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Comparing the performance of employment systems: Is the Lisbon-Strategy on the right track?

"Comparing is the end of happiness and the begin of discontent"
(Sören Kierkegaard)

Introduction

Arthur Schopenhauer was even more pessimistic: *"Comparing is the root of any misery"* he once said. Shall we therefore stop to compare the performance of the various employment systems in Europe? I think that the less pessimistic stance of Kierkegaard can be turned even into an optimistic perspective if we accept that discontent – if reasonably analysed – is the only starting point for changing to the better. "Reasonably" analysed means, first of all, not to fall into the trap expressed in a Chinese proverb: *"The chicken in our neighbour's garden looks like a goose."*

The main aim of this paper is to demonstrate in general that the foreign "goose" has often the same size or is even smaller than the own "chicken", and to prove in particular that there are promising alternatives to the 'neo-liberal' strategy hailed by many as the only answer to the challenges of 'globalisation', 'individualisation' and 'transnationalisation'. So, there is no reason to be afraid of comparison. But we should keep Kierkegaard and Schopenhauer in mind to get the Lisbon strategy on the right track.

The question therefore cannot only be: Why are European member states so different in their employment performance? The question, first of all, must be: Do differences really matter? Or in other words: Are countries that seemingly perform better true reason for discontent? I try to answer this question in seven steps: First with some brief remarks on the comparative framework (1), followed by some hypotheses on good employment performance (2). A simple description of sectoral trends follows since it is argued that Europe lacks especially services compared to the US (3). I calculate then the employment elasticity in order to test the hypothesis of jobless growth (4), followed by an assessment of the consequences of different employment systems on economic prosperity (5). Since the validity of GDP and the employment rates is contested, I test other performance indicators including qualitative aspects (6). I finish with a few lessons beyond the Lisbon Strategy (7).

1. A framework for comparing employment systems

Employment systems are characterised by the interaction of the production system and the labour market system. It is primarily in the *production system* where decisions on job creation are taken. Those decisions are influenced by the *capital market; the research and development* system; by *taxes or contributions and the regulation of the product market.*

Has Europe lost competition with respect to the production system? The answer of this big question is not in the range of my expertise. I can here only briefly refer to one influential report by an expert group. André Sapir and others (2004) started from the assumption that innovation is the key driver for growth and competitiveness, not any more imitation as it was in the post-war era. They identified various European deficits in respect to key requirements for innovation: in protecting intellectual property rights, in R&D investments, in product market competition (low entry costs and market openness to stimulate innovation by incumbents), in good access to risk capital for new start-up firms, and in flexible labour market institutions. They refer, among others, to the high skill component of immigration as probably important explanation for the U.S. success, and they emphasise also Europe's need for genuine resources to coordinate macro-economic policy and employment policy.

These brief observations should be sufficient to counter the current tendency to focus solely on labour market institutions in the search of a scapegoat for the alleged poor growth and employment dynamics in Europe. Looking from the production side, low employment or high unemployment can be seen as the result of non-competitive production or of the failure to stimulate demand.

Turning now turn to the other side of employment systems, one has to note that decisions to produce are not necessarily followed by decisions to hire people or to accept job offers. These decisions are made on the labour market. The rules and incentives that lead to decisions on labour supply and demand constitute the labour market system: the *household economy; the tax and social security system;* the *industrial relations system* and the *education and training system*.

Labour market policy can influence employment decisions through all four of these institutional channels: by providing systematic information and advice, by taking measures that favour disadvantaged groups, by changing the level and duration of benefits or by recalibrating taxes or social security contributions, by in-work-benefits and by promoting further training and retraining. Labour market policy can also influence the demand side, for example by subsidizing wage costs, by deregulating or

re-regulating employment relationships or by boosting public-sector employment.

From the labour market perspective, low employment or high unemployment can be seen as the result of inadequate incentives transforming job potentials into gainful employment. The incentive question has to be addressed both to the labour supply and labour demand side. Labour market institutions are especially decisive whether production takes place in the formal or in the informal sector.

2. Some hypotheses on good performance

As the comparative framework made clear, employment systems are very complex institutional arrangements which rule out one-dimensional theories. Equally however, they cannot be regarded as an arbitrary conglomeration of institutional factors. In reality, fairly stable employment policy configurations can be observed that have developed over time reflecting specific national and regional characteristics.

I will not go into the regime debate of which the details and differences do not matter here.[1] The only remark I connect with these familiar typologies is the observation that we often find picking the cherries among supposedly best performing institutions without considering their interrelationships and complementarities. Denmark, for instance, is often applauded for its low level of job protection, but its high spending on active and passive labour market policies as well as its high share of public employment are easily forgotten, and Denmark's successful demand management is almost completely unknown in my home country Germany. Without lengthy explanations and derivations, I will only briefly summarize four general hypotheses related to the proper functioning of employment systems[2]:

(1) First, the *theory of institutional equivalence* points to various possible equilibriums consisting of different sets of institutional arrangements. As a result, simple 'paths to full employment' – to say nothing of a single path – are unlikely. Flexible working time arrangements, for instance, may be as effective as flexible wages in facilitating the adjustment of employment to changes in demand. And it is open to the

[1] The three most influential approaches in recent times are Esping-Andersen (1990), Hall and Soskice (2001) and Amable (2005).

[2] This paper is based on chapter three of my forthcoming book "Full Employment in Europe: Managing Labour Market Transitions and Risks", Edward Elgar, forthcoming.

state to put in place a highly developed regulatory framework as a means of exerting influence over employment, but to restrict its role as a direct employer. Japan and Switzerland are examples of countries where the state has followed this path. Conversely, the state can itself create jobs and restrict regulation of the private sector to a minimum. Sweden and Denmark come close to this model. Once established, adaptive behaviour follows the old paths. However, over time, it can also change through accumulation of many minor – improvement intended – changes, imitation or just behaviour deviating from the rules by chance.

(2) The *requisite variety* hypothesis suggests that, as the system environment becomes increasingly complex, so the number of options to react within the system must also increase. *"Only variety can destroy variety"* (Ashby 1956, 207). One strategy to maintain variety of possible reactions is systemic redundancy, which means the provision of buffers usable for unforeseen events. Lean production is not necessarily efficient under this perspective. Other strategies are decentralised implementation structures, open to experimentation enhancing the ability of societies to learn. Successful employment systems will therefore be characterised by the existence of such flexibility buffers and autonomy of agents. In such learning organizations the 'terms of the trade' in social exchange will not be fixed or standardised in advance. They are continuously and mutually adjusted through a process of learning by doing, by negotiated flexibility and negotiated security mediated through trust relationships. Other examples for requisite variety are the mutation of unemployment insurance to wage insurance covering not only the risk of income loss in unemployment but also income loss due to job mobility or – very important in Denmark – due to an extensive practice of lay-offs. Finally, due to the increasing variety of employment relationships, the trade unions have to move from single group representation to the "management of variety" if they want to keep a say in the labour market power game.

(3) The theory of *institutional complementarity* refers to the required mutual support of institutions influencing a particular target variable. If one of these supporting elements is missing, the change of another element in this set might have no or even adverse effects. The example well known through the varieties of capitalism approach is the complementarity of firm specific skills and income or employment security: The higher firm specific skills, the higher the risk of income loss and not getting a new job in case of redundancy. Job protection or generous wage replacement schemes are therefore supportive institutional complements; in a low-skill equilibrium, these institutions

would be detrimental to employment. Another example: If handicapped people are to enjoy special protection against dismissal, in order to shield them from the open labour market in recognition of their disadvantage, then institutions have to be existent (or to be created) to provide compensation for the additional costs incurred for the employers. In the absence of such institutions, the costs implied by this protective policy would work against the recruitment of these target groups thereby producing counterintuitive results. Or if, in future, the standard employment relationship is to decline in favour of workers' greater autonomy or more self-employment, then institutional complements have to be established that enhance the adjustment capabilities of workers, for instance through raising their human capital potential and insurance against volatile income streams. Finally, if investment in ICT were to create new jobs, work organization and skills especially of user firms and customers have to be adjusted. I come later back to this point.

(4) *Institutional congruence* means the correspondence of individual and group incentives. The 'hidden hand' of Adam Smith makes only sense when individual choices are not interrelated with choices of others. As soon as these choices are mutually interdependent, incentive structures have to be designed in such a way that externalities become part of the cost-benefit calculation in individual or collective choice. *Negative externalities* can be internalized through imposing economic or social costs on choices, for example through high taxes on pollution and on conspicuous or luxury consumption. Another way of internalizing negative externalities is social embarrassment that once constituted the Golden Age of the Dutch in the 16th and 17th century. *Positive externalities* can be internalized through economic or social rewards, e.g. through tax credits, public finance and social recognition. In the case of zero or low transaction costs, such externalities can be efficiently negotiated. Richard Freeman (2005) recently argued that this so-called Coase-Theorem could be the basis of the European Social Model.

I could extend and differentiate this theoretical discourse further. However, let me now jump into the empirical world.

3. Sectoral trends in employment performance

It is often claimed that Europe fell behind the US in terms of services. The lack of services should therefore be the target of full employment

policy. Most of the studies following this argument are based on employment shares rather than on employment rates. If we dare, however, about employment levels, employment rates are the proper level for comparing overall performance.

Empirical evidence on this basis shows that Europe has indeed lower levels of employment in services, in particular in wholesale and retail trade, hotels and restaurants, in business and financial services. Overall, this gap is only partly compensated by higher levels of employment in industry. However, the simple descriptive evidence shows also that some Member states – notably Denmark, the Netherlands and the UK – have not only higher overall levels of employment rates than the US but also higher employment levels in certain services, in particular in health and social services.

If we look at the change of sectoral employment rates during the last decade, the overall dynamic in EU-15 is even stronger than in the US, in particular in business, health and social services. A second observation is that the European success countries were obviously able to compensate a relatively strong decline in manufacturing by high employment growth rates in high quality service sectors. A third observation, not shown here directly in the tables, is the fact that high performing member states have also high shares of high skilled people in these sectors. The gap of Germany in the employment rates of business services, education, health and social services related to Denmark, the Netherlands and the UK is mainly explained by a lower employment rate of high skilled people in these sectors. On the other hand, the high share of employees still working in manufacturing in Germany corresponds with an above average employment rate of high skilled people indicating a high competitiveness of this sector. These few stylised facts should be already enough to warn against looking only for one single best performer.

Table 1: Sectoral employment rates in selected countries (2005/2003, in per cent)

	D	*DK*	*S*	*NL*	*F*	*UK*	*USA*	*EU-15*
Agriculture etc.	1.5	2.2	1.5	2.2	2.4	0.9	1.9	2.4
Industry	19.6	18.2	16.0	14.4	15.4	15.8	12.6	18.1
Trade	9.5	11.0	9.0	10.4	8.4	10.8	11.8	9.3
Hotels, Restaurants	2.4	1.7	2.0	2.9	2.1	3.1	5.5	2.7
Transport, Information	3.5	4.9	4.5	4.5	4.1	4.9	3.1	4.0
Business Services	8.7	9.6	11.3	11.0	8.2	11.1	12.6	8.1
Education	3.7	5.6	8.0	5.1	4.6	6.5	6.3	4.4
Health, Social Service	7.1	13.5	12.0	11.2	7.6	8.8	7.8	6.3
Others	9.4	8.8	8.4	11.7	10.6	9.5	8.3	8.9
Total	*65.3*	*75.5*	*72.6*	*73.2*	*63.4*	*71.5*	*69.9*	*64.2*

Data for second quarter 2005, for USA: 2003
Source: Eurostat; for USA: Employment in Europe 2004, Annex 6.5

Table 2: Change of sectoral employment rates in selected countries 1997-2005 / 1998-2003 (in percentage points)

	D	*DK*	*S*	*NL*	*F*	*UK*	*USA*	*EU-15*
Agriculture etc.	-0.3	-0.4	-0.5	-0.1	-0.3	-0.3	0.2	-1.9
Industry	-2.5	-1.6	-1.6	-0.2	-0.4	-3.0	-2.5	-0.1
Trade	0.4	0.9	0.6	-0.2	0.5	0.0	-0.6	0.3
Hotels, Restaurants	0.3	-0.6	0.2	0.8	0.2	-0.2	0.0	0.3
Transport, Information	0.0	-0.5	0.0	0.6	0.3	0.4	-0.3	0.3
Business Services	2.0	1.0	3.0	2.1	1.2	1.2	0.2	1.2
Education	0.3	-0.1	3.0	0.9	0.1	1.3	0.2	0.2
Health, Social Service	1.2	0.9	-1.5	2.0	1.4	1.2	0.0	0.5
Others	0.3	0.3	1.2	-0.2	1.2	1.1	0.3	1.4
Total	*1.6*	*0.1*	*4.3*	*5.6*	*4.2*	*1.7*	*-2.3*	*2.2*

Data for second quarter 2005 and 1997 (France: first quarter 1997),
for USA: 2003 and 1998
Source: Eurostat; for USA: Employment in Europe 2004, Annex 6.5

4. Performance indicators for comparing employment systems

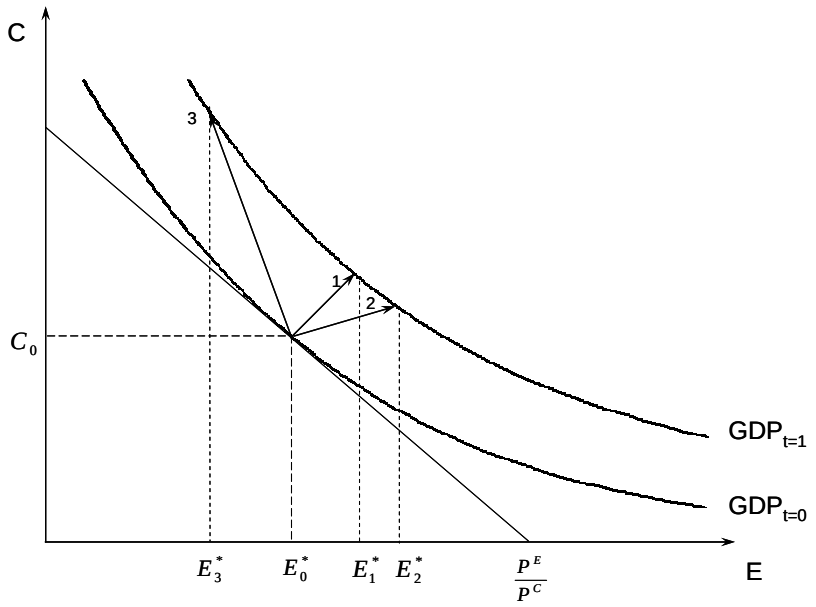
Empirical evidence, however, can only be the starting point. The real question is: Why are *some* countries – and not only *one* country – performing better than others? The main cause of the European employment crisis is often said to lie in the fact that economic growth is not sufficiently 'employment-intensive' due to diverse rigidities on the labour market. How far carries this argument?

The question of the link between growth and employment can be answered by calculating the employment elasticity. In other words: How are decisions on employment linked to decisions on production? Is there any truth in the notion of jobless growth?

4.1 Employment elasticity

Let me start with a production theoretic framework for the link between GDP and employment. The lower curve is GDP produced in the beginning period. If demand increases – the higher curve – there are several ways to meet this new demand: either by increased inputs, by increased productivity or a combination of both. How this adjustment process in reality looks is determined by technology and the relative price of inputs.

Figure 1: A production theoretic framework for the link between GDP-growth and employment-growth

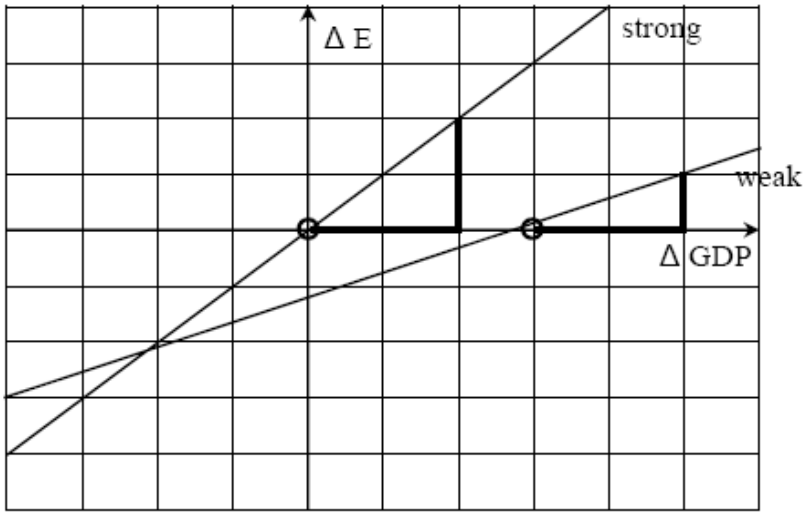


There are two inputs: employment (*E*) and capital (*C*). The isoquant represents the technology, which means the different combinations of inputs to produce a given level of output ($GDP_{t=0}$). The slope of the cost line (*C*-*E*) is determined by the relative input prices. In absence of increased productivity firms have to increase inputs.

Three different expansion paths are illustrated in the figure. In case 1 – the middle arrow – nothing has happened with input prices. So to meet the new demand firms are investing in capital and in labour at the same share as before the expansion. The labour-capital ratio is unchanged. In the second case – the right hand arrow – the price of labour has decreased. Firms use therefore a larger share of labour, and economic growth results in a large effect on employment growth. In the third case – the left hand arrow – either the price of capital has decreased or the price of labour has increased. Here the new demand is met by a larger proportion of capital and a smaller proportion of labour. In fact, in the case illustrated the amount of labour used has diminished compared to the situation at the beginning.

Before coming to concrete figures, a stylised model of the possible link between economic growth and employment might be helpful. This figure displays two ideal types of employment systems, one *strongly linked system* in which employment responds quickly and with high intensity to economic growth, and one *weakly linked system* in which employment reacts only after surpassing a high threshold of economic growth and even then with low intensity. The strong linked system can be regarded as ‘healthy’ in the sense that it is probably less prone to high insider-outsider cleavages than the weakly linked system that reflects ‘sclerotic’ labour markets if the obviously lack of external flexibility is not compensated for by high numerical or functional internal flexibility.

Figure 2: Strongly and weakly linked employment systems



strong	Strongly Linked Employment System
weak	Weakly Linked Employment System
ΔE	Change of Employment
ΔGDP	Change of Gross Domestic Product
	Employment Threshold
	Employment Intensity

As a rule of thumb, employment systems with both high employment thresholds as well as high employment inertia can be considered as problematic. Employment systems with both low employment thresholds as well as low employment inertia reflect a 'healthy' relationship between the production system and the labour market. Where both measures are asymmetric (low threshold but high inertia and vice versa), additional information is needed to interpret these configurations.

Table 3 shows the employment threshold and employment inertia for the US and old Europe, and for the sake of illustration my own country compared to Denmark, the host country of this conference. The table is subdivided in two periods: 1991 to 2005 and 1998 to 2005 to see whether the link between economic growth and employment has improved or deteriorated. Some interesting and partly surprising results can be noted.

Table 3: Employment Elasticity

	1991 to 2005		*1998 to 2005*	
	Employment Threshold	Employment Inertia	Employment Threshold	Employment Inertia
USA	1.09	1.73	1.09	1.92
EU-15	1.32	1.23	-0.23	1.91
D	1.60	3.33	0.59	2.15
DK	1.58	3.36	1.51	2.03

First, according to this performance criterion, both the USA and Europe are not very different! Both are characterised by relatively moderate employment thresholds and moderate employment inertia consistently over time. In the most recent period the US for instance needs one per cent economic growth to get positive employment growth started, and then it needs about 2 per cent economic growth to get one per cent employment growth.

In Europe, the employment threshold turned recently even to the negative indicating employment growth even without economic growth. The gain in the employment threshold, however, went to the cost of some increasing employment inertia, which is now the same as in the US.

Denmark and Germany, in this respect, performed over the whole period almost identically. Both countries improved their employment elasticity in the more recent period, Germany even more than Denmark in terms of employment threshold. Only the Netherlands – not shown here – have both a low (and even negative) employment threshold and low employment inertia, and this consistently over the whole period. In terms of employment elasticity, thus, the Netherlands is Europe's best performer.

To sum up, in terms of employment elasticity, old Europe performs even slightly better than the US since 1998. These results support an important employment policy conclusion: The labour market system is not any more the bottleneck for employment growth. From the improved link between economic growth and employment it can be concluded that it is nowadays worthwhile boosting economic growth by Schumpeterian innovation policies and by taking the appropriate monetary, fiscal and wage policy measures to stimulate demand. This applies irrespective of the nature of the national employment systems. Put even more strongly, the long held preoccupation – especially celebrated in the jobs strategy by the OECD – with so-called structural causes on the labour market and corresponding supply-side measures is not plausible any more. What is needed,

first of all, are policies directed to the production system and measures boosting demand.

This does not mean to call into question the need for further structural adjustments on the labour market. Since in most EU-member states employment elasticity is still not satisfactory, further labour market reforms are needed. It is, however, the fact that the Netherlands and Denmark are the best performers in this respect.

Can any other explanations be found for the differing national patterns of the link between employment and growth? Before we turn to complex models, it is worthwhile to concentrate on the employment dynamics itself. In particular, it may very well be that high employment elasticity and high employment growth is also the product of a sharp increase in the potential labour force for demographic reasons that reduced the relative price for labour. Endogenous changes in labour market behaviour, especially labour force participation and working time preference can also be a cause for improved employment performance.

4.2 Decomposing employment growth

In order to test this, we can start with the following identity:

$$E = WAP * (E+U)/WAP * E/(E+U)$$

E being employment, WAP the working age population (15-64), (E+U)/WAP the labour force participation rate, U the unemployment rate and E/(E+U) the share of the employed in the active labour force. The growth in employment can be de-composed in the same way and expressed in the following equation:

$$\Delta lnE = \Delta lnWAP + \Delta ln(E+U)/WAP + \Delta lnE(E+U)$$

What are the results? The first point that hits in the eye is the European ‘jobs miracle’. With average annual employment growth of 1.19 per cent between 1998 and 2005, the European employment system slightly outperforms even the still strong job creation machinery in the US with 1.11 per cent. France, the UK, the Netherlands, Sweden and (not shown here) especially Ireland and Spain contribute to this positive result. With zero growth, the real ‘problem child’ is Germany, as it was already in the early period of the 1990s. Denmark’s employment growth is also weak, but the level is already rather high.

The American jobs miracle fades further considering the components of jobs growth. The demographic factor (WAP) contributes even more than the overall employment growth. Employment growth, however, is retarded through a decreasing labour force participation rate and even a slightly declining use of the labour force potential. In fact, the US is the only country with declining participation rates!

The demographic component explains also a substantial part (about one third) of the European jobs miracle. However, the real positive message is that the European employment growth can be explained by a substantial increase of labour force participation, and – albeit to a smaller extent – by an increase in labour utilisation. The increase of labour force participation can probably at least partly be attributed to favourable work-life balance policies. Germany's bad employment performance would have been even worse were it not for a substantial increase of the labour force participation rate. For Denmark, it is evident, that the behavioural and the labour market policy component cannot contribute much more to employment growth since Denmark has already good unemployment and labour force participation performance.

The reader may now say: Okay, fine, but dampen your enthusiasm since most of the increasing labour force participation is related to part-time work or other even worse employment relationships. This is correct but only part of the story. At closer look, apart from the conservative countries and the Netherlands, part-time work tends to stagnate or even to decline. Where part-time is stagnating or declining, men moving from full-time to part-time are to some extent substituting women moving from part-time to full-time. Actually, if the Danish men had not increased their part-time rate, part-time would have declined even more. Following the prediction of transitional labour market theory (Schmid 2002), part-time transitions are more and more not only related to family work but also to education or training, to retirement, or they serve as a stepping stone from unemployment to full-time work. The trend towards the expansion of part-time work seems to have come to a halt. Where it is continuing, it is increasingly men who are contributing to the expansion. Optimistically interpreted, this seems to be a week sign of increasing risk sharing between men and women, and of combining more and more employment with education and training, self-employment or retirement.

5. On the economic and social efficiency of employment systems

Do the reported differences in the employment dynamics make also a difference in the economic performance? The aim of the following exercise is simply to find out functional equivalents to reach the same level of economic prosperity and to make the consequences of more leisure or higher social inclusion for economic prosperity – given the technology – explicit.

Two main hypotheses can be related with this question: First a trade-off between economic prosperity and leisure, second a trade-off between labour market inclusion and productivity.

5.1 Decomposing economic prosperity

To test these expectations, we can start again with a simple identity:

$$GDP/P = GDP/H * H/E * E/WAP * WAP/P$$

GDP/P represents gross domestic product per capita and serves as measure of economic prosperity. GDP/H represents productivity per hour worked and can be taken as a measure of *economic efficiency*. The term H/E denotes the average *number of hours worked* by the actually employed persons per year used as indicator for the *preference of leisure*. E/WAP is the employment rate, measured as the share of employees in the working-age population and considered as a *measure of social integration* into the labour market. WAP/P denotes the share of the working-age population (15-64 year-olds) in the total population and reflects the *demographic structure*.

The evidence shows that in 2004 the USA had the highest level of economic well-being. Old Europe is 30 per cent below the U.S. level. Within the selected European countries, Denmark and Austria are at the top, Germany and France at the bottom, but the distances are not large.

Table 4: Decomposition of GDP/P 2004 into indicators of efficiency, work sharing, labour market integration and population structure

	GDP/ P	=	*GDP/ H*	*	*H/E*	*	*E/WAP*	*	*WAP/P*
USA	36,901	=	42.29	*	1,824	*	0.71	*	0.67
EU-15	25,495	=	37.51	*	1,570	*	0.65	*	0.67
Germany	25,253	=	39.98	*	1,443	*	0.66	*	0.66
Nether-lands	27,007	=	40.50	*	1,357	*	0.73	*	0.68
Denmark	29,363	=	40.10	*	1,454	*	0.76	*	0.66
UK	27,273	=	34.88	*	1,669	*	0.71	*	0.66
France	26,987	=	45.79	*	1,441	*	0.63	*	0.65
Sweden	28,427	=	38.29	*	1,585	*	0.72	*	0.65

H/E: working time per employed person, WAP/P: demographic component (working age population related to the total population), GDP: gross domestic product (prices, exchange rates and purchasing power parity of 2000), P: resident population, WAP: working age population, E: employed persons, H: hours worked

Sources: OECD Employment Outlook (2005), OECD Labour Force Statistics (1984-2004), OECD National Accounts and historical statistics, own calc.

Looking at the components, however, the rankings change sometimes drastically. As far as the efficiency indicator GDP/H is concerned, the rank order is quite different and tells already part of the story. Europe's productivity is only 11 per cent lower than in the U.S. In fact, this productivity gap was almost non-existent in the mid-nineties and increased only in the last decade. France heads now the table, with a GDP per hour of $45.79 even higher than in the USA ($42.29), while Austria, the Netherlands and Denmark are not far away from the USA.

Regarding the indicator of preference for leisure the rank order changes again. Now the Netherlands lead the pack with the lowest average working time per person employed. The Dutch work on average only 1,357 hours per year, while the Americans work 1,824 hours per year. Average annual working time is relatively high in Great Britain as well, while Germany, France and Denmark are positioned not far behind the Netherlands.

It will be no great surprise that the rank order for the employment rate (see column E/WAP) as an indicator of labour market integration is different again. This time, Denmark heads the table with an employment rate of 76 per cent, in other words, the Danes integrate a good three quarters of the working-age population into the labour market. The Netherlands and Sweden follow suit with rates of 73 and 72 per cent and only then

come the U.S. with 71 per cent. The distance of six percentage points between EU-15 and the US has narrowed considerably since the start of the European employment strategy in 1997 when the distance was between 61 and 74 per cent. However, the lower integration rate is still the major explanation for the lower overall economic performance in Europe. Adjusting Europe's integration rate to the U.S would narrow the 30 per cent distance of economic performance by seven per cent, and adjusting Europe's hourly productivity would gain another nine per cent. Thus, if Europe was to catch up again with productivity and to reach the Lisbon goal, only half of the economic prosperity gap would remain.

Summing up, the most interesting point coming out of this exercise is the fact that the 30 percent gap in economic prosperity between Europe and the U.S. remained almost constant during the last decades. The Europeans obviously were using their productivity gains to a large extent for more leisure or working time flexibility in contrast to the Americans who have chosen higher consumption. In other words, the gap in economic prosperity seems to be more an expression of different preferences and less a sign of weakness in economic performance.

In order to test this, a breakdown of the reduced working time per capita according to the following identity equation and the comparison in a longer time span (1970 to 2005) brings some more light:

$$H/P = H/E * E/(E+U) * (E+U)/WAP * WAP/P$$

The working time per capita is the simple product of the working time per worker (or working time preference), the share of the employed related to the active labour force (or the actual utilization of the available labour force), the labour force participation (the degree of inclusion) and again the share of the working age population indicating the demographic structure.

Let us compare France and the U.S. that came out as the most extreme counterparts in the performance measurement of employment systems. France reached a higher productivity level but is still about one third below the economic 'well-being' level of USA. As the first two rows of Table 5 show, the decomposition profile of France and the U.S. was almost identical in 1970. Working time per capita was 777 hours in the U.S. and 806 hours in France. Apart from a slightly higher labour utilisation in France at that time, all other components, especially the working time per worker, were almost identical.

Table 5: Decomposition of per capita working time (H/P) into indicators of working time preference, utilisation of the work force, labour market inclusiveness and demographic structure in 1970 and 2005 for France and the USA

	H/P	=	*H/E*	*	*E/(E+U)*	*	*(E+U)/WAP*	*	*WAP/P*
USA 1970	777	=	1973	*	0,95	*	0,67	*	0,62
F 1970	806	=	1958	*	0,98	*	0,68	*	0,62
USA 2005	873	=	1809	*	0,95	*	0,76	*	0,67
F 2005	588	=	1446	*	0,90	*	0,69	*	0,65

H/P working time (H) per capita (P = population); H/E working time per employed person (E); E/(E+U) labour force utilisation (U = unemployed, E+U = active labour force); (E+U)/WAP labour force participation rate (WAP = working age population); WAP/P demographic component (working age population related to the total population)

35 years later, that picture changed dramatically. As the third and fourth row of the table show, the working time per capita even increased in the U.S. to 873 hours per year and per capita, whereas it fell down in France to 588 hours. The main factors for this difference were indeed the drastic fall of working time in France, aggravated by high underutilisation of the labour force.

5.2 The decomposition of economic growth

Coming back to the dynamic of the components for economic growth, further surprising details reveal. In contrast to the 1980s, Europe's growth dynamic slowed down in the 1990s and in the latest period compared to the 'benchmark' USA. Two components of prosperity are mainly responsible for this: first a relative decline in the productivity growth, and second a further reduction in the average working time per employed person. In addition, the demographic component is less favourable than in the U.S., which might partly be explained by the sharper long-term decline in fertility, partly by a less open immigration policy.

On the other hand, some progress has clearly been achieved in raising total labour input in Europe compared to the US, stemming from a much higher labour utilisation in the recent period in which the EU-employment strategy was in force: whereas from 1997 to 2004 the employment rate in the US even declined at a yearly rate of 0.3 per cent, it increased in EU-15 at a yearly rate of 0.9 per cent, altogether creating nearly 13 million jobs. This increase of active labour force utilisation offset more than the

negative growth impact of the continuous reduction in the number of hours.

The gap in the economic growth dynamic related to the decline in working time should not cause worries as long as it reflects different preferences in trading leisure against income. However, it is difficult to assess to what extent these differences are revealing true preferences and to what extent they reflect different institutional constraints. The recent *'Employment in Europe Report'* summarizes evidence from econometric studies showing that the evolution of tax rates might explain about a third of the decrease in hours worked in Europe.

Of greater worry is the decline of productivity growth relative to the US in the most recent period. The first point to be made is the caution about the high productivity growth in Europe observed in the 1980s and 1990s. Some authors have argued that productivity might have artificially increased, first since high unemployment disproportionately affects low-skilled workers, and second since European firms have adopted more capital-intensive technologies due to higher labour costs (European Commission 2005).

Inverting this argument, the recent decline of productivity growth could be a result of successfully fighting unemployment, using less capital-intensive technologies and hiring more low-skilled workers. The argument seems to some extent plausible, all the more it corresponds to the already mentioned trade off between inclusive and exclusive labour market policy strategies. According to the same *European Employment Report*, the main scapegoat for the declining productivity dynamic, however, must be looked at somewhere else. Productivity per working hour and total factor productivity were closely correlated during the last four decades. However, this has changed in the latest period. The report screened several studies about this issue and came up with a plausible conclusion:

> "… at the most one third of the productivity slowdown is due to the increased employment of low-skilled people and seems to confirm that the slowdown in productivity is mostly due to a slowdown in total factor productivity. […] there is ample evidence suggesting that the use of ICT does have a significant impact on the productivity of firms, but primarily, or only, when accompanied by other [organisational] changes and investments. This statement is in line with the result of other empirical studies suggesting that ICT primarily affects firms where skills have been improved and/or organisational changes have been introduced. Therefore, in order to reap the full benefits of ICT, firms have to carry out complementary actions such as training their staff or introducing organisational changes. These complementary investments are often much more costly than the initial outlays in ICT investment goods. The evidence suggests that for ICT to be developed and used effectively, and network externalities to materialise, the skills and competences of workers have to be

> raised through a variety of means, such as formal education, vocational training and lifelong learning […]" (European Commission 2005, 120).

Nothing more has to be added to this conclusion, except the fact that this observation supports strongly the general hypothesis of *institutional complementarity* and *institutional congruence* put forward in the theoretical framework.

6. A broader view on employment performance

Coming finally closer to the Lisbon strategy, it is obvious that its overarching goals of full employment, high productivity and social cohesion are more ambitious as just increasing economic prosperity. In the recent years, however, critical voices rise more and more claiming that the revised European employment strategy has lost the vision of the social dimension by focussing too closely on growth. I will therefore extend the performance comparison in three steps: First, which country performs best including quality dimensions? Second, is there a trade-off between quantity and quality of jobs? Third, why are – for instance – employment rates for mature aged workers different?

6.1 Comparing quality enhanced performance

I have developed nine dimensions of performance that correspond to the Lisbon employment guidelines. The selected indicators for these dimensions are a compromise between scarcity of the model and availability of data (Table 6). I also checked correlations in order to exclude multicollinearity.

Table 6: Quality enhanced performance indicators

Overall Inclusion:	(1) employment rate
	(2) share of long-term unemployed (-)
Social Inclusion:	(3) female labour force participation rate
	(4) social capital
Flexibility (supply):	(5) share of part-time work
Flexibility (demand):	(6) share of temp-agency work
Labour market efficiency:	(7) productivity per working hour
Employability:	(8) share of tertiary educated people
	(9) participation in continuing education / training
Segmentation:	(10) wage gap between men and women (-)
Social Security:	(11) working poor (-)
Subjective wellbeing:	(12) job satisfaction

The results are preliminary, and the model can certainly be improved. The data for all the 12 indicators have been standardised into z-values. Their means are zero and their standard deviation is 1. They allow aggregating the values of different dimensions on the assumption of equal importance of each dimension. This assumption is of course the most problematic feature of the model. The model's procedure is therefore very simple, may be even primitive at first glance. On the other hand, it can be defended on the basis of the comprehensiveness of various goals which the Lisbon strategy aims at being simultaneously reached, and on the basis of the validity of indicators for each of the selected dimension.

What comes out of this exercise? The winner is – not surprisingly, but not commanded by the hosts of this conference – Denmark (Table 7). The loser is Greece. More important to note is: There are several good performers – next to Denmark come Sweden, the Netherlands and the UK. Note also that in terms of change between 1997 and 2005, the champion is not Denmark but Ireland, and the loser is not Greece but the United States. Denmark did even worse compared to many other countries.

Table 7: Which countries are best in aggregate performance?

	Aggregate Performance	*Change (1997-2005)*
Austria	-1.5	0.2
Belgium	1.3	0.4
France	-3.6	-2.8
Germany	-2.6	-1.3
Luxembourg	1.3	4.5
Mean "conservative"	*-1.1*	*0.2*
Denmark	11.0	-2.7
Finland	4.3	-1.1
The Netherlands	7.5	2.6
Sweden	8.3	0.8
Mean "social-democratic"	*7.8*	*-0.1*
Ireland	0.3	6.3
United Kingdom	6.7	3.4
United States	5.0	-4.2
Mean "liberal"	*4.0*	*1.8*
Greece	-15.0	-3.5
Italy	-8.2	0.8
Portugal	-9.1	-1.7
Spain	-7.6	2.6
Mean "Mediterranean"	*-10.0*	*-0.5*

If we look at the non-weighted mean of the welfare regimes, the winner is the so-called social-democratic regime to which I incorporated the "re-

gime hybrid" Netherlands. The big loser is the Mediterranean regime, and the "conservative regime" is also far behind the "liberal" regime.

6.2 The relationship between employment rate and quality indicators

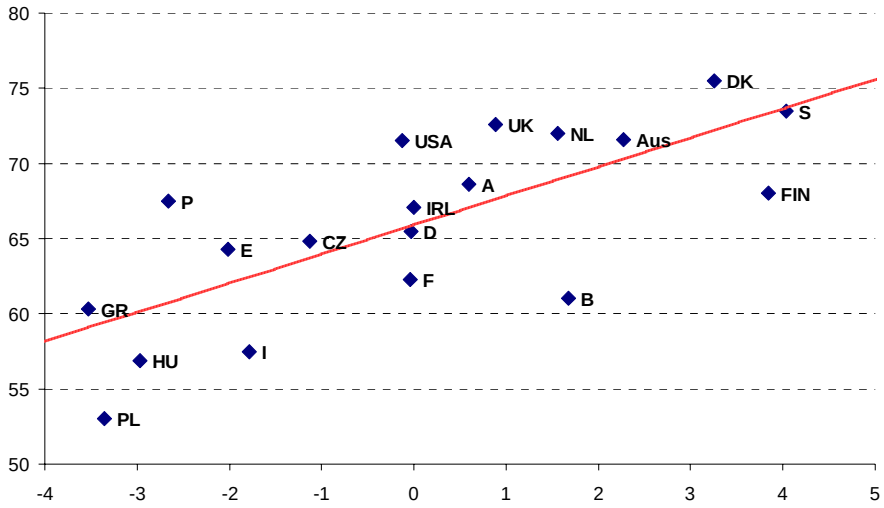
Is there a trade-off or a symbiotic relationship between quantity and quality of jobs? Here again, I have used a very simple procedure. I have broken down the quality dimension of jobs into five categories and developed 15 indicators (Table 8).

Table 8: Quality of jobs dimensions and indicators

1. Economic factors:	Income per person
	At risk of poverty (-)
2. Equality:	Earnings dispersion (D5/D1)(-)
	Female wage ratio
	Employment ratio women/total
	Share of long-term unemployed (-)
3. Health/Satisfaction:	Job satisfaction
	Health life expectancy at 60
	Work effects health (-)
4. Education:	Student literacy
	Tertiary education
5. Social Capital:	Voter turnout
	Participation in civil society
	Crime victimisation (-)
	Convictions to prison (-)

What came out of this exercise? First, the champions on the aggregate quality of jobs performance are again the "social-democratic" countries, at the top – this time however – Sweden, Finland and then Denmark followed by Australia, Belgium and the Netherlands. At the bottom are Greece, Poland and Hungary followed by Portugal, Spain, Italy, Czech Republic and the United States.

Figure 3: Aggregate Quality of Jobs Index and Employment Rate (Employment rates - Standardised quality indicators blocks)



Second, important to note is also that on the average the so-called conservative regimes perform not worse than the "liberal" regime on this aggregate indicator.

Third, the complementarity hypothesis is not rejected. Going into more details, one can show that the complementary factor is especially high loaded by education and social capital indicators.

Fourth, countries with high performance on the equality dimension are not punished by lower employment. That means: if equality is highly valued, this preference is at least compatible with – if not a condition for – good employment performance.

Fifth, the main strength of the Scandinavian countries is in education, their main weakness lies in work related health problems on which they score often worse than other countries. This may hint to a kind of trade-off between high levels of employment and work-related health and psychic problems, an hypothesis that leads me to the last question:

6.3 Determinants of good employment performance for elderly

So far, it has become clear that it is hard to explain the determinants of the overall employment rate – the Lisbon goal of 70 per cent. The employment rate is an aggregate measure averaging out many differences in its component and qualities. A strategy to come to grips with policy advices must turn away from such aggregate comparisons and turn to spe-

cific important aspects. A starting point is the observation that employment rate differences are not so much at the core age groups – say in the age between 30 and 50 – but at the margins of the ages, especially among the elderly people.

Looking at simple descriptive statistics, three important observations can be made immediately: First, only Sweden, Finland and Denmark reached the target of 50 per cent employment rate both for men and women in 2005. More important to note is, that many countries reach already the target for men, but most countries fail with respect to women.

Second, tremendous progress has already been made by most Member states in increasing the employment rate for men and especially for women since the start of the EES. In this respect, Finland, Hungary and the Netherlands are the best performers; Poland and Greece have not yet contributed much to this Lisbon goal.

Third, even more interesting is the fact that the failure of the Lisbon goal relates mainly to the low-skilled people. All EU-member states have already reached the Lisbon goal for high-skilled people. However, for the low-skilled, only Sweden, the United Kingdom and Portugal reached the Lisbon goal. Even Denmark has to do some homework to jump over the Lisbon benchmark of 50 per cent. This observation hints already to an important point: obviously, the education level of the workforce plays an important role in raising the employment rate of elderly people. It is especially the low skilled people who have problems of reaching the envisaged retirement age of 65.

However, education alone is not the solution. Our comparative framework has shown that the factors determining employment are much more complex. I have therefore tried to collect and test the most important factors to come up to a summary index of the employment increasing and employment decreasing factors for “active ageing”. Table 9 provides a short list with implicit hypotheses.

Table 9: Factors determining employment of elderly workers

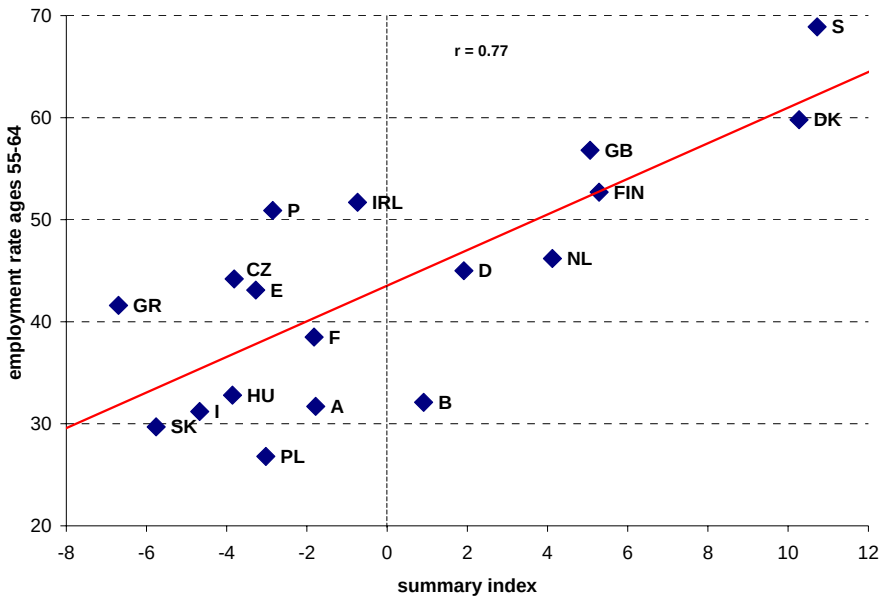
Demand:	(1) value added in human services[1)]
Education:	(2) share of 55-64 with tertiary education
Training:	(3) participation rate of 55-64 in CET[2)]
Flexibility:	(4) part-time rate of 55-64
Security:	(5) expenditure of active LMP relevant for > 55
Well-being:	(6) elderly (55-64) satisfied with job (scale 1 to 10)
Wage (-):	(7) seniority wage = wages of > 55 / wage 25-30
Taxes (-):	(8) implicit tax rate for working over the age of 55

[1)] education; health and social work; other community services, private households

[2)] continuous education & training

The results are represented in Figure 4: Although by methodology still on a crude stage, the summary index explains about two third of the variation in employment rates. The model subdivided by gender – not shown here – explains even more for women.

Figure 4: Summary index of factors fostering or hampering employment and employment rates of workers in age of 55 to 64 in Europe, 2005



7. Lessons beyond the Lisbon strategy

What came out of this – literally – painstaking comparison of employment performance? Is the chicken in our neighbour's garden really a goose? If yes, do we like the goose or do we still prefer chicken considering the costs of raising a goose? If we don't like chicken any more and are willing to bear the costs, how can we make the chicken to a goose? Given the restricted space for this essay, three short answers to three big questions must suffice.

First and at closer look, the chicken in our neighbour's garden did often not turn out as a goose. This holds especially true for the US "jobs miracle." This model is at least in three respects not attractive from a European point of view: It is based on extensive population growth, it has lost its inclusive dynamics, and it is – at most – mediocre in terms of job-quality dimensions. The Scandinavian model is also not a goose in all respect. First it faces a trade-off with some job quality dimensions, especially health and work-absenteeism, and it seems to have lost dynamics.

Second, all in all, however, the Scandinavian model turned out to be a goose in almost all respect. But there are also gooses in other gardens, and – most important – these gardens are not restricted to one welfare regime. Especially the hybrid of the Netherlands has to be mentioned, but also Ireland and the UK if we subsume them to the "liberal" regime, but also the Mediterranean country Spain has recently shown tremendous success not only in quantity but also in quality job dimensions. The good message, therefore, is: There is a choice. We don't have to change the garden if we want to raise gooses. But there are costs – for instance in terms of less leisure time, or higher taxes for redistribution, or acceptance of greater inequalities and risks, may be even higher crime and lower healthy life expectancy. So, some of the less good performing countries might therefore shy away from these costs and stick to their chicken.

Third, what is the story if we are tired of chicken and want really a goose in our garden? The first message is clear: Stay and start within your own institutional framework. The next message is that following a comprehensive approach is the best guarantee for employment success, however by starting first with getting the production and demand system right. As the conditions for raising the employment rates of mature aged workers have shown, education and continuous education and training are crucial. By inducing higher growth dynamics, there will be more losers. If one wants – at least in the European context – to avoid political unrest or resistance – increase the redistributive power for more active securities, among others, by making two-way transitions pay.

Summing up at the end: The subtitle of this essay was: Is the Lisbon strategy on the right track? I would say: Yes, but it is not always on the right path. The quantitative employment goals are too much emphasised, too little emphasis is given to procedural conditions of a sustainable employment dynamic: First, the macro-economic coordination both at national and European level, second the modernisation of the education system on the basis of equal opportunity and on the basis of a life-course perspective; third redistributive social investments in favour of the most disadvantaged, especially the low-skilled.

If we restrict the comparison of labour market performance to quantitative goals, we will face the more pessimistic tone of Sören Kierkegaard's aphorism. In another context, he formulated his dictum much sharper than I quoted at the beginning: "*The comparison is the most dangerous acquaintance which love can make; the comparison is the worst of all temptations.*" So the warning is at place: be careful in making comparisons!

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