will thus enhance participation. In addition some social services (e.g. heart-surgeries, universities) are even capable of producing export-goods.

II. In the second part of his introduction, Martin Rein dwells on the two other institutions in the sphere of labour market policy:

- industrial relations;
- active manpower system.

He argues that an analysis of the effectiveness of labour market policy is only usefull when such an analysis includes the two policies of the institutions mentioned above in conjunction with social policies.

III In the third part of his introduction Martin Rein goes into the question of the Dutch choice regarding social policy and the creation of employment.

He states that the USA route is successful with respect to employment generation as is the Swedish route. But the strategies employed in both countries differ completely. The USA route emphasizes decentralization of the system of industrial relations (including wage negotiation); manpower institutions are weak and hardly integrated in the labour market policy. Furthermore, the USA has weak unions and a hardly developed system of employment protection. The rate of growth of wages is very low in this country. Social policies discourage early exit and paid-non-work (e.g. sick leave) in general. But the social services labour market is large with a continuous shift from public to private institutions (e.g. health, education).

In addition, Martin Rein briefly depicts the contrary highly centralized Swedish situation: firms (have to) pay the same wages across industries and sectors (which means that less productive industries go bankrupt). In Sweden manpower policies have been developed to upgrade the level of the labour force and social policies are strongly oriented towards labour market participation. The system of social policies, manpower policies and industrial relations is clearly interlinked and geared towards the integration of all people in the labour market.

In view of the successfulness of both systems with respect to employment creation and to increasing participation, Martin Rein discusses the options for Dutch policy makers: the Dutch choice. He states that in Holland, in contrast to Sweden, there is much discussion about choices, but that there is little or no change. In Sweden policies were changed (e.g. in favour of geographic equity) without much discussion. The political discussion in Holland points at a lack of consensus on major strategies, which led to a sub-optimal-situation

with ineffective policies: in all everyone pays more than necessary or gets less than possible. The present discussion in Holland is only about the need for employment policy and not so much about social policies, which should be treated as complementary and in conjunction with direct employment policies. Martin Rein states that one can speak of a neglected choice in this respect: social policies on disabled schemes, early exit schemes, paid-non-work in general should be explicitly taken into account when speaking of labour market problems. If in the Netherlands a higher participation rate is desired, then schemes should be devised to do so, and lower productivity rates should be accepted as well as lower rates of growth of wages and unorthodox measures to use social benefits to top-up wages of less-abled participants, and so forth. On the other hand the Netherlands can accept high productivity rates and a low level of employment and a high level of non-paid-work. A choice is necessary. One should realize, however, that a low unemployment level is no longer an appropriate measure of economic prosperity.

In the finalizing discussion Ola Ribe (Norway) points at the contradiction of at the one hand the increasing need for social services (from the point of view of the consumers and of the need for employment) and on the other hand the increasing burden of financing such services.

Martin Rein sees this problem very well, but to his opinion there is still ample scope for growth of employment by increasing such services without - at the macro-level increasing public costs. This is possible when public spending is done in the most appropriate social services sectors and employment creation takes place at all levels and not only at the top.

To Eric de Gier (The Netherlands), who questioned the uniqueness of the Dutch choice, Martin Rein answers that the Dutch situation is very much comparable to that in other continental European countries.

4. SCOPE FOR GROWTH AND THE NEED FOR THE INCREASED
PRODUCTION OF SERVICES
by Gerard Keijzers, Staffmember of the Scientific
Council for Government Policy, The Netherlands

THE MODEL AND THE METHOD

In 1987 The Netherlands' Scientific Council for Government Policy published the results of an econometric study into the growth perspectives of the Netherlands' economy on the medium-term, until 1995 (1). In this analysis an iterative optimization procedure is applied to an 18-sector dynamic input-output model. In this core-model no behavioural relations are included, but instead upper- and lower bounds are formulated which limit the sectoral growth opportunities of consumption, exports and thus of production levels. The essence of this approach is that room is being created for favourable economic developments which are not limited by constraints in the existing economic structure and in the present economic policy. Growth is not impeded by existing restricted behaviour of economic actors. After having thus defined this maximum room for economic growth, the analysis deals with the possible negative impact of constraints that may prevent the full use of this maximum growth potential.

THE MODEL'S RESULTS

The results of this analysis were rather surprising. In brief they entailed the following. It appeared that the growth-perspectives are much higher than is generally expected. It is also shown that, although the production of services is growing rapidly and is becoming increasingly important (also and especially from the perspective of

(1) The Netherlands Scientific Council for Government Policy (WRR), Scope for growth; threats to and opportunities for the Dutch economy in the next ten years, 29th Report to the Government, WRR, The Hague, 1987.

employment growth), production and employment in the industrial sectors remain of crucial importance for the maintenance of internal and external economic equilibrium. One of the major dangers for prosperous growth concerns the rising relative prices of - labourintensive - services. The poor functioning of the labourmarket is another major cause of the slack economic growth. It also appeared that general deficiencies in the market mechanism and the high degree of penetration of the public in the private sectors, call for an improvement of the coordination of the decisions of economic actors. If this is not realized, then the continuation of such decentralized decision-making will sustain the situation of sub-optimal economic growth.

It appeared that the present economic structure of the Netherlands as described in the model does not prohibit the attainment of growth rates of 4 or 5% per annum. This corresponds with the natural growth rate of 3% defined by the sum of the growth of the productivity of labour and of the growth of the labour force, increased by over 1.5% additional growth for the absorption of current unemployment. Within six or seven years it would be possible to restore full employment and at the same time realize equilibrium on the balance of payments and decrease substantially the level of pollution. It appears that these varying objectives pertaining to production growth, employment, external balance and the internal environment are fully compatible and in some cases even form a condition for the realization of each other. Therefore, it was possible to conclude that neither the technical structure of the economy nor the desire to simultaneously pursue the mentioned goals, rule out the progress towards the various ambitious target levels of these objectives. Then an employment growth of 2% per annum will become feasible. This additional input of labour will be concentrated in the labour-intensive fields of services of health care, care of the elderly and other consumer oriented personal services, as well as in commercial business services. The industrial demand for labour in manufacturing will rise only marginally, while that in agriculture declines.

A number of significant conditions do, however, need to be satisfied. Total consumption needs to rise with 4% per annum. A relatively strong growth of the consumption of industrial products from the electrotechnical, chemical and metalproducts sectors is needed. Other strong growing sectors concern health care and personal care, whereas the consumption of education is expected to stabilize at the present level. The model results indicate room for increasing consumer budget shares for services and less room for the consumption of material essentials as food, energy and housing. A substantial increase in the investment ratio is another prerequisite for growth as is the need for exports to rise at an annual rate of about 5%. If the crucial conditions regarding growth of consumption, exports and investment are not met, then it will not be possible to lower the present excessively high unemployment figure. The growth potential as outlined above may be an interesting perspective, which the Council has felt necessary to describe in detail, it is not an optimistic message to the economic actors and policy makers. It rather is an urgent call upon them to overcome the existing growth-inhibiting factors and to share the risks to be taken, to fully utilize the existing growth potential of the Netherlands' economy. Some of the growth-impeding factors concern problems related to the rising cost of services, which are discussed below.

THE RISING COSTS OF SERVICES

For employment to grow on the scale required to absorb the anticipated supply of labour, a real growth in the consumption of labour-intensive services is required. Sectoral surveys and model calculations indicate a high rate of growth of sales and employment in these sectors to be both feasible and desirable. In particular, this applies to consumer-oriented personal services provided on both a commercial and a non-profit basis. Examples include the hotel and catering trade, the repair of consumer goods, sports and recreation, care of the elderly and home help, socio-cultural work and health care. These sectors incorporate nearly half of total employment in the Netherlands.

These are areas in which the rise in the productivity of labour tends to lag behind that in the economy as a whole, while wage rises will in all probability need to keep broadly in step with the macro-economic growth in productivity. A relative increase in the price of these services may therefore be expected, which could then affect the level of demand for them. It may also further discourage the government to collectively offer and finance these services. Of course, the tendency of increasing relative prices of labour-intensive products and services is not new. An overview of this development in the passed twenty-five years is given below. It is seen that this proces continues and leads to substantial changes in the sectoral structure of prices (table 1)

Table 1 Absolute and relative changes in the sectoral price structure in the Netherlands, 1963-1987

	(1) Sectoral price- indices 1987 (1963=100)	(2) Relative prices 1987 (a)
1. Agriculture	172	55
2. Manufacturing	229	73
3. Construction	382	123
4. Trade	293	94
5. Transport	241	77
6. Banking, business services	530	170
7. Catering ind., personal services	740	238
8. Health care, education	710	228
9. Public services (b)	533	171
10. Total average price index	311	100

Source: Scientific Council for Government Policy, 1988.

Notes:

- (a) Relative prices are computed by dividing the sectoral prices index 1987 by the total average price index 1987.
- (b) Concerns the wage increase index of public servants.

In column 1 of table 1 the sectoral price index figures (1963 to 1987) are given. It is clearly seen that sectoral price developments were quite divergent. In column 2 relative prices per sector are shown, which were found by dividing the sectoral price index figure (1987) by the index figure of the average price development. A closer look at column 2 learns that e.g. the price increase of agricultural products (55) was about half the increase of the average prices figure (100) for the period 1963-1987. Since prices of business services, health care and education rose twice as fast as the average price figure, they therefore, increased four times as fast as the prices of agricultural products and three times as fast as industrial prices.

The picture becomes clear. Prices in agriculture and manufacturing fall, relatively. The same goes for prices in trade and transport. In these sectors increases in labour productivity were realized and the gains were passed on to the consumers. Prices in all other services sectors rose steeply.

The same pattern of development is expected to show in the future. Labour productivity developments, which are the main determinant of price-developments, will further diverge. And again, especially the production of services will suffer. If the demand for these services should fail to materialize (at least within the regular economy), an important springboard for economic growth would then be removed. In the model calculations the council has tested a scenario in which the consumption of these non-profit services was deliberately cut back sharply. In the optimizations this caused a decline in the production of services which could partly be compensated by an increased industrial production output and employment growth. But the overall result was negative: consumers got far less services than they desired, employment growth dropped, with the average unemployment level nearly 100,000 man years (50%) up.

POSSIBLE STRATEGIES FOR THE FUTURE

Encouraging the growth of labour-intensive services by holding back relative price rises is possible to only a limited extent. A general reduction in the difference between gross wage costs and net pay is not in prospect and would in any case be of limited effectiveness only. Given the 4:1 ratio between the price of an hour's services (namely net wage + social insurance contributions + payroll tax + overheads + VAT) and the net model hourly wage, the size of the reduction required would be such as to rule out general measures. The same goes for the problem of high and increasing costs of health care, education and help for the elderly. General measures such as reducing the gross wage costs would imply such enormous amounts of money, that they cannot be seriously considered.

A system of wage differentiation between industries with differing productivity growth rates would result in loss of quality and an inadequate supply of labour. Nor would such an arrangement afford a lasting solution to these structural problems, which are related to the nature of technical progress. Hence, general reduction of wage costs and of sectoral wage differentiation are not considered to be possible strategies for the increased production of labour intensive services.

Curbing of price rises by increases in the efficiency of production and organization of services, must be considered an important strategy. At a practical level, government and industry should continue to promote higher labour productivity in order to alleviate the problem of rising costs for labour-intensive services. Although there are technical limits, this strategy has been and is being successfully applied in the field of tertiary services.

For example in hotels and restaurants, in trade, barber-shops, cleaning businesses and so forth remarkable successes have been obtained regarding the increase in labour productivity and thus in the curbing of price rises. In the collectively financed and organized labour intensive service

production (health care, care for the elderly, etc.) such efficiency improvements were far less substantial. The impression exists that improvements are quite well possible, but incentives to realize them appear absent. Which may be partly due to the existing collective financing structure.

Another strategy for the increased formal production of labour intensive services is discouraging illegitimate and informal production in those fields. A general reduction of gross wage costs is not possible, but consideration should be given to shortening the gross-nett wage trajectory in special cases, particularly where market forces are being distorted by the black economy. In such selected sub-sectors exemptions for the payment of wage taxes and social premiums could be extended.

One of the major present problems for the increased production of services concerns the budgetary pressure of the government. This pressure caused government cuts on essential expenditures in the fields of health care, education, etc. Potential growth sectors were thus limited in their desired social and economic development. The main question which then arises is, whether it is possible to meet this growing demand for collectively financed public services without automatically increasing the tax and social premiums burden. The answer to this question cannot be either yes or no.

Some public services are being and will be delivered under the sole responsibility of the government. Privatization is therefore out of the question; e.g. police, defence, public administration, the administration of justice and - large parts - of education.

The possibilities to reduce the burden of our education system are equally limited. The development of an adequate level of the existing human capital demands a big investment. Economizing on these expenditures would be counter-productive. Of course, the government has to realize an efficient and cost conscious educational system, but is responsible for a system that meets the demands in this respect. Economizing because of the fact that wages in this

sector increase, will lead to an inadequate educational system.

In other fields of public and collectively financed services there is more scope for de-collectivization and privatization. In the mentioned report of the Scientific Council for Government Policy "Scope for growth" it is pointed out that the rate of growth of social services and health care does not necessarily need to be less than the high rates of growth of these sectors realized in the past two decades.

However, the budgetary pressures and the rising wage costs might be used as arguments to reduce public expenditures in these fields. This would be against the proved desires of the public, who are willing to pay the higher price for these services if only it were made possible to acquire these very services. In this respect privatization or rather de-collectivization of social services and health care would extend the scope for growth in these fields. The introduction of new forms of price and cost incentives are needed to better inform the suppliers of and those in need of such services.

De-collectivization of the financing and organization of the production of these services is desirable, as it is expected to enhance the efficiency of production and to stimulate a growth according to the preferences of consumers. Preferences which imply a much higher demand for such services than is realized by the centralized public production at present. However, strict regulations are needed then to ensure the general access and availability of such vital services as health and social services are.

Another strategy implies the need to counter the general tendency to include socially useful services in the collectively financed public services package. There is quite a number of services which do not necessarily need to become or need to remain public services. E.g. child care, parts of the training facilities, might as well be or may better be privatized.

CONCLUSION

The government is confronted with the task of resolving problems on the supply side - namely the high tax and social charges burden - without at the same time creating fresh problems on the demand side of the economy by drastically cutting the volume of services. In a prosperous society, a higher price will have to be paid for traditional government functions (e.g. defence, public admin., the administration of justice and education). The same applies to the broad field of social services and health care, although in these cases there is some scope for a certain degree of privatization, thereby permitting a less restrictive link with tax rates and social insurance changes. The continuing growth of labour intensive services appears to be desirable from a social viewpoint, indispensable from the perspective of employment creation, essential as a dynamic element in the economic process of production and income generation. The public and the government have to get used to the increasing price of these services, as it must be paid.

- Plenary discussion in connection with "Scope for growth and the need for the increased production of services" by Gerard Keyzers

(chairman Seppo Moisio, rapporteur Erik de Gier)

After Gerard Keyzers' (The Netherlands) presentation Peter Bod (Hungary) was asked to give a first comment.

Peter Bod focused in his reaction on the differences and similarities between the Netherlands and Hungary. Though there are basic differences between these two countries, there are also some striking similarities. Different for instance is one of the central economic goals. In Holland the government tries to improve the working of the labour market in order to reduce the high unemployment-rate. In contrast to the Netherlands, the rise of incomes seems to be far more important as an economic goal in Hungary. Similar in both countries is the use of mathematic economic models.

Peter Bod stated on the model results of 'Scope for growth' the following more specific points:

1. it will be difficult to re-employ all long term unemployed in Holland because of their low productivity. A national economic growth of 4 to 5 percent will therefore not be sufficient;
2. a problem will also be the low productivity in the labour intensive services, which are projected to grow intensively;
3. a substantial decrease of unemployment in the Netherlands will probably lead to a negative work ethic;
4. more efficiency will not stimulate employment.

On his turn Gerard Keyzers underlined the importance of organizing efficient labour intensive services. Though this will not always be positive for the creation of new employment, it is necessary for curbing costs. Otherwise there could easily be immediate cut backs. Moreover an efficient services sector will stimulate the development of the industrial sector. A point of special interest is the current rather weak position of workers in the services sector,

which is partly due to the low productivity levels realized in these sectors. The strongest interest groups in society will gain most in the process of welfare distribution. Referring to a remark on how to prevent pollution of the environment in case of high economic growth, Gerard Keyzers stated that something may be expected from changing technologies, but that large investments at high costs will be necessary to protect environment.

Michal Malawski (Poland) entered the discussion by giving some specific information on his country. In Poland the most appropriate national strategy is not any longer coordination of different interests (miners, agriculture) in parliament. As was experienced in the past such a strategy will stimulate economic inflation. From now on marketization and privatization will be superior strategies in the collective state-guided Polish economy. These strategies may also contribute to a reduction of pollution.

Willem Dercksen (The Netherlands) didn't agree with the opinion that efficiency strategies will not in all cases generate service employment. Efficiency strategies might create possibilities for better skilled and educated workers in health care and education.

Heikki Palm (Finland) argued that private decentralized services will often be more expensive than state services.

Ola Ribe (Norway) asked for clarification about what was meant in the WRR-report with the poor functioning of the labour market? A second question concerned the development of relative costs in Sweden and the United States, as compared to the Netherlands.

In his reply on the different remarks and questions Gerard Keyzers noted that, contrary to Poland, a strategy of marketization of decisions in the Netherlands will in the end prove contra-productive. It will not lead to higher investments in services. The state has to take the first steps to show the employers and the unions that it is

prepared to share the risks of investment. He agreed with the opinion that efficient services can also attract higher educated workers. More efficiency doesn't necessary conflict with more employment.

Though Gerard Keyzers does not know the development of relative prices in Sweden and the USA, he assumes that there will be only slight differences with Holland.

Michel Gaspard (France) wondered whether it would be possible to separate growth of the service sector from macro-economic growth. Then Health, Education and Welfare could function as a closed economy as such. Consequently a "closed" service sector may lead to an increasing demand of services and employment. A real problem of linking the service economy with other parts of the national economy is that the logic of productivity in the services sector is principally different (more qualitative). Until now an adequate standard to measure productivity in services is not available. If it can be proven that labour productivity growth is high, then workers have a legitimate reason for asking higher wages. If the standard measures improvements in the quality of services, then prices will rise. Higher prices then imply higher quality, but may also indicate lower productivity. Higher productivity has been difficult to measure.

Finally, Michel Gaspard remarked that as far as there is a real choice between decentralization and collectivization, experiences in France show that a combination of market and collective elements can be very succesful; for instance in the health sector. He isn't very optimistic about positive effects of decentralization.

5. SUMMARY AND EVALUATION OF THE CONFERENCE
by Simon Miles (Canada)

We will each conduct our own evaluations of the conference in terms of its relevances for our own countries. To quote Peter Bod "I don't think I can do justice to the excellent work that has gone into these discussions". It is a tradition of these meetings that the host country puts before us a set of issues that it is struggling with, that it also senses we are struggling with, and on which it would welcome some insights. The original title of this seminar was: "The consequences of changing responsibilities between the state, the market and the intermediate sector for redistribution policies". I think we have had some useful insights first from the Dutch, and then from us visitors, in response to the Dutch, on some of the consequences of that shift in responsibilities. But really, I suppose our two host institutions, as advisors to the government, want to know what we think are likely to be the most productive areas of activity for the Dutch welfare state in the foreseeable future, as it attempts to respond to the needs of the Dutch people within this changing context. This seems to be the "bottom line" on which we can focus this summary and evaluation. As I suggested in my paper, if we are to provide this type of advice we have to have a reasonable picture of what the Dutch people need and even what they want.

I think we have helped to clarify that picture of Dutch needs and wants, although there is still a lot more clarification needed. We see a medium sized country in European terms becoming increasingly conscious that it is a small country in global terms and that this is increasingly significant as it becomes conscious of its loss of external sovereignty - that affects not just its economic policy but also its social and environmental policy manoeuvrability. While this is true for all countries it is felt most by small countries. We see a society that has allowed full development of groups around particular interests. We see tensions in the society emerging as the economic pie - while

- growing - fails to grow just enough to enable the welfare state to satisfy all of those interests. - The internal sovereignty is being undermined. We hear, that there are new pressures emerging: 50% of the children under 15 in Amsterdam are born to immigrants. There is an erosion of the old socio-cultural way of life. The enormity of the change while everywhere, is harder to take, perhaps, in a small country.

Thus it is not surprising that, as consensus is threatened, there is a search for a new unifying force. This may be shaping up in the notion of the responsibilities (more so than the rights, to make the point) of citizenship in a pluralistic society.

This, I sense, is one of the most fundamental needs of the Dutch that I have heard about in the three days here. I see it as an expression of the importance of the quality of the ligatures, or associations, or bounds, between people in Dutch society, that I spoke about the other day.

Bringing about this sense of citizenship will be difficult. It is probable that rights will have to be earned by preparedness to exercise responsibilities rather than simply provided. They will be earned and enjoyed within an environment of human well-being, the quality of which will depend very much on how and, just as importantly, how well one defines the product sought, as Martin Rein put it. The "product" is in my view to be defined in terms of human development - a person with the ability to respond creatively and in a self-reliant manner to new situations; and with the opportunity to enjoy good quality associations with people, places and things. The abilities and opportunities are interrelated. Abilities develop taking advantage of the opportunities. Since people spend so much of their time at work - paid or unpaid - it will be necessary to look more closely at the opportunities for work that is fulfilling and still demanding something of people.

It seems that the Dutch have already realized as a body politic that it is not necessary to work all the time. What we didn't hear enough about and will need looking at is not just whether the 48% who don't participate in the labour force are happy, but whether they are exercising their human capacities in ways that enables them to be reasonably self-reliant individuals and, in this way exercising their responsibilities in society.

The answer is probably NO. The implication is likely that more jobs have to be created by the growth in the social sector. We Europeans are probably not as surprised as Americans appear to be that social policy can be seen as a labour market instrument, but I suspect we recognize that the cost of the labour will limit this growth. As regards the growth in the economic sector, we Europeans with the leadership of Brundtland are recognizing that there can be a new form of growth that is sustainable through the wise use of technology and knowledge. What we perhaps still have to understand is that it is not really the growth we want to sustain, but the human-societal development. This seminar has taken us a little but nearer that realization.

II PAPERS OF THE PARTICIPANTS

6. THE WRR-REPORT ON ACTIVE LABOUR MARKET POLICY
Willem Dercksen (the Netherlands)

This report is concerned with the type of labour market policy which, given the potential for economic growth, is required in the Netherlands in order to engage as large a part of the working population in the labour process. An important starting-point for this report is the conclusion reached in Scope for Growth, that the technical and economic structure of the Dutch economy does not preclude the possibility that unemployment could be eliminated and the growing supply of labour deployed over the next ten years (1). The achievement of these objectives is, however, dependent in a number of conditions, among which an effectively operating labour market.

Two developments in the labour market provide particular reasons for formulating an active labour market policy. In the first place, the phenomenon of long-term unemployment is at present the major problem in the labour market. For the purposes of this report, long-term unemployment has been taken as including the unregistered unemployment of women who wish to return to the labour market. Such unemployment hardly appears in the official unemployment statistics. Secondly, there is the problem of hard-to-fill vacancies. Although not on any great scale, the existence of this problem at a time of high unemployment does point to imperfections in the labour market.

The level and largely long-term nature of unemployment is regarded as unacceptable. This applies all the more since unemployment hits the weakest groups in Dutch society disproportionately hard. The major inequality in Dutch society today is that between those in work, or with prospects of

(1) The Netherlands Scientific Council for Government Policy (WRR), Scope for growth; threats to and opportunities for the Dutch economy in the next ten years, 29th Report to the Government, WRR, The Hague, 1987.

- finding employment, and those who have found themselves permanently excluded from the labour system. This inequality is not just inherently unacceptable but also constitutes a threat to social stability in the medium to long term.

During the remainder of this decade and indeed for the rest of this century, employment will unquestionably remain a factor of fundamental importance for individual self-development and for determining individuals' place in society. Although many people manage to lead a satisfying existence outside the labour system at certain stages of their lives, the labour system does constitute the major source of prosperity in present-day society. In addition a position in the labour system generates respect for others and a sense of self-respect. It is in the labour system that people are able to discover and develop their potential; it is no accident that access to the labour system has been an important precondition for the emancipation of women.

Since 1983 there has once again been a rise in the number of vacancies. Following the low point touched in October 1982 of 17,000 vacancies, the number of vacancies is now estimated at over 70,000 (the number of jobs is about 4.7 million). The proportion of hard-to-fill vacancies has risen in recent years and now amounts to 48% of the total. On the basis of various surveys conducted in this field, the problem would appear to be at its most pronounced in relation to jobs for which vocational training is required. A significant proportion of the hard-to-fill vacancies - some 30% - relates to jobs calling for higher training (i.e. skilled craftsmen).

The background to the phenomenon of long-term vacancies at a time of high unemployment is provided by two types of factors: recruitment factors and qualitative discrepancies in the labour market.

"Recruitment factors" is a catch-all phrase covering lack of familiarity with of ability to exploit the labour market. This can result in incorrect or inadequate signals being issued by the labour market, so that supply and demand fail

to match up, or only with some delay. "Qualitative discrepancies" in the labour market refer to imbalances between demand and supply. This may derive from skill shortages, lack of experience, the popular image of a particular company or industry, the conditions of employment and the degree of mobility on the part of employees and employers.

The proposed active labour market policy may be outlined in terms of four features.

In the first place the policy sets out in various ways to promote labour mobility. This need arises from the dynamism of the market economy, technological developments and socio-cultural changes, as well as the growing participation of women in the labour market. The report indicates that shifts in the sectoral pattern of employment will take place in both an expanding and a stagnating economy. These shifts can be accommodated not just be entry to and departure from the labour force (e.g. school-leavers, re-entrants and those reaching retirement age) but also demand mobility on the part of those in and out of work. Technological developments cause certain professions and jobs to disappear while generating others. This again demands labour mobility. Finally, socio-cultural processes of change such as individualization and the increasing participation of women in the labour system generate a demand for different patterns of labour from those in the past. This will have a greater chance of succeeding the more mobile the labour force.

Secondly, an active labour market policy also involves facilitating an active orientation (or reorientation) on the part of the unemployment towards their prospects in the labour market. In the absence of job prospects, participation in training or job-experience schemes (a specifically Dutch proposal) should form an automatic means of obtaining initial or new qualifications for the labour market. Provided there are sufficient facilities for labour market orientation/reorientation, these can then be complemented by means of sanctions within the social security system.

Thirdly, the proposed active labour market policy takes as its starting point the reorganization of manpower services on a tripartite basis. In 1988, the government intends making the Directorate-General for Manpower and the regional manpower services - which currently come under the Ministry of Social Affairs and Employment - autonomous and providing them with a tripartite administration. This implies that manpower services will no longer be the sole responsibility of the central government but will be shared by it with local government and the social partners. A tripartite Central Manpower Services Board is to be established, with an independent chairman, presiding over a central manpower office and regional manpower offices. The main focus under the new structure would be on the regional administrations and offices. Within the - often financial - frameworks laid down centrally, the regional administrations will conduct their own policies, for implementation by the regional offices.

Finally an active labour market policy must be characterized by a straightforward and effective set of instruments based on a consistent approach towards labour market policy. The report notes that, as it stands, Dutch labour market policy covers an excessive number of instruments, and that these instruments are not always properly coordinated. In essence the future set of instruments could consist of a single framework regulation for job-experience places, a single framework for training and retraining, supplemented by a single facility for educational and careers counselling, a facility for setting up new businesses, facilities for direct and indirect job placement and a wage supplement regulation. To this may be added the proposals to increase the flexibility of the labour market. The effectiveness of the various instruments will need to be regularly evaluated, and the instruments themselves adjusted where necessary. The necessary flexibility of labour market policy can be promoted by the introduction of market and bargaining principles. If for example the public employment offices were no longer to act as a supplier but just as a source of

demand in the training market, they would then find themselves in the position of applying labour market considerations only with respect to the procurement (i.e. subsidization) of specific training places for the target group. Now the Dutch manpower services include Centres for vocational training. In a system of job-experience places based on negotiations between employers' associations and trade unions the number of places can be regularly adjusted in line with the room afforded by the labour market.

The Report makes proposals in relation to four fields of labour market policy: placement, training, job-experience places and employment flexibility.

A main proposal in the field of placement is the authorization by government of commercial placement services in addition to the public placement services. Commercial enterprise can play an effective part in improving the allocation of labour. Guarantees to protect those seeking work against abuses could be provided by a licensing system. For reasons of efficiency, it is important that the public employment offices will be the only bodies within the public service to perform direct or indirect job placement.

Training can make a significant contribution to the effective coordination of demand and supply in both a curative and a preventive sense. The existing Dutch system of off-the-job training facilities does not measure up to the requirements. Technological and economic developments cause the qualifications obtained by employees through initial vocational training to get out of date rapidly. Together with the emergence of demands for new kinds of jobs, this creates a requirement for continued training opportunities for those in and seeking work, to which off-the-job training facilities may provide an answer. On account of the continuing uncertainties surrounding the qualitative needs of the labour market, a system of off-the-job training facilities is also important in order to match up vocational training with the labour market. As it stands, the central education planning which is designed to gear the capacity and content of vocational training to the demand for labour

does not achieve the desired object. More could be achieved by means of effective interaction between vocational training and regional industry, with the training being geared to regional requirements.

A further streamlining of the system of off-the-job training can be achieved along the following lines. Training organized on an industry basis is of major importance for companies unable to organize the necessary training themselves. In the case of companies with internal training facilities, training at industry level can act as a valuable supplement, since companies tend to be selective in relation to both participants and the content of on-the-job training.

Financing could come from the training funds administered by the social partners. The resources for the fund should in the first place come from employers, but, since their position in the labour market will be improved by the training, employees may also be expected to make a contribution. Part of the scope wage increases could be set aside for this purpose in the collective bargaining process. Government contributions could remain limited to the initial stage and focus on the development costs of courses and direct training costs.

The way in which training is organized will depend heavily on the nature of the industry. A choice can be made between an integrated approach, in which the industry-based facilities comprise refresher training, retraining and further training as well as an initial vocational training course, or a coordinating approach, consisting for example of a catalogue of further-training courses in companies and institutions, with agreements on certificates and industry diplomas. In the case of training organized on an industry basis, stronger links with the apprenticeship system would be an obvious course of action.

On account of the fact that public employment offices are able to reimburse the costs of participation in training for unemployed, they in principle can enjoy a strong position on the demand side of a (regional) training market. As such the public employment services will need to exploit this financial capacity to open up certain forms of occupational and industrial training to the unemployed and re-entrants when

this contributes towards an improvement in labour market prospects. Agreements reached in the frame of collective bargaining might also help in expanding the range of labour market relevant training facilities.

For long-term unemployment persons or women seeking to re-enter the labour market, the lack of work experience - often combined with a lack of training of skills for which there is little demand - acts as a major obstacle to entering the regular labour market. At times of high unemployment the lack of these skills can form an insuperable and self-reinforcing problem. The provision of possibilities for acquiring relevant work experience forms a necessary part of any labour market policy setting out seriously to tackle unemployment in a curative and preventive sense.

A characteristic feature of job-experience places is "learning by doing", in which respect the learning can be an explicit element of the job but also a more implicit one, in the sense that participants are provided with opportunities to practise skills considered necessary for certain occupations or functions.

An important feature of the proposed job-experience places is that they do not have to be by way of superfluous jobs. The distinctive feature is that selection criteria would be laid down for the participants. Implementation of the policy would be decentralized. Employing organizations would be responsible for generating the required places and also for the job description and the recruitment and placement of the target group. The delimitation of the target group would need to be agreed centrally; it might for example include persons who had been unemployed for over a year, women re-entering the work-force and early school-leavers.

The most promising way of building up a system of job-experience places would be through collective bargaining based on a nationally agreed commitment of central employers and employees associations. This national undertaking could then find concrete expression in separate collective labour agreements with reference to:

- the number of job-experience places to be created (e.g. 1% of the total number of employees);
- the time-frame within which the system was to be introduced, and the way in which normal wastage should be taken advantage of;
- exceptions (e.g. small businesses and organizations);
- pay/terms of employment;
- alternatives (e.g. participation in a labour pool of unemployment persons and re-entrants);
- provision for some form of compensatory payment to be made where job-experience places are not instituted (e.g. payments to manpower agencies).

Greater employment flexibility in the fourth major element in the proposed active labour market policy. Greater flexibility with create job openings for the long-term unemployed and re-entrants and will help prevent hard-to-fill vacancies. Greater employment flexibility in the Dutch labour market is possible by widening the official scope for temporary employment. A relaxation of the official regulations governing working hours is another important "framework" measure for increasing employees' (functional) flexibility. Promoting the mobility of labour is a key element in the proposed active labour market policy. To this end the allocative function of wages need to be strengthened. Redistribution of labour can also help towards tackling the problem of unemployment in the coming years. The scope for shorter working hours - assuming that' business hours will remain the same, or expand - and part-time work would by no means appear to have been exhausted.

The active labour market policy proposed in this report will have consequences for the division of labour. Given the present high level of unemployment, the provision of job-experience places and training and the introduction of flexible contractual arrangements forming part of an active labour market policy will in the first place increase the availability of suitable labour without, however, raising the number of jobs to the required level. It would, however, mean that the burden of the lack of jobs did not devolve

solely onto the shoulders of a single category, namely the long-term unemployed. A greater number of people would be confronted with unemployment, if for shorter periods. Needless to say this "rotation" of unemployment would steadily shrink as unemployment began to decline. Another possible short-term effect of an active labour market policy is that the introduction of job-experience places and temporary jobs could to some extent displace fixed jobs. On the other hand, flexible employment arrangements and training could contribute towards an expansion of the existing level of employment.

Implicitly, the proposals rely heavily on commitment and a sense of responsibility on the part of employers and employees for the functioning of the labour market. That commitment and sense of responsibility will need to manifest itself in a willingness to set aside funds or bear part of the costs. As noted earlier, putting the manpower services system on a successful tripartite basis is more than just a matter of changing the administrative guard. It also calls for the coordination of negotiated conditions of employment with labour market policy. The financial participation of companies and organizations in aspects of labour market policy will moreover provide an incentive for the resources to be used in such a way as to maximize the labour market relevance of the facilities.

Finally it is noted that a tripartite responsibility for labour market policy is not without its risks. The possibility of success - and hence also of failure - will depend on the extent to which those concerned are able to reach agreement. There would, however, be no alternative to fall back on. A labour market policy can be effective only to the extent that it is carried by the actors in the labour market. The Report is based on the assumption that the proposed active labour market policy is consistent with that carrying capacity.

7. POSSIBILITY AND CONTENTS OF AN ACTIVE LABOUR MARKET
POLICY - SOME CONDITIONS
by Ola Ribe (Norway)

Governmental expenditure on different active manpower measures (training, apprenticeships, supplementary wages a.o.) in relation to the expenditure on the more passive unemployment benefit is an often used indicator to characterize the labour market policy. And in that sense Norway is pursuing an active labour market policy.

A closer analysis of an active labour market policy has to be taken into account if the measures promote changes in the industrial structures, or mainly contribute to conserve the structures of today. Another aspect is the allocation of resources between the different (strong/weak) unemployed groups in the labour market. In this paper I will not focus on these topics. But rather take into consideration two factors which are of great importance for the possibility of employment and the content of an active labour market policy. These two factors are the wage-settling process and the regionalization of the labour market policy.

THE WAGE BARGAINING PROCESS

Traditionally the governmental labour market policy in Norway has been limited to deal with the quantum side of the labour market. The wagesettling or priceside of the market is the responsibility of other governmental authorities.

A main problem in the Norwegian economy is a stronger price and wage growth than our major trading partners. The wage settlements therefore are of great importance concerning the function and the adjustment on the labour market.

Central wage settlements were the main system in the 1950's and the 1960's. This so-called "Scandinavian Model" was a tripartite system where the government played an active role. The social-democratic government, in close cooperation

with the largest trade union, made this a successful and well functioning model.

The economic development in the 1970's and the 1980's has not been satisfactory. There has been a widening of inflation differential between Norway and other OECD countries. This has created a growth in the costs especially in the old fashioned industries. These industries are now facing a great need for structural changes. This situation indicates that more emphasis should be given to the supply side of the economy with more focus on a well functioning market through competition and reduced industrial subsidies.

The right wing (from 1981), later right-centrum coalition cabinet limited the governmental role in the wage settlements.

- They reduced the influence of the major trade union and increased the influence of other trade unions.
- They were less interested to participate directly in the wagesettling process, but instead announced their income policy on beforehand (tax reductions a.o.).

The competition among the different labour unions resulted in higher wage claims. On the other hand the government was not willing to accept more unemployment. High level on labour market measures and an expansive economic policy led to a tight labour market situation which gave little help for the employer to resist high wage claims. This led to a situation with high inflation and depreciation of the Norwegian krone.

This less favorable results of the market orientation led to a change back to the "old" centralized model when the social democratic government again came into office in 1986 (in 1988 we have a parliamentary act fixing the maximum amount of wage increasing).

REGIONALISATION OF LABOUR MARKET POLICY

Regionalization of the labour market policy is a heat subject at the time in Norway. This discussion is linked to the

"free-local government" experiments; delegation of governmental resources and decisions to local government. The discussion did not have its start in dissatisfaction with the status of the regional labour market policy today, but rather with the general regional development and high ambitions for the regional policy itself.

Now I will shortly mention the main alternatives we are discussing for regionalization of the labour market measures to the provincial level. Today the Directorate of Labour has 18 provincial labour market offices and 108 local labour offices.

The most radical alternative is to give all the money allocated for labour market measures to the actual local governments and let them use the money in the best way for the labour market (not only on labour market measures but for example on the ordinary education system).

This has led to focus on the factors used for allocation of the measures between the different geographical areas. To calculate total governmental resources spent on labour market measures may be difficult if national goals change with different goals in each local area.

The changes in the system as mentioned above will include a change in goals for the labour market policy. The governmental goals have to be recommendations and the local authorities can decide themselves how much of the grants they wish to channell towards the unemployed.

An alternative is to coordinate grants for labour market measures and regional development funds to improve local industry and the job creation process.

The resources for labour market measures today are mainly for qualifying unemployed persons to help them fit the demand of the vacancy. That means priority to the weaker job-seekers. A policy focusing on creating employment may be

in favour of quite another group of persons (the innovators). Indirectly that may be in favour of unemployed, but in a non-systematic and less effective way.

A third model of delegation concerning power and local influence is to establish a special fund which has to be run after guidelines given by the central government. For example keeping unemployment low, giving priority to unemployed youth and qualifications measures.

Under such a framework the local authorities can develop their own measures and make more detailed guidelines. If it is preferable to have the same types of measures in all parts of the country and promote cost-effectiveness one can reduce the local decisions to choose among centrally accepted types of measures.

A fourth way of decentralization is to decentralize the Directorate of Labour and give more power to the local labour offices. This will not however give more power to the local political bodies.

Which alternative we will choose in the actual experiment, is a political question linked to how strong and with what degree of certainty government wants to control the outcome of national labour market policy.

8. NOTES ON THE CONTENT OF THE GREEK LABOUR MARKET
POLICY

by Costas N. Kanellopoulos (Greece)

One of the main topics of our seminar is the possibility and content of a prospective labour market policy. As the distributed paper convincingly notes there are good reasons for formulating and pursuing an active labour market policy. The same paper describes concisely the principles and features of such a policy for The Netherlands.

Even though the principles and the targets of labour market policy usually differ from country to country, because of differences in the acuteness of the various labour problems and the priorities given by the governments in power, it appears that the issues dealt in the distributed paper are as relevant for the case of Greece. Although Greece, a small and internationally open economy, differs from the continental European countries regarding its economic level and structural features, it currently shares many common labour market problems, which have become more salient in the 1980's. In Greece unemployment has risen (from 4.0% in 1981 to 7.4% in 1987), the wage structure has become compressed and aggregate wage inflation was among the highest in Europe.

In analyzing the growth of open unemployment in Greece, which by European standards doesn't seem very high, one has to look at the influence of the demand and supply of labour forces and on the other hand to examine the role of labour market rigidities. While up to 1981 participation rates of both men and women were falling, in the 1980's the participation of youths in Athens and women as a whole rose substantially increasing the total labour supply. From the demand side the near stagnation of the Greek economy since the second oil price shock clearly influenced the demand for labour negatively. The significance of these fundamental supply and demand forces imply that we cannot attribute solely the rise of unemployment to the labour market rigidities.

Taking these points as correct it is clear that unemployment will not be eliminated unless the Greek economy achieves, again a remarkable GNP growth rate. Thus labour market problems and especially unemployment has to be the target of the wider economic policy. Rigidities are certainly important and policies to eliminate these would have favorable effects on employment. A better matching of skills and jobs automatically reduces frictional unemployment. Moreover, a smoothly operating market renders macro economic policy more effective in overcoming inflation and balance of payments problems.

In the light of this brief analysis it is clear that real progress has been made towards restoration of macro economic equilibrium, through the 1986-1987 stabilization programme, and in making the labour market more adaptable in order to create extra jobs. At the macro economic level the counter inflationary modifications of the wage indexation system since October 1985 and the implied reduction of real minimum wages have ruptured the automatic link between price and wage movements and decreased the wage inflation. On the other hand industrial and regional policy has been designed with an aim to employment-intensive activities. Investment incentives discriminate in favour of both employment intensive activities and the less developed regions. A new scheme is established to help unemployed people to become self-employed. New training programmes have been introduced for special categories of workers and workers in danger of losing their jobs.

Although the outlined policy measures are in the right direction it has become clear that additional measures are required to solve the labour market problems. The low dispersion of wage differentials and their recent secular narrowing (by industry, occupation, sex and age) raises questions for both the smooth operation of the labour market and the current re-entry after the two year stabilization programme. The penalization of high paid workers, through lower percentage wage increases than low paid workers, has caused problems for the efficient allocation of labour among

skills and regions. Moreover, once incomes policy is abolished, wage increases probably become high for those in the right side of the wage distribution. The 1988 restrictive incomes policy, through ceiling wage increases, has avoided reappearance of aggregate wage inflation. The currently proposed future incomes policy aims at linking wage changes to productivity changes at a micro level; thus helping flexibility. Such a wage system requires developed institutions of collective bargaining and should be designed in a way to prevent contribution to rigidities. To the extent that wage differentials do not reflect competitive forces and do not change according to labour shortages and surpluses, aggregate employment is lower than it could be.

Over and above these features a comprehensive labour market policy in Greece has to include additional issues. Labour mobility in Greece seems to be inadequate and counter productive. Public and private sectors are rather segmented with little labour mobility between them. The public sector because of its relative higher average (monetary and non monetary) rewards attracts and employs the majority of university degree holders and boost demand for such a higher education. On the other hand, young university graduates ask for jobs in the public sector and the government creates additional posts. At the same time there are technical and professional unfilled openings particularly in less developed regions. The geographic mobility is towards the larger cities and thus deprives some regions of the labour required for their developments. Such mismatches between skills and jobs require adjustment of education and training to the return of human capital. Where the return is high education and training it should be expanded and where it is low it should be contracted.

Related to these is the need for a proper evaluation of the special employment schemes in operation. They take the form of a recruitment subsidy in the private sector (22,000 job openings in 1986) and of short run employment of construction workers by local government sector. It seems that expenditure of these measures is worthy in terms of employment creation, impact on inflation and fairness. However,

they perhaps prevent necessary adjustments and thus have a negative effect on long run productivity and output.

Another issue is the rigidity of work patterns. Part time work is poorly spread. Few overtime hours are allowed per month, shift working and shop opening hours are restricted. Collective bargaining at enterprise level could settle less rigid work patterns. Finally, the current employment security provisions is believed to imply labour hoarding and thus lower labour productivity. Alternative arrangements, which share the burden of industrial restructuring, are currently proposed and discussed.

9. UK LABOUR MARKET POLICY
by Peter Brannen (United Kingdom)

UK LABOUR MARKET DEVELOPMENTS

At the present time, the level of growth in the economy of the United Kingdom is well above that of most OECD countries, and unemployment is falling rapidly. Since 1980 productivity for the whole economy has grown at 2.75% per annum, similar to Japan and faster than in all other major industrialized nations. At the same time within the labour market there are historically high levels of unemployment, paradoxically coupled with a large number of job vacancies and falling number of the young people who are traditionally industry's source of new recruits.

The UK population of working age is presently just over 34 million and between 1975 and 1987 grew, on average by 190,000 per annum. Between 1987 and 1995 it is projected to grow by only 240,000, and almost all of this will occur before 1990. During the same period (87-95), the civilian labour force will increase by 900,000: more than the population growth. This mainly reflects increased participation by women whose involvement will grow as the number of young people declines. The large number of job vacancies (approximately 700,000) currently available is a sign of the rapid expansion of the economy, producing a shortage of labour in some regions (and in certain industrial sectors) whereas the decline in youth numbers reflects the end of the 1960's baby boom.

The numbers of employed and unemployed, although constantly changing, provide the background against which these developments must be viewed. The latest available statistics show just over 25 million people employed in the British workforce of whom the vast majority (86%) were employees, two thirds of whom worked in service industries; 12% were self-employed, the remainder being either the armed forces or trainees on government programmes. As at August 1988, the

total of people unemployed and claiming benefits was 2.27 million or an unemployment rate of 8,0% of the total workforce. Of these, 948,000 (41%) had been unemployed for over a year and constituted the "long-term" unemployed. Although high by historical standards for the United Kingdom, this total has fallen continuously for the last 25 months and is now at its lowest level for 7 years.

UK LABOUR MARKET POLICY

Government is determined not to repeat failed past attempts to reduce unemployment. Instead, an effective long-term strategy is being pursued. The objective is to exert continued downward pressure on inflation through monetary policy, maintaining a firm financial framework supported by sound public finances, so laying the foundations for sustained growth and rising employment. Monetary policy is operated by a combination of interest rates, exchange rates, broad and narrow money supply and control of public finances; emphasis on these various means of control is varied over time, as appropriate.

Government believe it is essential to improve supply performance and help create an enterprise culture. Privatization, encouraging the spread of wealth and ownership, and the removal of obstacles to the free functioning of markets all encourage a vigorous economy, higher output and more jobs. The reduction and simplification of taxes reduce distortions and markedly improves incentives. The easing of rigidities in the labour market (for instance through tax relief for profit related pay) encourages a better match of supply to demand for labour and so a faster creation of new jobs. In addition, further flexibility is being promoted by a rolling programme of deregulation, sweeping away excessive bureaucratic restrictions: a policy designed to heighten competition in all spheres of economic activity coupled with the abandonment of controls on prices, incomes and the movement of capital.

These measures were intended to revitalize British industry; this in turn would require a more flexible and responsive labour market.

Firstly, changes have been made in the area of industrial relations. Legislation has been introduced to redress the balance of bargaining power between employers and Trade Unions: the right for employers to manage has been restored. As well as this, government was concerned to ensure that trade unions truly reflect the beliefs and wishes of their members: it is now compulsory for unions to hold secret ballots of their members before embarking upon industrial action.

Secondly, emphasis has been laid on the promotion of small firms and an encouragement to self-employment. The Enterprise Allowance Scheme allows individuals cash help to start their own businesses: there were 106,000 entrants to this scheme in 1987/88. Overall, since 1979, self-employment has risen every year. Up to 1988, almost 1 million more people had become self-employed, an increase of over 50%, six times as much as in the previous 30 years. In addition, employment-creating industries, such as tourism, have been encouraged.

Also, vocational training has been made a priority. With an economy expanding in the UK, it is of vital importance that it is not impeded by skill shortages. To this end the government is involved both in the provision of opportunities for vocational training through national initiatives and also in encouraging firms to improve their internal training in order to meet the challenges of the market place. The Youth Training Scheme (YTS) provides training and work experience for school leavers over two years, including at least 20 weeks "off the job" training. 380,000 entrants are expected to this scheme in 1988/89.

Employment Training (ET) offers up to a year's full-time training to 18-59 year olds who have been unemployed for 6 months or more. ET will cater for 600,000 trainees per year at a cost of £1.4 billion.

- . These programmes form an important part of the opportunities available for vocational training but there exists a whole range of other government measures to aid the movement of individuals into employment; information, training, counseling and support are all available. An important part of this provision is Restart. This is open to everyone unemployed for 6 months or more and each is assessed in an interview designed specifically to identify an individual's particular need in relation to gaining employment. The most suitable of a wide range of opportunities is then offered. In 1987-1988 2.2 million interviews were conducted under the Restart programme.

Finally, government has been concerned to improve incentives to work, and to better target help to those in need. With regard to employment, employers have been allowed to fix rates for the job; this has involved the repeal of schedule 11 of the 1975 Employment Protection Act, and the rescission of the Fair Wages Resolution. In addition, the Wages Act has been reformed and young people under the age of 21 have been removed from its provisions. The qualification period for redress against unfair dismissal now stands at two years; at one point this was only six months. A powerful disincentive to the hiring of additional labour was the National Insurance Surcharge (the so-called "tax on jobs") which stood at 3.5% in 1979. It has now been abolished.

The tax-benefit system has also been overhauled and simplified. Reforms to the Social Security system introduced earlier this year are intended to eliminate the unemployment and poverty traps by increasing incentives to work and concentrating state aid to those most in need. Over the last decade changes to taxation law have reduced the burden on those in lower paid jobs by the raising of tax-free allowances.

EFFECTIVENESS OF UK LABOUR MARKET POLICY

The policies already described have had a marked effect upon the UK economy, and upon the labour market in particular.

- The UK economy as a whole is strong, with GDP at its highest ever level and the country in its eighth successive year of growth (averaging 3% per annum) since 1980 the United Kingdom has grown faster than all of the other major European Community countries. Recently, inflation has shown a slight rise, but its control remains a central tenet of policy and action has been taken (by the raising of interest rates) to control this increase.

Unemployment reached a peak in July of 1986 at 3.2 million or 11,5% of the workforce. Since then it has declined by about 900,000 in the longest sustained fall on record. The fall over the last year has been the fastest of all the industrialized countries. Employment has grown by 2.1 million since March 1983. Of these new jobs, 1 million are employees, 0.75 million are self-employed and 0.33 million extra people are working on government training schemes (counted as employed under International Labour Organization guidelines). This success is the result of the application of a consistent economic strategy throughout the last decade. It is the intension of government that this record of achievement continue into the future.

10. EMPLOYMENT AND UNEMPLOYMENT IN FRANCE UP TO 2000:
 THE CHALLENGE OF SERVICE ACTIVITIES
 by Michel Gaspard (France)

Since the first oil shock, industrial branches are regularly reducing employment in France, as well as in other European countries. In the new economic context service sectors seem to be the only ones able to generate high quantities of jobs. Are tertiary activities the only future job providers? If the answer is "yes", it has to be taken into account for defining and implementing new employment policies. And the answer is probably "yes". This paper summarizes and comments a few results of scenarios which were published in an article at the end of 1987, and in a book during the spring of 1988 (1).

CONTINUED SLOW GROWTH, OR GROWTH RENEWAL? 4 SCENARIOS

Figure 1 presents 4 scenarios of economic growth up to 2000, splitting the French economy in two blocks of activities: "material" activities on one hand (agriculture, manufacturing and building), "immaterial" (services) activities on the other side. They can be quickly described as follows:

- in scenario 1 the world economic context remains rather slack in the nineties, and the international competition for manufactured goods markets increases. The internal economic and social policy is in continuity with the eighties;
- in scenario 2 the world context is the same, but internal specific policies succeed in accelerating the development of service economy (public and private), with respect to the macro equilibrias;
- the 3rd scenario describes a durable recovery of the world economy in the nineties, and an acceleration of

(1) M. Gaspard:

- Les services contre le chômage: 4 scenarios pour un fin de siècle, Futuribles, november, 1987.
- Les services contre le chômage, Edition Gyros, 1988.

international trade: the industrial production accelerates in France and the service activities too in about the same proportions;

- scenario 4 assumes a similar world context as scenario 3, with specific policies oriented to tertiary development, as seen in scenario 2.

In all scenarios the growth of the volume of value added in the "material" sector remains quite slow (between 2 and 3% per year in the most optimistic hypotheses), and is faster in the service branches all together (ranging from 3 to 7% per year). The GNP average growth ranges from 2.3% a year in scenario 1, to 5.4% in scenario 4. Table 1 shows the increasing weight of tertiary activities in the national production, passing from 61% in 1987 to 70% - or even more - in 2000. Service sectors, in all scenarios, contribute for more than 85% to the general growth, as they did since 1974.

Tableau 6 4 scénarios de croissance							
Scénarios	1987 - 2000 Croissance des valeurs ajoutées (% par an)			Part des services dans le PIB (%)		PIB 2000 PIB 1987 (francs constants)	1987 - 2000 Contribution des services à la croissance du PIB (%)
	Dans l'agriculture, l'industrie, le BGC	Dans les services	PIB total	1987	2000		
S1	1	3	2,3	61	67	1,34	85
S2	1	6	4,4	61	75	1,75	93
S3	2	5	4	61	70	1,67	83
S4	2	7	5,4	61	75	1,98	89

EMPLOYMENT WILL COME FROM THE SERVICE BRANCHES

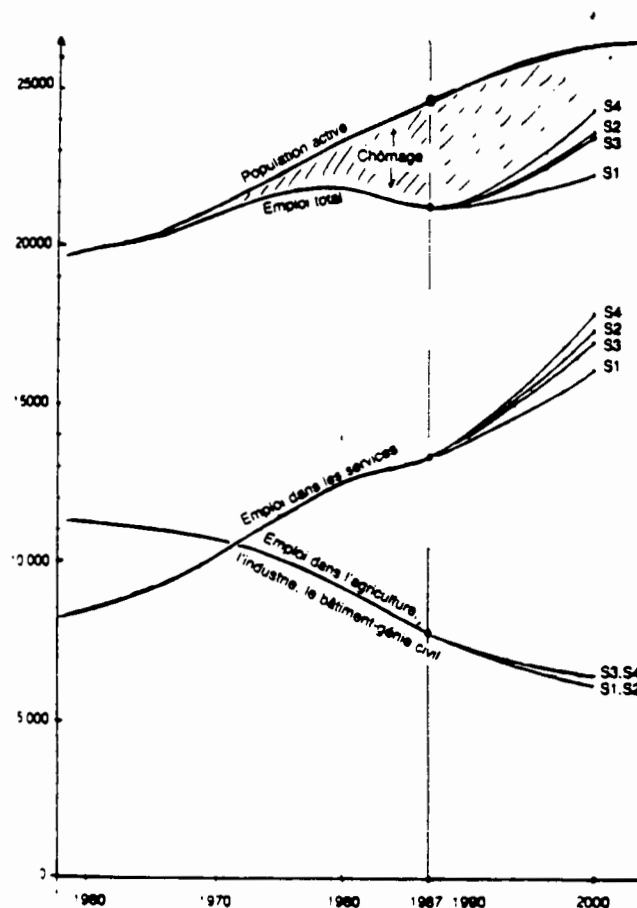
Table 2 shows the consequences of these 4 growth scenarios in terms of aggregate employment. Agriculture and other "material" branches continue to destroy jobs (about 100.000 a year probably). Service branches continue to create jobs, depending on the growth rate of the tertiary sector, which becomes the main determinant of aggregate employment. The share of employment in tertiary sectors passes from 63% in 1983 to nearly three quarters in 2000, in all scenarios.

Scénarios	1987 - 2000 Variations annuelles moyennes de l'emploi (milliers)			Part des services dans l'emploi total (%)	
	Dans l'agriculture, l'industrie, le BGC	Dans les services	Total	1987	2000
S1	- 130	+ 200	+ 70	63	72
S2	- 130	+ 300	+ 170	63	74
S3	- 110	+ 270	+ 160	63	72
S4	- 110	+ 340	+ 230	63	73

* Estimations

These somewhat surprising evolutions are quite easy to understand. In the "material" branches, the growth rate of productivity has to be high by necessities of competitiveness and modernization, and remains permanently higher than the growth rate of value added. In the service activities, the growth rate of value added can be much higher (as it has been already), and the slower growth of apparent productivity results in continuously creating jobs.

Quantitative description of the evolution of unemployment is not given here, but only showed in the following graphic, where unemployment is presented as the difference between the aggregate labour force and the aggregate employment.



A NEW CONTEXT FOR EMPLOYMENT POLICIES

This continuous and accelerated shift of economic activity and occupations towards services will surely draw a new context for renewed "active" employment and labour market policies, which should give more and more attention to the tertiary sector in all fields, enterprises and job creation, costs and wages, skills and training, work organization and working conditions, social services, etc. The last part of this paper limits itself in pointing out a few questions about the conditions and possible circumstances of an acceleration of activity and job creation in the various service branches.

- Which branches will be mostly job creative?

A frequent answer to this question is: industrial services, information services and services to enterprises such as high tech-services, research, counselling and consulting data processing and so on. In the case of France (and probably other countries), the answer seems to be different: more than 60% of the tertiary jobs are nowadays concentrated in household services, public and collective services, which will probably create nearly two thirds of the total number of new services jobs. Industrial and professional services will play a primary role for the modernization of industries, for exports and high-skilled job creation; but a secondary role in terms of quantity of job creations.

- How will the equilibria between public and private, profit and non-profit activities evolve?

This is a question concerning national policy choices. It is important to see (cf. for example M. Rein and R. Freeman's paper about "The Dutch Choice") that several ways exist for developing household and collective services - for example the US-way, with high proportions of private and profit making services, and the Swedish way, with a lot of state and public decentralized services. The "French way" will probably be something special, a subtle cocktail of public, private

and "third sector" (associative) services with different proportions among the service branches (health, education, transports, communications, culture, housing, etc.), which will depend on pressures of public opinion, functioning of democracy and public choices, much more than on technical evolutions. It is necessary to emphasize, anyway, that social policies should be seen for the future as an important piece of employment and labour market policies, as Martin Rein points out; and further, as an important piece of economic development policies.

- How could the development of the service activities be financed in the future? That is a fundamental question. A general remark firstly: the question of "public" and "private" financing is very distinct from the question of "public" and "private" service-providing; just because a lot of public collective services use a lot of private financing (public transportations, telephone, public TV-broadcasting, etc.), while some private or associative services rely upon public financing (private health care and private schools in France, for example). This kind of interpenetrations and mixings will grow in the future rather than be reduced.

Another general remark: this question has to be considered at the same time on the supply side and on the demand side - what is convened to call a "two-handed approach". On the supply side it will be necessary to develop new circuits for saving collecting and investment financing, adapted to different types of services which have to be created on local or regional bases; at the same time, it will be necessary to make more efficient the various public services, especially by decentralization of management and (sometimes) financing. Anyway, new policies should be developed for financing the supply of public and private services. On the demand side the main question is how to increase the effective (solvent) demand. The real costs of service producing will increase, so only two ways are available: reducing prices, and increasing direct or indirect incomes.

Reducing prices can be obtained either by low-wage policies in the service activities (deunionization, deregulation - the US-way), or by public policy measures (subventions, lower taxes and social contributions in the developing service activities and so on. A faster increase of household incomes is surely a very important condition; an important question, for the next years, will be how to make that consistent with maintaining low rates of inflation and balances of payment equilibria.

11. WAGE DIFFERENTIATION IN POLAND
by Michal Malawski (Poland)

In this paper I would like to make a brief comment on the wage differentiation in Poland. During the last several years it has become one of the most serious problems of the economy.

1. The inter-branch differentiation within the same professional groups. They reflect mainly some administrative preferences for certain branches and discrimination of some others. The most influential branches of the economy, i.e. mining, metallurgy, has long offered relatively attractive wages so as to maintain certain required level of employment. The point is that not only miners or steel workers, but also the custodial staff, as secretaries, drivers, telephonists, are paid very well in comparison with other branches. In 1986 the average pay of this staff was 2-2.5 times as high as the average of the same professions in the whole economy. The worst paid sectors were health service and education.
2. The inter-enterprise differentiation within a branch. There are 2 main reasons of this differentiation. First, one of the objectives of the economic reform is that "good" enterprises should be able to pay higher wages than "bad" ones. There are many reasons, such as lack of market prices and of real exchange rate, general disequilibrium in the economy, improper financial parameters etc., for which the correlation between efficiency and value added is rather weak. Thus, it is better to talk about "rich" and "poor" enterprises. And there are, of course, "rich" and "poor" enterprises within every branch. It should be added that the correlation between wages and profits is not strong too.
3. The inter-professional differentiation. The general tendency is that wages of qualified specialist are low as compared with wages of manual workers. It is caused

by the natural labour market mechanism as well as by some above mentioned central decisions aimed at reducing the growth of wages. The wage structure within the industry is generally dictated by the labour market, but the level of wages in health service, education, jurisdiction and state administration is set by administrative decisions. It is the labour market that sets the wage of a non-qualified worker at higher level than a high-school graduate engineer wage in the same enterprise (in 1986 the average wage of a house painter was nearly 20 per cent higher than the average wage of a constructor). But it is the central administration that sets the wage of a doctor or lawyer in a training period below the level of a footboy wage.

At first sight the situation looks strange, but it can be easily explained. There are many qualified engineers and technicians in Poland, too many for the stagnant and non-innovative economy, which first needs manual labour. Besides, it is easier for the government to hold up the teachers' or doctors' wages than to appose the miners', shipyards' or steelworkers' demands.

4. The inter-sectoral differentiation. Wages in the quickly developing private sector are 1.5-2.5 times higher than in the state enterprises. The private sector firms are much more efficient and sell their products (or services) at market prices. Thus, they are able to pay higher wages.

In sum, even the differentiations within the state sector place Poland among the countries with strong dispersion of wages. According to some estimations, this dispersion is stronger than in any European country. And still it amounts only to a small part of income inequalities in Poland. If we take into account that the wage differentiations are largely accidental, and most sources of high income reflect rather the pathology of the central planning and unsound policy (e.g. absurdly high black market rate of dollar) than any economical activity in common sense, it becomes clear that social tensions are high and work discipline lax. But it

- cannot be different in a country when \$1.000 earned abroad by a student during his/her summer holidays equals to more than 40 average monthly wages in the state sector of the Polish economy (this wage is now about 50.000 zloties; the free market, or black market, rate of dollar rose from 700 zloties in the beginning of 1987 to 1400 zloties in the beginning of 1988, 2300 zloties in the end of August this year, and is expect to reach 3.000 zloties by the end of the year). This rate brings catastrophical consequences to the labour market because it enhances (especially young) people to work abroad and do nothing after coming back. And doing nothing may take different forms, because everybody has the "right to work", i.e. to be employed. If we place Poland at the figure 1 of the discussion paper, it would have Swedish rate of employment to population 16-64 and American, or even greater, dispersion in wages. Still, as we mentioned, the reasons of dispersion are usually different than in Western countries and rate of employment also cannot be compared, since up to 20 per cent of employed is hidden unemployment.

All these facts may be surprising for outsiders. It is often thought that in the centrally planned economies real wages are low, but slightly differentiated. At least in the Polish case, the average in fact is low, but the dispersion quite high.

12. THE TRIPARTIATE APPROACH IN FINNISH INCOMES POLICY
by Seppo Moisio (Finland)

ECONOMIC DEVELOPMENTS IN RECENT YEARS

Economic performance has been rather favorable in Finland in the 1980s. GDP growth has been 3¼ per cent on average during the past ten years. The rate of unemployment has now been reduced below 5 per cent of the labour force. The share of public expenditures of GDP has risen but remains still at a reasonable level, 41 per cent in recent years. The gross debt of the public sector has, however, not exceeded 15 per cent in relation to GDP, and the share of net debt is a half of that. The deficit on current account has also so far been rather limited. The rate of inflation in Finland has, however, been higher than in our competitor countries. Thanks to rapid increase in manufacturing productivity (5 per cent per year from 1977 to 1987) price competitiveness of manufacturing has not deteriorated substantially as Finland has followed a stable exchange rate policy. Earnings have increased by 2 per cent in real terms on average since 1977.

CENTRALIZED WAGE NEGOTIATIONS

In Finland there is a centralized wage negotiation system as both sides - employees and employers - are highly organized. As a result centralized incomes policy agreements have normally been aimed at and with some exceptions also reached. Increasing criticism has, however, been raised against the centralized negotiation system, because this process does not allow enough flexibility in wage and salary formation and structure. Negotiated wage agreements reached at the central level have also in general been exceeded at union levels. The central organizations have no more any formal control over agreements made at local or union levels. On the other hand if centralized agreements are not made, social partners cannot expect any contribution from the government in the bargaining process. In general it is thought that centralized agreements would guarantee better

industrial peace and economic performance in Finnish economy. For many years trade unions and also employers have tried to bind the government's hands in taxation policy or at least to obtain some guarantees or commitments on economic policies to be followed by the government and the central bank during the contract period. The real wage after deduction of income taxes has increasingly been an important target for trade unions in the bargaining process. Many social policy and industrial relations reforms have originated in the context of the centralized bargaining process during past decades.

WAGE AND SALARY AGREEMENTS IN FEBRUARY 1988

In February 1988 no centralized agreement was reached and negotiated wage agreements were made at union levels for two years. In most contracts the increase of wages and salaries was agreed only for 12 months. Wage increases were, however, so high that the rate of inflation has clearly accelerated in recent months and will be higher than in our competitor countries. As a result price competitiveness is estimated to deteriorate more than 5 per cent this year. A favorable trend of output growth and employment threatens to turn in a weakening direction next year. The deficit on current account is growing and increasing imbalances of the economy are threatening seriously employment.

STABILIZATION AGREEMENT IN AUGUST 1988

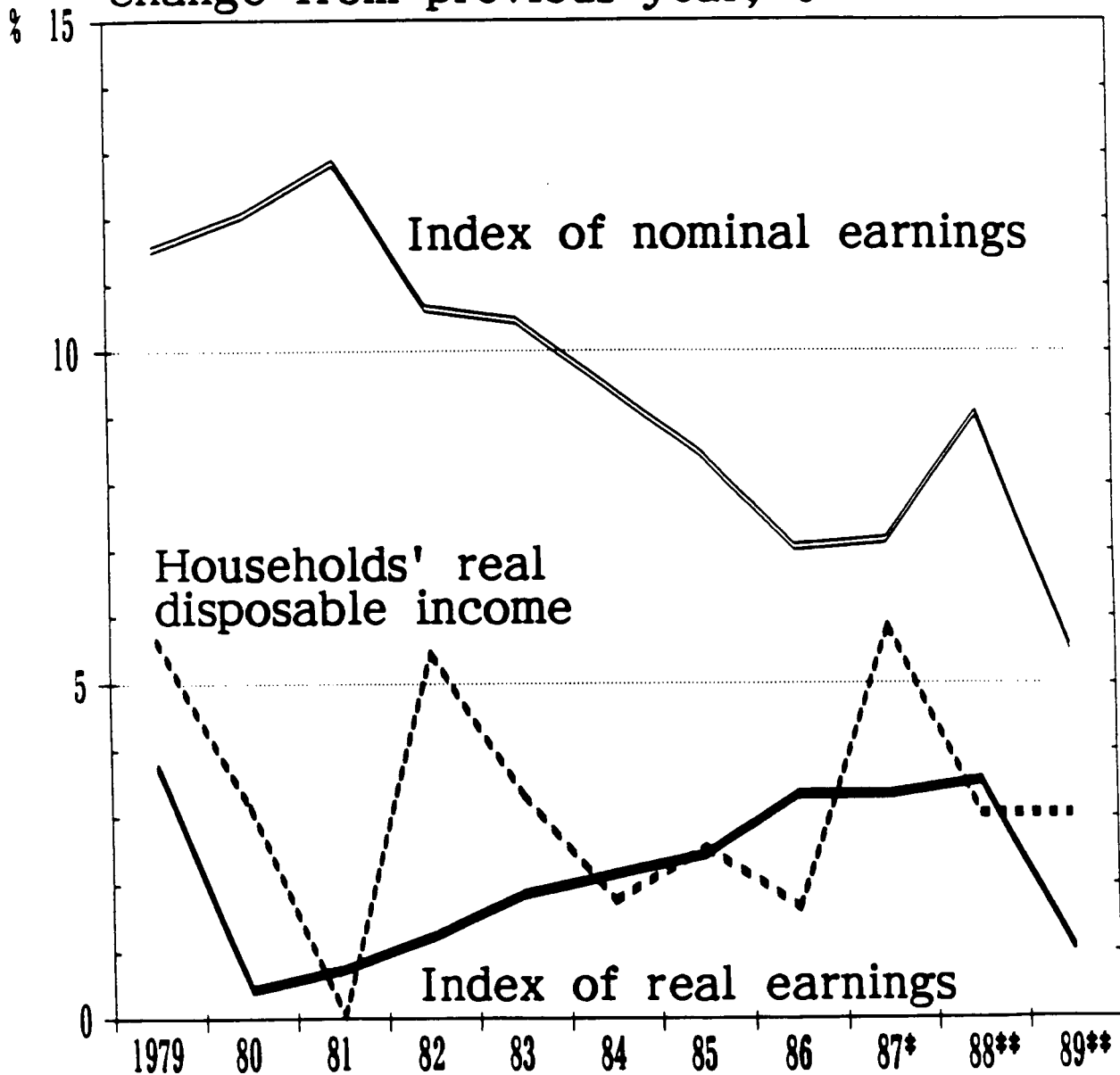
In this situation a new tripartite approach was found in August 1988. Instead of tight fiscal policy the rate of inflation will be reduced by the combination of low wage and salary increases and income tax reductions. A new element in this stabilization agreement is that a real increase of 2½ per cent is officially set as a major target. The stabilization agreement was signed by all central labour market organizations, and a four weeks time limit was set for unions to accept the agreement. In the same connection the government promised to reduce income taxes so much that the target set for the real increase of wage earners' available

income will be reached. Main characteristics of the economic and incomes policy package are:

- wages and salaries will be raised by 68 FIM per month or at least by 1 per cent from 1st March 1989;
- index clause: if the increase of consumer price index from September 1988 to December 1988 is higher than 1,2 per cent and if the increase of CPI during 1989 is higher than 4 per cent, the exceeding part will be compensated to wage earners by employers;
- earnings development guarantee: if wages and salaries in some branches are lagging behind the general development, the difference (max 0,70 FIM/h) will be paid afterwards;
- income taxation: the government will present such propositions to the Parliament on income taxes and income transfers to households that the real increase of 2½ per cent in wage earners' available income will be realized;
- indirect taxes: will be kept mainly unchanged, and tariffs and charges important to households will be raised only marginally;
- resources for adult retraining will be increased;
- the government promised to make some improvements in social policy (day care, child allowances, unemployment security);
- a wish was presented to the central bank for a reduction of interest rates;
- if any partner (union) will not accept the stabilization agreement, the index clause cannot be applied to the wage agreement made by this partner;
- a follow-up: the representatives of the government and social partners will meet in October 1989, to consider the materialization of the real income target as well as the development of employment, prices, current account and taxation. Income information committee, which is composed of representatives of the authorities and the social partners, will provide necessary statistical information (this committee, which was established already 16 years ago, meets regularly and considers and agrees on all factual information (statistics, forecasts) necessary in the incomes policy procedure in Finland).

FINLAND

INDEX OF WAGE AND SALARY EARNINGS AND HOUSEHOLDS' REAL DISPOSABLE INCOME change from previous year, %



13. CENTRALIZATION OF WAGE BARGAINING, THE SIZE OF
PUBLIC SECTOR AND HEALTH CARE COSTS
by Kalevi Luoma and Heikki Palm (Finland)

WAGE BARGAINING SYSTEMS AND ECONOMIC PERFORMANCE

There are great differences between mature industrialized societies in meeting such policy goals as low inflation, high employment and high economic growth. Recent evidence suggests that labour market institutions and systems of wage negotiation can explain a major part of differences in unemployment and inflation between advanced economies.

Wage bargaining systems can be classified according to how centralized the decision making in labour market is. Classification criteria can be based on:

- unionization rate of employees and employers;
- centralization of wage bargaining;
- consensus of labour and capital;
- the role of government in the bargaining process.

By using these criteria one can derive an index describing the degree of corporatism in the economy. Appendix 1 shows how 17 advanced OECD-countries rank according to the index constructed by Calmfors and Driffill (1987).

Countries can roughly be divided into three main types:

1. countries with corporative negotiation system. This includes, for example, Austria and Scandinavian countries, where unionization rate for workers is high, wage bargaining is carried out centrally and comprehensively, consensus between labour and capital is generally reasonably good and government has a major role in advancing wage negotiations;
2. countries where wage negotiations are to a large extent carried out in firm level. This includes such countries as United States, Canada, Japan and Switzerland. Common to them is that unionization rate is low and government plays at most a minor role in advancing negotiations;

3. countries with fragmented industry wide negotiation system. This includes West Germany, France, Italy, United Kingdom and Benelux countries. In these countries unionization rate and the role of central employer and employee organizations is minor than in countries with central and comprehensive wage bargaining systems. Often the employer must negotiate with many trade unions, which may compete with each other.

It has been noted that countries which can be classified into two first groups have produced higher employment and lower unemployment levels in the late seventies and eighties than countries within the third group without faring worse in combatting inflation. The meeting of conventional macro economic goals in different countries can be illustrated with figure 1.

As can be expected the development of income distribution in countries with corporative negotiation system has been more equal than in other countries. In these countries differences in productivity between firms have not have a great impact on wage dispersion. In countries with decentralized wage setting the wage dispersion is much wider. Generally there seems to be a strong association with corporatism and wage dispersion, Norway being an exception (Leppänen, 1988).

In countries with a centralized wage negotiation system government often contributes to the establishment of an agreement by incentives and sometimes by sanctions. In Finland government participated in most comprehensive income agreements by promising social income transfers or tax reliefs on the condition that most trade unions will accept the agreement. During the 1970s and 1980s a number of major social security and income maintenance reforms were agreed in the context of centralized incomes policy agreements.

It also seems that there is a relation between the growth of public sector as an employer and the degree of corporatism. This is implied by figure 2, which shows the relationship between the share of public expenditure of GDP and the degree of corporatism.

So it is likely that in countries with centralized and comprehensive system of collective bargaining government has not only the role of an intermediary but it also pays for attainment of industrial peace. The result is the growth of public expenditure. One could also hypothesize that in countries with centralized wage setting practices the solidaristic wage policy increases the wage growth in public sector, even though productivity development there would be modest, thus rapidly increasing the costs of public services. Next we shall make a preliminary attempt to investigate whether there is a relation between the wage bargaining system adopted and the unit costs of health services.

WAGE NEGOTIATION SYSTEMS, PUBLIC HEALTH CARE AND COST OF HEALTH SERVICES

The way health care is organized, produced and financed varies considerably across countries. Table 1 presents an attempt to classify countries according to the type of wage negotiating system and the type of health care provision and financing.

In countries with centralized wage determination health care is mainly financed by taxes. Countries for which industry wide wage bargaining is common, finance their health services to a great extent with some sort of sickness insurance. The United Kingdom is a clear exception. There health care is almost totally financed by taxes. In countries where wage agreements are made as a rule on the firm level, like the United States and Switzerland, production and financing of health care is based to a large extent on private schemes. However, in Japan and Canada, also public provision and funding are important.

There seems to be a relation between the degree of corporatism in the wage negotiation system and the share of public expenditure of the total health care expenditure, as figure 3 illustrates. The United Kingdom is again an exception in this respect.

In studies in which variations in health care costs between OECD-countries have been compared, was found that GDP per capita explains most of the variation. Other potential explaining factors are the share of the public expenditure of the total health care expenditure, the number of hospital beds available for the population and the share of elderly population (OECD 1987).

It has been suggested that the reason why total health care costs per capita are lower in countries with public funding and provision of health services might be due to the fact in these countries it is easier to control costs and administrative costs are also lower. It has also been noted that the degree of centralization in funding and allocating health care resources affects costs development. If decision making is centralized, like in United Kingdom and Finland, it is easier to contain costs by regulating the volume of resources and prices. It could be argued that in countries with centralized wage negotiation system this system provides yet another instrument for restraining the growth of health care expenditure (Pekurinen and Luoma 1986).

HEALTH CARE COSTS IN FINLAND

In fixed prices health care costs in Finland have grown approximately by 6-7 percent a year, somewhat more rapidly than in OECD-countries on average. The rise in the health care share of GDP can be a result of allocating more real resources to health care but it can also result from factor prices rising more rapidly in health services than elsewhere in the economy. In Finland the rising GDP share of health care from 1960 to early eighties has been due to devoting more real resource to health services. The rise in price index of health care has not been more rapid than rise in the price index of GDP (Häkkinen 1988).

Health care is a very labour intensive activity. About 70 percent of health expenditure is due to personnel costs. In the economy as a whole the share of labour costs is considerably lower, about 50 percent. In general the costs

- of labour intensive services tend to rise more than the costs of goods production. In Finland the earnings of health care personnel rose more slowly than average earnings from 1965 to 1980. During 1980s the earnings growth of health care personnel has been somewhat more rapid than the average (see figure 4).

The modest earnings growth of health care personnel has made it possible to increase real health care resources in Finland in a way that has not led to a very rapid increase in the GDP share of health care costs. It seems that centralized wage negotiation system has played a role in keeping the rise in personnel costs in control in public sector as whole. From 1965 to 1985 average earnings of public sector employees rose some 20 percent less than average earnings of all wage and salary earners. The main reason has been that in public sector there has not occurred such a wage drift as in the private sector, where wage increases agreed in central agreements have been exceeded on average by some 40 percent. Another reason has been that expanding public sector has recruited increasingly those personnel groups which earnings level is lower than the average.

The development in recent years indicate that allocating more real resource to public service production will result in more rapid increase in public expenditure than in the past. For instance, health expenditure is nowadays increasing quite rapidly in Finland. The share of health clearly under the average of OECD-countries but reached it in already in 1985. Recent acceleration in the growth of health care costs can also be inferred from figure 5, which showd the development of the number of health care personnel, a crude measure of output and expenditure for Finnish health centres from 1975 to 1986.

It seems evident that in the future, it is not possible to the same extent as before to rely on increase in health care personnel and other resources to meet the rising expectations, demand and need for health services. More attention

has to be devoted to the resources that the health care sector already has. We need to ask among other things, can the volume of quality of services be increased by improving the productivity and efficiency of health care? In addition to cost considerations this kind of change in emphasis in health care policy is needed because in the future it will become increasingly difficult to recruit young people in health services. The age structure of the population is changing and the number of new entrants into the labour market is diminishing at the same time.

REFERENCES

Calmfors, L. and Driffill, J. (1987) Centralization of wage bargaining and macro economic performance. Institute for International Economic Studies, Seminar paper 402.

Häkkinen, Unto (1988) Terveysthuollon kustannukset, rahoitus ja hinnat 1960-1985, Kansaneläkelaitos, Helsinki.

Leppänen, Seppo (1988) Tulopoliittiset neuvottelujärjestelmät ja taloudellinen kehitys, Taloudellinen Suunnittelukeskus, Helsinki.

Luoma, K., Häkkinen, H., Jämsén, R. ja Vinni, K. (1988) Assessing productive performance of Finnish health centers. Paper presented to the 9th Nordic Health Economists' Study Group Meeting, Oslo, 2nd-3rd September.

OECD (1987) Financing and delivering health care, Paris.

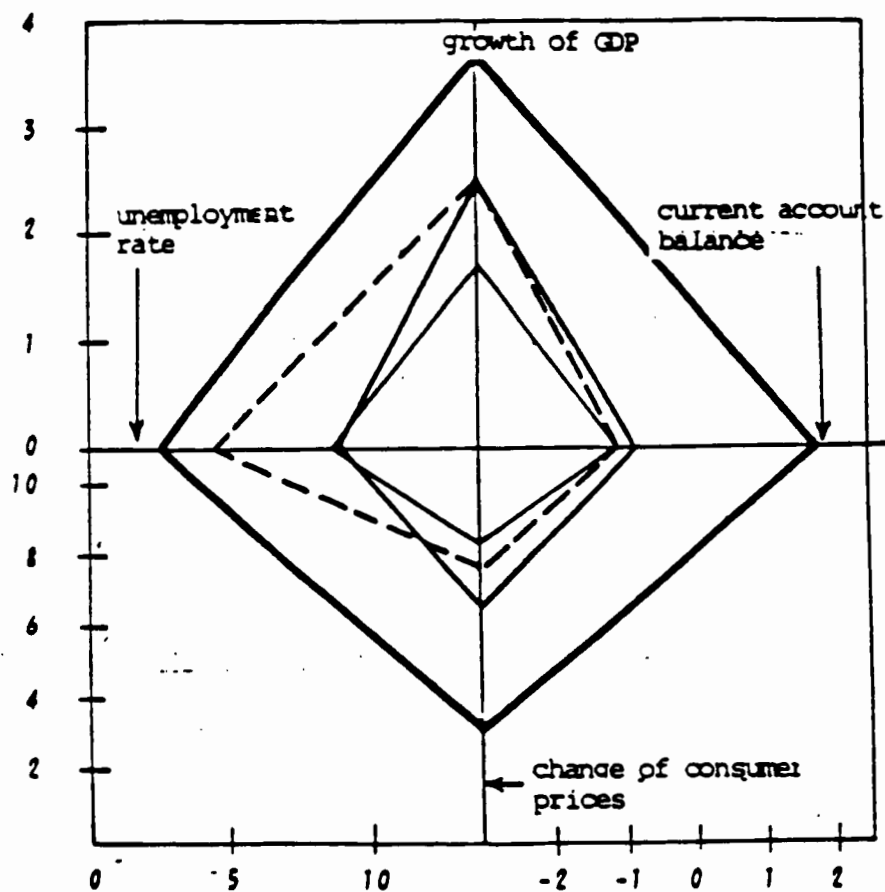
Pekurinen, M. ja Luoma, K. (1986) Terveyspalvelujen rahoitus ja tarjonta, Suomen Lääkärilehti 41:2945-2950.

Table 1 Centralization of wage bargaining and the main type of health care delivery and finance system

Delivery and finance of health care	Centralization of wage bargaining		
	Centralized	Industry based	Decentralized
Public provision/ tax finance	Sweden	United Kingdom	
	Finland		
	Denmark		
Public and private provision/ sickness insurance	Austria	Federal Republic of Germany	Japan
		Netherlands	Canada
		France	
Private provision/ private insurance			United States
			Switzerland

Figure 1 Economic performance in 1980-1987

- - - Austria, Norway, Denmark, Finland, Sweden
- FRG, France, UK, Italy, Belgium, Netherlands, Australia, NZ
- USA, Canada
- Japan



Source: Leppänen 1988

Figure 2 The share of public expenditure of GDP and the degree of corporatism

The share of public expenditure

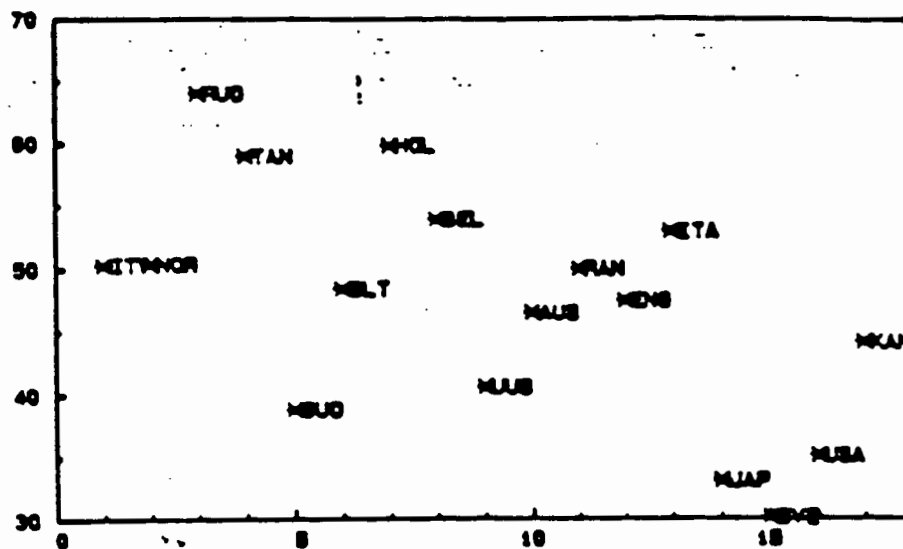
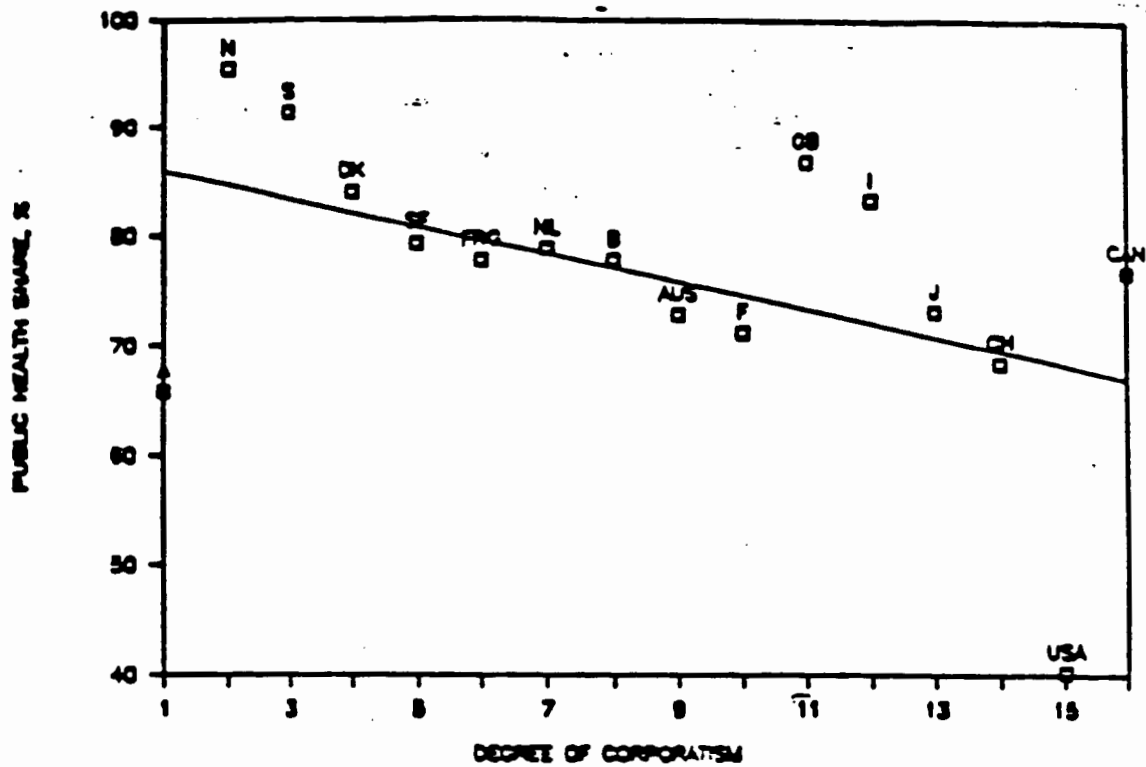
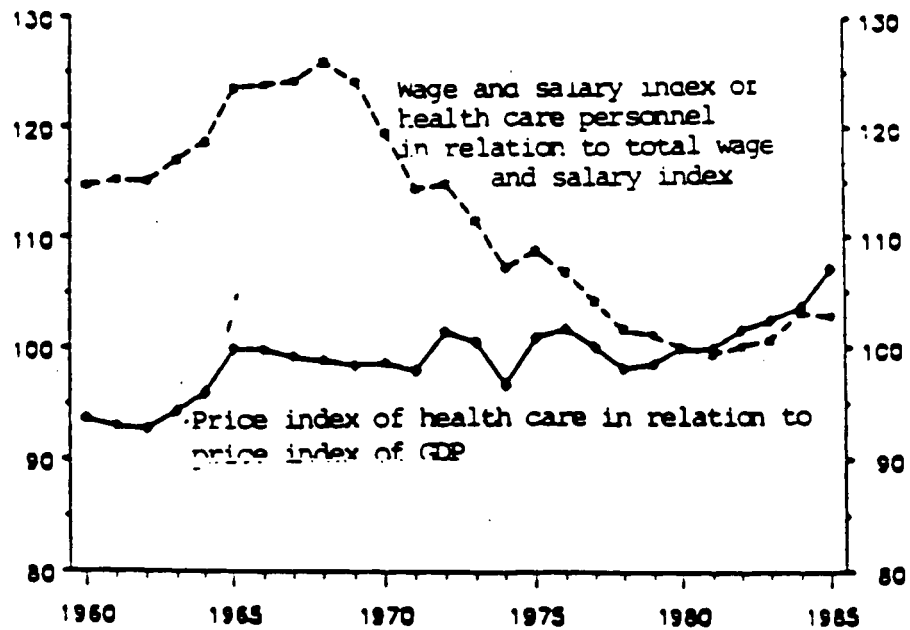


Figure 3 The share of public health expenditure of total health care expenditure and the degree of corporatism



Sources: OECD 1987, Calmfors and Driffil 1987

Figure 4 Health care prices, wages and salaries compared to the average in the economy (1980=100)



Source: Häkkinen 1988.

APPENDIX The ranking of countries according to the index of corporatism:

Corporative wage bargaining system

1. Austria
2. Norway
3. Sweden
4. Denmark
5. Finland

Industry based wage bargaining system

6. Federal Republic of Germany
7. Netherlands
8. Belgium
9. New Zealand
10. Australia
11. France
12. United Kingdom
13. Italy

Local level wage bargaining system

14. Japan
15. Switzerland
16. USA
17. Canada

Source: Calmfors and Driffill.

14. THE CHANGING ROLE OF THE WELFARE STATE: IMPLICATIONS FOR REDISTRIBUTION POLICIES
by Simon Miles (Canada)

INTRODUCTION

The introductory note to the seminar, circulated by the HRWB on 21st March, 1988, suggested that we should look at the evolution of the welfare state in the Netherlands, as compared with other countries and the implications of this for redistribution policies and, in particular, for the role of social policies.

This suggests a three-step procedure. Unfortunately, the background paper does not take us through this procedure. It focuses on the labour market. In struggling to come to grips with what might be a useful contribution to the seminar, I have concluded that it would be beneficial for us to discuss the following.

1. What do the Dutch want of the development process?
2. What are the dimensions and main features of the operating environment in which they will be striving to realize their expectations?
3. What, therefore, do the Dutch want of the welfare state and what are the implications of this for policy and structural change?

In short, we have to start with a sense of direction, or at least a discussion on how it is to be determined, and then we have to look at the context before we can focus on any one set of policies. My notes here are designed with this procedure in mind. They do not pretend to offer a systematic coverage of issues. I have given particular attention to the labour market, but hopefully it is clear that the framework can be used to elaborate the implications for other policy sets.

WHAT DO PEOPLE WANT OF THE DEVELOPMENT PROCESS?

While we visitors cannot presume to know what the Dutch people want, we can hopefully help elicit this from our hosts.

When we first discussed the changing role of the welfare state, in Sweden in 1985, I suggested that we needed a definition of development (1). I see this as necessary because the concept of development has been evolving in public policy discussion in recent years.

To summarize, I suggested that since the industrialized countries began to construct their welfare system in the late "Forties", we have seen a paradigm shift relative to understandings of development. The concept has shifted from one which emphasized the economic and technological development of the country, with social development being viewed as a residual, to a concept which is more balanced and places much more attention on the development of the individual and on society. Economic and technological development are gradually, but only very gradually, beginning to be seen more in a supportive role of this human development.

Development is also beginning to be seen more in terms of a continuing process. I would like to suggest that the continuing development of an individual is the process of enrichment of experience and improvement in the quality of one's ligatures (associations, ties etc.) and thus ability, not only to survive, but to respond to new situations in a spontaneous and creative way. This enrichment of experience is seen to derive from the continuing interaction with one's surrounding developmental environments (or components of one's developmental setting). The opportunities to interact is dependent on the options open. Diversity of opportunities is therefore important. The quality of the ligatures with people, places and things are also dependent upon the options open for interaction but at the same time, upon an ability to be selective in time spent with those people, places and things which provide greatest human fulfillment (2).

Societal development is in many senses individual development writ large with an emphasis being placed upon the internal linkages (between its member individuals and groups and with the natural environment) that constitute the support systems, be they economic, social, technological or

whatever. The stronger the linkages or ligatures, the stronger the cohesion in society.

However, while internal linkages do constitute the most important linkages for societal development, the linkages along the external dimensions of time and space are also of increasing significance. A society owes much of its development to its interactions with other societies in its global space and, increasingly, there is a growing consciousness of the "linkage of responsibility" towards the continuing society. Global viability and sustainability of development strategies is therefore important. The tremendous appeal of the Brundtland Commission that has promoted environmentally sound development bears out this point.

Although these may be regarded as highly conceptual dimensions of societal development, they are mentioned here because they help to identify what it is that individuals and groups need in order to pursue their development in a self-reliant manner.

Thus one can envisage that people are going to seek not simply work but lifestyles that provide them with a greater degree of enrichment and the opportunities to enjoy their pleasurable ties with people, places and things. This is showing up, for example, in the reluctance of the labour force to respond to the labour market instruments designed to provide mobility.

The Dutch participants should attempt to outline some of the key values that the Dutch people are expressing relative to the labour market and the provision of public services. This should go beyond social services because we are also interested in new responsibilities and trade-offs that have to be made in satisfying multiple goals.

WHAT ARE SOME OF THE KEY FEATURES OF THE CHANGING OPERATING ENVIRONMENT IN WHICH PEOPLE SEEK TO SATISFY THEIR EXPECTATIONS OF THE DEVELOPMENT PROCESS?

These features are listed in point form only. Hopefully, their implications are clear. There are obviously many more.

This is to give a sense of why it is important to understand the changing context. My sense is that they are features of most, if not all industrialized countries. They include changing attitudes.

1. A fast-evolving world economy in which increasing importance is being given to:
 - mobility of capital (repatriation of profits)
 - knowledge and retraining (which means that those without appropriate training receive very low wages and do not advance).
2. Increasing individualization of lives with more households seeing both adult partners working and more children taking part-time jobs with longer hours.
3. Increasing consumer purchasing power driving up prices of goods (e.g. housing) and services (e.g. nursing).
4. Increasing interest on the part of governments in taxing the consumption of goods and services (with obvious implications for the poor of this regressive taxation).
5. Increasing reluctance on the part of employers (especially those from two-breadwinner households) to move.
6. Increasing numbers of people employed in their own or in small businesses.
7. Declining union membership as people become better able to look after their own interests, given their special niches in production processes.
8. Greater value being placed on children but not necessarily an accompanying increased sense of responsibility on the part of parents for the welfare of their children.
9. Aging populations with all the attendant demands for services.
10. Increasing value being given to environmentally sound development.
11. Increasing consciousness of sharing one planet but little consciousness of the costs involved in providing for the indivisible benefits of protecting the natural heritage and the commons and conserving the natural resources.
12. Rapid global communication that is homogenizing people's demands upon the welfare state.

Doubtless, there are some variations on the above, when applied to the Dutch. One important consideration is the attitude of Dutch mothers to participation in the labour force.

WHAT DO PEOPLE WANT OF THE WELFARE STATE AS THEY SEEK TO REALIZE THEIR EXPECTATIONS IN THE RAPIDLY CHANGING OPERATING ENVIRONMENT?

People appear to want two key things from the welfare state today:

1. they want it to shift from being primarily a "provider" state to being an "enabling" state;
2. they want it to provide for the indivisible benefits (of environmental protection, peace, etc.), though they don't appear to be conscious of what this involves (3).

Regarding the enabling state, safety nets are still needed but even more important is the putting in place of "safety trampolines", that give people a chance to recover their old position or even improve on it. Safety nets still have a tendency to trap people.

Where people need greatest enabling assistance is in making transitions, for example, in the labour market:

- the transition for the welfare recipient into an attractive job that results in a considerable increase in net income;
- the transition from education to work for the first time;
- the transition for the mother (especially the single mother) into the workforce;
- the transition for older people out of the full-time workforce;
- the transition to a society in which everyone is paid to work.

In short, making a significant change in a fast-changing environment is challenging. But governments would do well to consider that people will only become more resourceful and better able to respond to future challenges if they are

enabled rather than provided for. However, shifting public policy and programs from a "providing" role to an "enabling" role is, as is illustrated below, requiring more attention.

These and other challenging transitions facing people translate into demands upon the welfare state. Some of the more important are the following.

1. The need to improve the currently poor fit between income support, earned income and the tax system. Recent Canadian reforms to the tax system (that have reduced income taxes for the very rich and the very poor and shifted from tax exemptions to tax credits) have still not done enough to make the transition from welfare into paid employment attractive for most people. Such people generally become ineligible for subsidized housing. They begin to pay for unemployment insurance, the state pension scheme, health insurance, and an increasing share of child-care costs, plus the costs of going to work. Most jobs that they move to are low paying. They do not have pension plans or drug schemes. And they offer little opportunity for career advancement. For such people there is an effective marginal tax rate of almost 100 percent between public assistance at \$ 10,000 a year and employment at \$ 13,000 or \$ 14,000 a year (4). The minimum wage in Canada has dropped from an equivalent of about 52 per cent of the average wage in 1976 to about 43 per cent in 1986. Thus, not surprisingly, between 1979 and 1986 the worker on minimum wage lost about 30 per cent of his purchasing power. A related need is to make it attractive to those receiving unemployment benefits to take part-time work, or full-time work, for a few weeks. Just how rapidly benefits should be reduced for part-time workers is an important question. The disincentives to temporary, full-time work are such that Canada imports large number of temporary workers to harvest fruit crops.
2. The need to improve the fit between education and required training. There has been an improvement here with both the federal and provincial governments

offering a variety of schemes for subsidizing jobs to provide work experience for both new entrants and the long-term unemployed.

One of the biggest sectors of demand is for tool and die makers. These are required for the auto parts plants serving assembly plants financed by the highly mobile Japanese capital. The training of these skilled workers is largely paid for by employers. For example, it costs about \$ 100,000 to train a tool and die maker. On average, the employer pays 85 per cent; the employee 7 per cent and the federal and provincial governments pick up the other 8 per cent (5).

In Ontario, the provincial government has sanctioned 67 apprenticeable trades, but this provides limited protection for the employer's investment. Beyond the risk of losing their investment in these expensive workers, the employers are particularly concerned about attitudes to work, as reflected in poor attendance. The employer's demand of the welfare state is to instill an attitude of diligence and responsibility into young people while at school.

3. The need to assist the private sector with research and development and the creation of a supportive trading and investment environment. There is increasing support in Canada for the idea of governments being more active in assisting industrial R&D. Currently, government support covers 20% of industrial R&D (including both tax and non-tax support). The comparable figures are: USA 40 per cent; Britain 37 per cent; France 29 per cent; Germany 24 per cent (6). I believe Japan is lower still: something which raises a question as to whether the government is indeed well advised to get involved in supporting R&D.

The creation of a supportive trading and investment environment has been pursued with considerable vigour by the current Canadian federal government. A "free-trade agreement" has been struck between Canada and the USA that will take effect if the Conservative Party is returned to power. Over 80 per cent of trade between the

two countries is already "free". The removal of protection for the remaining 20 per cent has sparked a heated debate that has become the central issue in the current federal election campaign. There will obviously be winners and losers. Nobody agrees on who they are and the extent of the gains and losses. More importantly, in terms of our discussions of the demands on the welfare state, there are serious concerns being voiced, by informed interest groups, about the implications of the free-trade agreement for the management of the natural resources. There is concern over: the demands that the USA can make on Canadian water (regarded as a tradable good under GATT); the pressure on Canadian farmers to use currently illegal hormones, pesticides and other chemicals to compete with US counterparts; the reduced ability to control energy resource management due to obligations to service USA consumers; and the continuing ability to subsidize forest replanting.

The articulation of this concern is not surprising, given the increasing value attached to environmentally sound management. The point is that it is, in my view, a legitimate concern pertaining to a relatively new demand on the welfare state. It is illustrative of the competition for limited funds that social programs will have to face.

4. The need to assist in the establishment and financing of child-care services. The lack of spaces, in the public and private sector, and the need for subsidies, has become a major issue. A bill before the last Parliament died when the election was called. It was emphasizing support for privately provided services. It received mixed support/criticism from the interested public.
5. The need to assist with literacy services. Canada has about 4.5 million adults functional illiterates (i.e. not able to get by in everyday life skills). This represents 24 per cent of all Canadians over 18 years of age. While it is only slightly higher in the immigrant population as compared with native born Canadian, the

functional illiteracy rate for immigrants has risen rapidly since 1980 (7).

The Canadian federal government has recently announced a major program on this issue. It is mentioned here partly because it illustrates the type of demand on the welfare state that is fueled by the positive response of the state to the pressure to welcome refugees (exerted by organized ethnic groups in the body politic).

Other transitions exist in other fields of public policy. The provision of the enabling services involved is often closely associated with the provision of "caring" services. For example:

- nursing assistance for the elderly;
- assistance to those with mental disabilities.

Other enabling services are closely associated with the provision of "protecting" services. For example:

- the provision of half-way houses for criminals re-entering society;
- the provision of services to control the sale and use of illegal, health-damaging drugs combined with the provision of services to ease addicts off drugs.

In these areas the challenge for public policy is to identify the minimum effective contribution from the state. Canadian public policy does not appear to have done a good job in this regard. In Ontario, for example, we now have a great shortage of nurses and (according to the Ministry of Health) a surplus of doctors (8). This seems to have been a product of the relative strengths of the two groups in their power to bargain for salary increases or fee increases with the provincial government. We have also seen a great increase in poor prescribing practices since the time when government payment for pharmaceutical drugs was introduced.

I should like to turn briefly from this discussion of the enabling state to the increasing demands for the provision of indivisible benefits from collective goods. This is well illustrated by reference to the environment.

- There is a reluctance on the part of governments to take action that benefits others outside their jurisdiction. The age old mentality of "externalize your production costs" is taking time to change. The commons have been badly damaged from continuing abuse and this, combined with a rapidly increasing public awareness of the significance of this for the destruction of life on the planet, is leading to two types of action.

The first is to seek divisible benefits. For example, an individual buys bottled drinking water. In this instance the polluted water source remains polluted, the cost of clean up remains and the political leverage for obtaining clean-up (provided by the fear of ill-health) is weakened.


The second type of action is collective and involves the pursuit of the indivisible benefit. It is reluctant collectivism, especially when it involves international cooperation. But it has to rely on state intervention to raise funds, to legislate and to ensure that individuals become aware of, become equipped to, and do indeed live up to, their responsibilities.

This intervention will, as Prime Minister Brundtland has made clear, require action across the board in the public sector and in the private and popular sectors. This reorientation of public policy in economic and social areas is likely to have a considerable effect on production processes, consumption patterns and, quite possibly, lifestyles. Changes are taking place in Canada, but only very slowly. I gather that the Norwegian government has been introducing changes across the board. It would be interesting to hear about these and, more so, the process need to introduce the changes. Even for those participants interested primarily in the labour market, or social services, such as health, there should be significant implications.

IN CONCLUSION

We are reaching a far more complex stage of government intervention in the processes of human and societal development, in large part because of the increased sharing of

responsibility with the private sector, individuals and groups. In addition, however, it is far more challenging to "enable" than to "provide for", if it is to be done effectively. Further, the increased demand for the pursuit of the indivisible benefits in the environmental field will intensify this complexity of intervention. The nature of the challenge is such that the choice facing the Dutch does not seem to be one of pursuing either the Swedish or de USA models, or necessarily remaining as is, but rather one of developing a role for the welfare state that best reflects the trade-offs between Dutch expectations and the options available in the operating environment. The making of the choices will require a reasonably well-informed public and an open system of debate. The Dutch electoral system and tolerance of dissent is a very valuable foundation for this.



REFERENCES

- (1) Simon Miles, Reforming the Welfare State: Some Fundamental Questions, unpublished paper, for a seminar at Rosenon, Sweden, 1985.
- (2) For a further elaboration on the increasing importance given to the attachment to people, places and things, see: Ralph Dahrendorf, Life Chances, Chicago, University of Chicago Press, 1979.
- (3) The notion of "indivisible benefits" is attributed to Dr. Ursula Franklin, University of Toronto.
- (4) "Let's give the working poor half a chance", Globe and Mail, Toronto, July 12, 1988, page A7.
- (5) "Booming Ontario has lack of skilled workers", Globe and Mail, Toronto, November 23, 1987.
- (6) "Ontario striving to back winning firms, not losers", Globe and Mail, Toronto, August 19, 1988, page B4.
- (7) "Literacy crusader urged for migrants", Toronto Star, September 14, 1987, page A1.
- (8) "Half needless care to cut costs, hospitals told", Globe and Mail, Toronto, October 19, 1988, page A3.

15. IMPROVING THE QUALITY OF SOCIETY
by Erik de Gier (The Netherlands)

All over Europe new inequalities are growing since the economic down turn of the seventies. Even the recovery of economic growth in the eighties didn't stop this development. In general the new inequalities appear as a process of social exclusion and new poverty of substantial numbers of citizens. At high risk are especially citizens with a relatively low earnings capacity on the labour market. Examples are the long-term unemployed, the disabled, the elderly and members of ethnic minority groups.

The growth of inequality fits very well with the dominant economic ideology of privatization, market flexibility and less welfare state (Thatcherism, Reaganism). One of the main arguments of this ideology is that too much welfare provisions for the socio-economic weakest citizens is a drag to the economy. Thus from an economic point of view more socio-economic inequality in society is acceptable.

Considering the new social problems on the one side and the recovery of economic growth on the other hand, a central question is how much inequality can be tolerated in a modern society. Does this development already today or perhaps in the near future surpass critical borders, or not? In my opinion the process of decline has to be stopped right now because it threatens the balance of the fundamental historical compromise on social justice in our type of societies.

Eversince the age of Enlightenment there has been global consensus in western societies about a certain balanced combination of solidarity and personal interest. This combination has formed a solid basis for an integrated and stable society. It has also made possible the development of political democracy (Tocqueville).

Lasting imbalances of the equilibrium of solidarity and personal interest will probably not only endanger the necessary integration of society, but in the end also political

democracy and western culture. Interrelations between the process of social exclusion and the increase of feelings of social deprivation, criminality, egoism, hedonism, political passivity, etc. are relevant signs.

In my view there are two main strategies to reverse the exclusion process. These are:

- a. rebalancing the idea of social justice (i.e. balance between personal interest and solidarity);
- b. visualizing the financial and non-financial costs of the exclusion process for individual and society (external effects).

Ad. a

At first sight rebalancing the idea of social justice is not a simple solution because there are different legitimate normative theories. Some theories stress the importance of solidarity and redistribution (Rawls); others the importance of personal interest (Nozick). What is needed is a leading idea which may inspire citizens to support the balance between solidarity and social interest. Such an idea existed directly after the Second World War, when Lord Beveridge and Marshall elaborated the idea of political and social citizenship. To them citizenship meant full membership of a community. During the welfare state period the idea of citizenship disappeared almost completely out of public debate. At present it seems to be the right moment to bring it back again in a modernized way. This especially means that citizenship, compared to the concept of the fifties, will nowadays have to take into account much more the increased pluriformity of society. The central goal of citizenship should be the inclusion of all individuals and groups in society. On the one side this means that all citizens should have rights on a combination of entitlements or entry tickets and provisions to have the opportunity to improve their life chances. On the other hand, citizens not only have rights but also certain duties, such as tax paying and performing voluntary work on behalf of society (Dahrendorf). In sum, citizenship may become the central ideology of future western societies.

Ad. b

The idea behind this strategy is that the visibility of the costs (external effects) of economic policies from a certain point may lead to corrective policies. There is a clear analogy with the start of the development of social policies during the last century. Then societal elites came into action when they were threatened by social revolutions or health diseases (f.e. epidemics in poor quarters). At the moment the majority of costs of economic policies are not directly visible or even denied. So it may be very important to develop an appropriate cost/benefit balance of the external effects of the economy. A problem in this respect is that not all costs will be quantifiable. Besides, it will not always be easy to prove the real causes (f.e. is unemployment a real cause of criminality, or not?).

16. A WELFARE STATE OF SORTS; THE HUNGARIAN CHOICES
 by Peter A. Bod (Hungary)

There are not three, but four types of welfare states in industrialized world. Eastern European socialist states, in general, and Hungary, in particular, were created as a kind of welfare states. Taking the level of welfare services into account, this may sound misleadingly tall talk. In fact, it is better to use the French equivalent of the term Etat-Providence. Historically speaking, continental nations, especially in Middle and Eastern Europe, have had a long tradition of active (entrepreneurial, servicing, regulating, etc.) state.

Thus, the creation of a socialist welfare state in Hungary in the late 1940s was not without antecedents. An all-embracing employer and provider of social services, the state was also used as an instrument of party policy in order to wither autonomous interest-representing organizations of the civil society. However, the profound social transformation must also be credited for certain historical achievements such as

- gradual elimination of mass unemployment through central price and wage policy and growth-oriented economics (which later led to highly problematic labour shortage);
- inclusion of previously underprivileged, mainly rural, strata of society into social security, cultural, health care, and education networks.

In recent years, the concept of omnipotent paternalistic state has been questioned in Hungary. First, the state has proved to be unable to fulfill former obligations. Cheap housing, e.g., has been gradually declining: while in the first part of the 1970s the share of state exceeded one third of total housing construction, this ratio dropped to 22% in a decade, and to 13% by 1987. Scientific research and certain cultural services are now being transformed into commercial undertakings. This is, according to many, only to mask the inability of the state to provide adequate finance.

Education and health care are invariably supposed to be free of charge, but lack of finance has led to deterioration of services and spread of anti-social practices (e.g. tips to doctors for adequate care). Second, malfunctions within centralized providing networks have manifested themselves over time, and public perception has recently turned against big government.

In the labour market a new situation was created under the marketization and decentralization minded reform of 1968. As a result of the only successful economic reform of that time within COMECON, enterprise managers (nota bene: executives of state owned firms) gained real managerial discretion in pay, bonus, and employment matters. Therefore, the post-1968 wage determination can be characterized by decentralized bargaining at factory level plus a strict central wage policy. The latter, in the form of downward pressure on wages and salaries, has been strongly felt in "first economy" business units, that is, in state owned firms, budgetary institutions and, to a lesser extent, agricultural and industrial cooperatives. Wage policies have been, on the other hand, inefficient in the "second economy" (private sector, part-time employment, household farming, etc.) and in "third economy" (underground, illegal activities). In consequence, social sector employment has been long losing significance in total money income of the population - and at a rate exceeding the relative contraction of the state sector (cf. Tables 1 and 2).

Table 1 Structure of money income in Hungary (million Ft, at current prices)

	1980	1984	1986
Wages. salaries, bonuses	267.230 (59,4)	338.060 (51,1)	395.058 (49,6)
Misc. labour-incomes	32.631 (7,3)	61.417 (9,3)	79.983 (10,0)
Private business earnings	42.410 (9,4)	97.077 (14,7)	122.534 (15,4)
Pensions, soc.sec., stipends	87.024 (19,3)	125.606 (19,0)	148.109 (18,6)
Capital income, interests	20.786 (4,6)	38.976 (5,9)	50.931 (6,4)
GROSS MONEY INCOME	450.081 (100,0)	661.136 (100,0)	796.615 (100,0)

Author's calculation based on date of Hungarian Central Statistical Office.

Table 2 Sectoral composition of GDP

	1960	1970	1980	1986
1. State sector	67,4	70,7	69,8	63,4
2. Cooperatives	17,0	23,6	/19.8/ 23,0	/18.7/ 23,0
3. Household farming			/3,2/ /4,3/	
4. Auxiliary private business	6,6	3,1	3,7	6,6
5. Traditional private sector	9,0	2,6	3,5	7,0

Source: Hungarian Central Statistical Office.

The Hungarian society and economy have undergone major systemic changes in recent years. Since Gorbachev's advent to power, reform forces in Hungary have gained ground, declaring to build up a (socialistic) market economy. At present, marketization and deregulation create unexpected side effects such as high inflation (Table 3), and a profound change in employment pattern. Intensity of labour

shortage is decreasing, and the first signs of (structural) unemployment have appeared. At present, the number of vacancies exceed those of searching jobs, but regional variances and the direction of changes offer a different picture (cf. Table 4).

Table 3 Inflation and non-agricultural wages in Hungary

Net nominal wage index		Consumers' price index	Real wage index
1980=100,0			
1981	105,8	104,6	101,1
1982	112,2	111,7	100,4
1983	116,6	120,0	97,2
1984	123,2	129,8	94,1
1985	133,4	138,8	96,1
1986	143,3	146,3	97,9
1987	154,8	158,7	97,5

Source: Hungarian Central Statistical Office.

Table 4 Ratio of reported vacancies to job seekers

	1st quarter 1987	3rd quarter 1987	1st quarter 1988
NATIONAL	5,5	5,3	2,6
of which			
Budapest	17,5	26,8	12,6
Bacs-Kiskun	32,0	32,1	6,1
Borsod	2,8	2,4	0,9
Győr	10,8	11,1	2,1
Szabolcs	0,5	0,6	0,7

Source: Hungarian Labour Department, 1988.

In mid-1988, there were 16 thousand unemployed and approximately 40 thousand jobs offered. But, as the figures above

- indicate, the trend points to a major change in labour market.

What worries students of labour issues most is, first of all, lack of appropriate unemployment benefit; second, shortages and rigidities in housing markets, kindergartens, and other social services - a fact that hinders regional mobility; third, lack of tradition of retraining and change in profession - a consequence of past paternalistic state activity which weakens self-help and self-initiative values among employees.

Decentralizing reforms since 1968 have weakened state agencies and strengthened the executive stratum. Corporatist interest-representing organizations such as Chamber of Commerce, Federation of Agricultural Cooperatives, and Trade Union Council also gained in influence. In today's Hungary threat of jobs and declining real wages may lead to demonstrations and strikes, like in the case of vine growers (June 1988) or miners (August 1988). Thus the balance of power between the state(party), corporatist bodies, and employees is in transition.

It must also be added that the access to social protest mechanisms such as miners. In general, organizations representing producers wage earners tend to dominate the political arena at the cost of consumers and those outside corporatist organizations (pensioners, students, unemployed). There is a growing recognition that it is not further political decentralization through neo-corporatization, but through increased market competition, on the one hand, and parliamentary democracy, on the other, that offer the best chances for society-wide consensus building.

It is, without doubt, premature to speculate about the future of socio-economic reforms in Hungary. The balance between public and private has been changing fast in recent years. Institutional changes are influenced by both geopolitical conditions and inner learning process. Under the very specific politico-economic conditions, there is hardly any model for Hungary to borrow.

Thus, the chances are also low that we might learn from the trials and errors of others, without committing some of the same mistakes.

Are there any lessons from the Hungarian (or, for the matter, Dutch) case? Probably not in the sense of borrowing good solutions and avoiding mistakes committed elsewhere. What real life cases may contribute to policy decision making is to highlight strong interdependence between economics proper (allocative decisions, economic growth management) social policy, and social values and behavioral patterns.

ANNEX

17. CONFERENCE PROGRAM

Conference on "Integration of social aspects in macro-economic planning and policy making", November 1988

Wednesday November 2nd

Chairman of the day: prof. Bernard van Praag, member of the WRR, The Netherlands

- Morning :
- 9.00 - Meeting of the participants
 - 9.30 - Formal opening of the conference by Joop van der Reijden, chairman of the HRWB, former Minister of Health
 - 9.45 - Presentation of the participants
 - 10.00 - Introduction by prof. Ad Geelhoed, member of the WRR, on the changing balance of public and private power in the Netherlands
 - 10.45 - Coffee break
 - 11.00 - Reaction by one of the participants
 - 11.15 - Discussion
 - 12.30 - Lunch at the Pulchri Studio
- Afternoon:
- 14.00 - Introduction by prof. Hans Adriaansens, member of the WRR, on the active labour market policy
 - 14.45 - Reaction by one of the participants
 - 15.00 - Discussion
 - 15.30 - Tea break
 - 15.45 - Discussion
- Evening :
- 18.30 - Reception at the WRR by prof. Wil Albeda, chairman of the WRR, former Minister of Social Affairs and Employment
 - 19.00 - Dinner at the WRR

Thursday November 3rd

Chairman of the day: Peter Brannen (United Kingdom)

- Morning :
- 9.00 - Coffee
 - 9.30 - Introduction by prof. Martin Rein of the Massachusetts Institute of Technology USA, on the relationship of labour market institutions and economic performance in different countries
 - 10.15 - Reaction by one of the participants
 - 10.30 - Discussion
 - 11.00 - Coffee break
 - 11.15 - Discussion
 - 12.00 - Lunch at the HRWB
- Afternoon:
- 13.00 - Visit to the museum "Mauritshuis" at the Hague
 - 15.45 - Trip through the Amsterdam "canals" by boat
- Evening : 17.15 - Dinner in Amsterdam

Friday November 4th

Chairman of the session: Seppo Moisio (Finland)

- Morning :
- 9.00 - Introduction by Gerard Keijzers, member of the staff at the WRR, on "Scope for growth"
 - 9.45 - Reaction by one of the participants
 - 10.00 - Discussion
 - 10.30 - Coffee break
 - 10.45 - Discussion

Chairman of the session: Erik de Gier, member of the staff
at the HRWB

- 11.15 - Summary and evaluation of the conference, introduced by one of the participants
Discussion about the 1989 meeting
(theme and place)
- 12.30 - Reception at the HRWB
- 13.00 - Lunch at the Pulchri Studio

18. LIST OF PARTICIPANTS

Mr. Hans ADRIAANSENS

WRR

Postbus 20004

2500 EA Den Haag

THE NETHERLANDS

Mr. Peter BOD

Institute for Economic Planning

H-1051 Roosevelt Tér 7-8

HUNGARY

Mr. Karel VAN DEN BOSCH

Centrum voor Sociaal Beleid UFSIA

Prinsstraat 13

2000 Antwerpen

BELGIUM

Mr. Peter BRANNEN

Department of Employment

Steel House Tothill street

London SW1 9NF

UNITED KINGDOM

Mrs. Bea CANTILLON

Centrum voor Sociaal Beleid UFSIA

Prinsstraat 13

2000 Antwerpen

BELGIUM

Mr. Willem DERCKSEN

WRR

Postbus 20004

2500 EA Den Haag

THE NETHERLANDS

Mr. Michel GASPARD
Commissariat Général du Plan
18, rue de Martignac
75007 Paris
FRANCE

Mr. Ad GEELHOED
WRR
Postbus 20004
2500 EA Den Haag
THE NETHERLANDS

Mr. Erik DE GIER
HRWB
Waterruit 47
2804 PB Gouda
THE NETHERLANDS

Mr. Costas KANELLOPOULOS
Centre of Planning and Economic Research
22 Hippokratous St
Athens 106 80
GREECE

Mr. Gerard KEIJZERS
WRR
Postbus 20004
2500 EA Den Haag
THE NETHERLANDS

Mr. Kalevi KOLJONEN
Economic Planning Centre
Erottajankatu 15-17
00130 - Helsinki
FINLAND

- Mr. Kalevi LUOMA
Ministry of Finance
Planning Secretariat
P.O. Box 274
SF 00121 Helsinki
FINLAND

Mr. Michal MALAWSKI
Consultative Economic Council
00-921 Warszawa
ul. Krucza 36
POLAND

Mrs. Rieneke MEIJ
HRWB
Lange Voorhout 19
2514 EB Den Haag
THE NETHERLANDS

Mr. Simon MILES
62 Hampton Avenue
Toronto
Ontario
CANADA M4K 2Y6

Mr. Seppo MOISIO
Head of Division Economics Department
Ministry of Finance
Mariankatu 9
SF-00170 Helsinki
FINLAND

Mr. Heikki PALM
Ministry of Health and Social Affairs
Planning Department
Hallituskatu 5
00170 Helsinki 17
FINLAND

Mr. Bernard VAN PRAAG

WRR

Postbus 20004

2500 EA Den Haag

THE NETHERLANDS

Mr. Martin REIN

Massachusetts Institute of Technology

Dep. of Urban Studies and Planning

77 Massachusetts Avenue

Room 7-338

Cambridge Massachusetts 02139

USA

Mr. Ola RIBE

Ministry of Labour and local Government

Post box 8112 Dep

N-0032 - Oslo 1

NORWAY

Mr. Sven Erik SKOENBERG

Ministry of Finance

Akersgaten 42

Post box 8008 Dep

0030 - Oslo 1

NORWAY