EMPLOYMENT AND MONETARY POLICIES

Chapter Four

European Integration
and Strategies for Employment

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The last decade has undoubtedly been a period of significant international structural change particularly in terms of employment growth and displacement in the world economy. From a vision in the early 1970s that, after the first oil shock, most developed economies would quickly return to full employment, there is now a broad consensus amongst policy makers that various facets of structural change have had and are still having a major impact on the structure of unemployment (long term, youth, excluded workers etc) and on different countries' capacities to generate new employment opportunities.

It is not really surprising that economists and policy makers are waking up to the importance of structural change, even in a recession with substantial cyclical unemployment. The last decade has been a period of major structural change: the end of the Cold War; the shift in world market growth from the North Atlantic to the Pacific basin area; the creation of regional trading blocks resulting in rapid growth within, rather than between, such integrated trade areas; the surge in foreign direct investment in these trade blocks with large firms aiming at a presence in each of these markets; the impression of a dramatic reduction in physical distance in terms of communications and the decline in the relative cost of migration. These processes of structural change have made policy makers, economists and businessmen much more aware of the international implications of their actions. Policies which might appear sustainable within a national context, might not be so in an international or regional trade block. This opening up to international restructuring has only just started, but it highlights how freedom of policy action in a wide variety of different fields has been reduced in many developed countries. This does not hold only for monetary policy, but also for social and environment policy, as well as for traditionally national policies such as immigration, drugs and even ethical considerations such as euthanasia.

Combined with the more traditional processes of structural change associated directly with technology, these new features of international structural change increasingly question the automaticities of employment compensation and job creation capacities of high wage and high labour cost economies like the EU.
Trends in Employment

Figure 1 illustrates how job creation capacities have varied between different OECD countries (the US, Japan, the EU and EFTA) and South East Asia (consisting of Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand) over the last 20 years. (The figures for 1993-94 are estimates.)

The US as technological leader has witnessed remarkable employment growth. Over the last decade some 18 million jobs have been created in the US, doubling total employment since the 1960s. What appears from Figure 1 is that the popular notion in the US of ‘jobless growth’ is, if anything, only a recent and not very pronounced process. The Japanese economy has also been characterised by substantial employment growth over the 80s. This is even more remarkable given the continuous rapid growth in productivity in Japan. Despite average productivity growth rates in Japan of some 3.4% a year, employment grew at some 1.2% a year. In contrast, the EU countries, and since the 90s the EFTA countries, have been witnessing ‘jobless growth’ for a very long time. There has barely been any growth in employment over the last 20 years. It is surprising, however, that the EU’s period of most rapid employment growth occurred in the most recent period — at the rate of 1.3% a year, creating some nine million jobs. However, the shedding of jobs since then has been so large that all the gains in employment over the exceptional period 1985-90 have been lost.

FIGURE 1

[Graph showing development of employment 1974-1994]

Source: Freeman and Soete, 1994

The South East Asia countries have been characterised by extremely rapid employment growth, on average some 2.5% a year. Whereas the US nearly doubled its employment in 30 years, the Asian economies did so in 20 years. This rapid growth has gone hand in hand with rapid output and productivity growth. This overall pattern of growth is a new process of catching up to the productivity levels and consumer demand of OECD. This catching up has still a long way to go, but the self-reinforcing dynamics of the process combined with the huge concentration of world population in this area of the world, have made South East Asia undoubtedly the new growth pole of the world.
As illustrated in Figure 2, Japan has been the OECD country which compared most favourably with the catching-up of Asia. Over the 1970s and 80s Japan’s output grew on average at 4.5%, higher than its substantial productivity growth of 3.4% a year, with, as a result, small but steady employment growth of just above 1% a year. Whether Japan will be able to maintain such high, 'full employment' output in the 90s given the increased competition from other low cost based East Asian economies, or whether it will start to resemble European unemployment levels, will depend very much on its capacity to benefit from the new opportunities in Asia, and to successfully adjust its strong industrial structure towards a more service oriented structure.

FIGURE 2

In contrast, the USA, with absolute levels of productivity still higher in most industrial and in all service sectors than Japan or Europe (the Japanese exception being steel, motor vehicles and parts), has not had lower productivity growth than Japan or Europe, so that most of its output growth has been accompanied by employment growth. This high employment intensity of US output has been accompanied by the creation of many low skill jobs in service sectors. Meanwhile, Europe has been witnessing relatively low output growth with relatively high productivity growth so that employment growth has been very low. However, for the period 1982-92 the EU and particularly the EFTA countries had, with the US, the growth in lowest labour productivity.

The variety of trends in employment, output or productivity growth hide some crucial structural features which appear to have had a much stronger impact in some countries than in others. To draw policy conclusions from aggregate trends is
difficult because no insight is given in the underlying structural causes for productivity growth. The latter might be the result of changes between sectors (in particular between manufacturing and services), between occupations and skills, or in competitiveness and growth. What matters in any debate on future employment growth is whether jobs are being created in old, mature industries or new, hi-tech services, what sort of jobs are being created and where they are found.

This explains why even in countries with high employment such as the US and Japan, there is as much public debate on structural change and employment as in Europe with very high unemployment. It also explains why simplistic macroeconomic visions about creating more employment through slowing down productivity growth and increasing employment intensity will not lead the policy debate very far. We require a much more in depth look at some of the major structural changes occurring in the economy.

**Sectoral Shifts in Employment**

In Figure 3 we illustrate the distribution of employment in the primary, secondary and tertiary sectors. The data for OECD illustrates the well-known general shift away from agriculture and industry into services. The service sector now accounts for 60-70% of total employment in most OECD countries. Accompanying this steady increase in service employment, both the US and Europe have witnessed a steady decline in their manufacturing employment. The most recent US figure (June 1993) indicates that no more than 18% of total US labour force was now employed in manufacturing.

**FIGURE 3**

![Sectoral Employment Shares 1990](chart)

*Source: Freeman and Soete, 1994.*

But the contrast between the OECD and South East Asia, relates in the first instance to the size of the agriculture sector. Whereas all countries have seen employment in agriculture decline, differences between the absolute levels remain striking with substantial variation between both the OECD and Asian economies. Turkey, Greece, and to a lesser extent Portugal resemble much more the developing
economy pattern than Hong Kong, Singapore, Taiwan or South Korea. In industry the picture looks less different between the OECD and Asian economies. All OECD countries, with the exception of Turkey, have seen employment in industry decline. However, and in line with the evidence for Hong Kong and Singapore, the decline in manufacturing employment has been smallest in Japan and the industrialising European countries of Portugal, Spain and Greece. By contrast South Korea, Malaysia and the Philippines still saw their industrial employment share rise.

It is obvious that the service sector is now by far the dominant employment provider in most developed countries. However, as Figure 4 illustrates, the growth in the employment share of services is in no way confined to OECD. As a matter of fact the growth in service jobs has been most rapid in the EU, EFTA and South East Asian economies, illustrating again that the catching up process in these countries includes a structural shift towards service activities.

**FIGURE 4  CHANGE IN EMPLOYMENT SHARES**

These broad structural shifts are typical of economic development. They illustrate the significance of the structural transitions occurring during any process of growth. Behind growth one observes continuous shifts in employment growth between sectors, caused by the complex interplay of technology and demand. Technology will lead to efficiency improvements in production resulting in a decline in jobs if growth in output does not compensate sufficiently for such productivity gains (something which will itself depend on price and income elasticities, the most well known cases where such compensating effects will be insufficient are foods and basic commodities, known as Engel’s law). Similar changes, induced by changes
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in technology and demand, are occurring at a more disaggregated level between industrial sectors. At the level of the US, Japan and the EU, Figure 5 illustrates the changes in industrial employment in the 1980s. In the case of both the EU and Japan, sectors with the highest employment growth are high technology.

FIGURE 5 CHANGES IN INDUSTRIAL EMPLOYMENT

United States

Japan

EU

Source: OECD STAN database.

On the basis of recent OECD work by Sakurai, Figure 6 illustrates for the US, Japan and the EU the 'decomposition' in employment growth between output (subdivided in domestic demand and exports minus imports) and changes in technology (changes in input-output coefficients and labour productivity). While many questions can be raised about the assumed independence of each of those 'decomposed' factors, the data illustrates how employment growth in the high wage or hi-tech industrial sectors is primarily the result of rapid output growth (both of domestic and foreign origin) compensating for the very rapid growth in labour productivity. By contrast, employment growth in financial and personal service sector has gone hand in hand with minimal gains in labour productivity. Employment growth here has been primarily the result of rapid domestic output. Whether such employment growth is sustainable or the result of the failure of those sectors to use efficiently new information technology remains to be seen. Studies of the financial sector forecast that efficiency improvements and the increased tradeability of such services will reduce EU employment in financial services by more than 10%.
The variety of sources of employment growth in different sectors of the OECD countries considered in Figure 6 suggests that one has to be very careful in drawing general policy conclusions in the area of job creation. Clearly, new demand and output associated with hi-tech industries can be a major provider of employment. However, and as illustrated in the case of France, the UK or the Netherlands, the growth in productivity in order to stay competitive might be so high in these hi-tech sectors that there is actually a decline in employment. Similarly in old, traditional and above all 'non-tradeable' personal care services there will be many job opportunities given the low and sometimes negative, labour productivity in such sectors. At the same time, however, new and increasingly tradeable demand for finance and other business services, whose productivity growth pattern has varied in the US, Japan and the EU, might cause major employment reductions.

**FIGURE 6 GROWTH IN EMPLOYMENT AND ITS COMPOSITION**

Due to: [Sources for UN data, OECD, ILO, etc.]

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While the data reported in Figures 5 and 6 describe some of the structural changes in employment creation in the 1970s and 80s, very little evidence exists for the most recent period. However, there is little doubt that the intensity of structural change has accelerated in the present recession, and that the variety in employment patterns between countries and sectors has, if anything, increased.

Occupational Changes in (Un)Employment Growth

The rise and fall of job opportunities is not limited to the growth and decline of sectors. A particular feature of the rise in structural unemployment over the last two decades is the growing educational and occupational mismatch between job losses and new job opportunities. As Sherman and Jenkins (1979) put it: 'how to tell a redundant Scottish steel worker that there is a job opportunity as a secretary in London?' The labour market is an extremely heterogeneous market which does not adjust to incentives in the same immediate way as financial markets would: many of the structural changes associated with changes in the demand for new skills and qualifications are rather the result of technological change.

Figures 7 illustrates the distribution of employment in the EU and Figure 8 of unemployment in both vocational and educational sectors. The vocational tables illustrate the importance of low and medium technical qualifications for employment: workers with such qualifications represent nearly 40% of total jobs in the EU. At the same time, unemployment is also highest amongst these qualifications, representing 45% of total unemployment. In contrast, high technical, administrative, medical and generally qualified people, while representing some 20% of total employment, only account for 12% of the unemployed. A similar but somewhat more varied picture emerges from the educational tables. The extremely high share in total unemployment of low technical jobs (more than 35% of total unemployment) is much higher than the share in total employment of such low technical jobs. Medium administrative jobs by contrast represent more than 25% of total employment and their share in total unemployment is, not surprisingly, also high. The high technical jobs are again much more concentrated in the employment share bars than in the unemployment share bars.

In Figures 9 and 10 the interaction between educational qualifications and occupational job distribution is illustrated by two extreme but typical cases: administrative qualifications and jobs and technical qualifications and jobs each time at the low, medium and high level. One can observe the distribution of workers with an administrative or educational background over different occupations. Thus 65% of those holding medium administrative degrees have an employment in medium administrative jobs. For those with high administrative qualifications, 45% found employment in medium administrative and 32% in high administrative jobs. Only 45% of those employed in medium administrative jobs appear to have such a qualification. In the case of high administrative, only 31% had a corresponding
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educational background. Nearly 10% of those holding such jobs had high technical, medical or general educational qualifications. The educational background of workers with an administrative job is not that important, whereas workers with an administrative training normally get an administrative job.

FIGURES 7 AND 8

Source: MERIT, MASTER database.

The opposite can be found for workers with a technical qualification. Less than half of those with low technical degrees are employed in low technical jobs. Similarly, of all those with medium technical degrees, only 17% are employed in medium tech jobs, and more than 44% in low tech jobs. More generally, it appears that the distribution of those with technical qualifications is more dispersed over job categories than in the case of administratively qualified workers or employees. Those holding high technical jobs need high technical qualifications. Nearly two thirds of those holding such positions have such qualifications. In other words, technically qualified workers can occupy different types of jobs, whereas the pure technical jobs have to be occupied by technically qualified workers. In so far as the category 'high technical' includes such relevant IT educational or occupational categories as software engineers or computer analysts, a more disaggregated analysis focusing on relevant IT qualifications and occupations would undoubtedly resemble the distribution chart illustrated in Figure 10. There are some key skills, which have an importance way beyond their particular occupational fit.
International Trade and Competitiveness

As highlighted already in Figures 5 and 6 an important source of employment creation and also employment displacement is directly associated with foreign trade and international competitiveness. Based on the OECD methodology used above, Figure 11 illustrates the employment impact of trade for three categories of manufactured commodities; high, medium and low wage goods, for the US, Japan and the EU. Note the crucial importance of foreign trade to employment growth in Japan. More than 5.6 million jobs in manufacturing have been created in Japan over the period 1970-85 as a direct result of foreign trade. This is equal to three quarters of the total gains in employment in Japan over this period. The ‘full employment’ output growth pattern Japan has enjoyed has been primarily based on foreign output growth and foreign market penetration. The employment gains have been realised both with respect to high, medium and even low wage sectors, and with respect to trade with the OECD, so-called Dynamic Asian Economies (DAE: Hong Kong,
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Singapore, South Korea and Taiwan) and China, and the Rest Of the World (ROW). While trade with the OECD area has remained over the period until 1985 the most important employment growth contributing factor in Japan, it is likely that over the more recent period trade with the DAE and the other South East Asian countries has become as if not more important.

The US by contrast has barely relied on foreign markets for output and employment growth. Only in high wage commodities and non-manufacturing trade has employment growth been realised on the basis of foreign trade. Overall, the US lost 500,000 jobs as a result of trade with the DAEs and China, particularly in low wage commodities.9 Trade with the rest of the OECD particularly in high wage commodities still generated substantial employment growth. Finally in the case of the EU, while the overall employment gains and losses of trade appear to cancel each other out, nearly all the employment gains in manufacturing appear to be the result of trade in high wage commodities with the rest of the OECD. The other gains appear related to non-manufacturing trade.

FIGURE 11 TRADE IMPACTS ON EMPLOYMENT

![Graphs showing trade impacts on employment in the United States, Japan, and the European Union.](image)
Structural Change and Employment: the Policy Challenge

Rising long-term unemployment and labour market rigidities. Growing anxiety about structural unemployment, and in particular that related to long term and youth unemployment, is not only inspired by the economic waste of these large unused human resources or the rising financial burden of unemployment and social benefits on government budgets. Official concern in Europe probably relates as much to the fear of social destabilisation and insecurity that such levels of unemployment might bring. Typically, the downward revisions in unemployment figures to correct for early retirement, excluding unemployed above 50, workers on job creation or other training schemes, no longer appear to serve their purpose. Indicators of disguised unemployment appear again of relevance, not just to trade unions, but also to policy makers. In many European countries the unofficial unemployment rate, including disguised unemployment, is now nearly twice as high as the official one.

The hidden costs of such high real levels of unemployment are slowly coming to the surface: social tensions between those included and excluded from work; growing income inequality; growth in crime, drugs and alcoholism, much of which must be associated with high unemployment amongst unskilled, urban youngsters and school drop-outs; xenophobia and a rise in racial conflicts associated with immigrants. As the OECD’s Employment Outlook (1993) points out, nearly half of the EU unemployed have been out of work for more than a year. Not surprisingly the policy emphasis has shifted towards more active labour market policies: policies aimed at countering the dangers of a culture of dependence developing. To break such a vicious circle appears to require more interconnected measures with an obligation to accept work or training combined with financial pressures and inducements, both for employers and for the unemployed.

At the same time many labour market economists put the emphasis on the need to reduce relative wages and social benefits for less skilled and young workers. In this more traditional, vision much of the blame for the rise in unemployment, particularly in Europe, is put on labour market rigidities and on the lack of incentives to seek work. Labour market flexibility and in particular downward wage flexibility is then expected to enlarge the employment creation potential at the low skill/low wage end. The combination of existing income tax structures and minimum wage legislation discourage the supply of low paid work, and the level of unemployment and social assistance might have removed incentives for unemployed workers actively to look for work.9

The wage flexibility argument while attractive cannot, however, be discussed purely in static economic terms. The issue is not just an economic one. How can one compensate for the fact that downward wage adjustment puts most of the burden of adjustment on the economically weakest groups in society? How can one avoid generating underpaid jobs? Minimum wages and many other social achievements
at the low end of the labour market have been created because they corresponded, often in an absolute sense, to minimum remuneration levels, where work meant survival. Over time, these minimum wage levels could well have exceeded such survival levels in some OECD countries, such as the Netherlands, but minimum wages, if calculated in purchasing power parity, are generally not high enough to offer much room for downward adjustment in many countries. The focus must be more on the gap between tax thresholds and minimum wage levels.

Secondly, to what extent would such direct wage adjustments have severe, long term negative consequences for labour productivity and competitiveness? Whereas from a static, short term point of view such policies might well generate low skill jobs in the non-tradeable service sector (the so-called hamburger economy), and reduce some of the structural long term, low skill unemployment, there exists a real danger that these measures could also lead to downward pressure on labour productivity with spill-overs to the tradeable sectors, such as sweat shops in clothing and textiles, and a move towards long term specialisation in low skill activities. As previously noted, it is the low wage sector which has suffered most employment losses.

The wage flexibility argument appears, from this perspective, rather similar to the argument for full protectionism. Were there to be full protectionism at the broad level of the EU trade block (or the new European Economic Area), low skill employment is likely to be generated in many of the labour intensive, low wage sectors that would now substitute for previous imports. The new employment created would be substantially higher than the employment decline in the EU’s world export sectors and full employment would probably be quickly reinstalled. Apart from the obvious welfare losses from EU autarchy, the loss of the dynamic competitive impact of foreign imports would, however, in the long term, severely undermine the EU’s growth and competitiveness.

In an open world, downward wage adjustment appears to be a same type of escape from adjustment as protectionism. Introducing it as the main policy device could lead to the importation of underdevelopment: a process of a more lateral international division of labour where wage differentials within the developed countries increasingly resemble wage differentials between countries. There is in other words a danger of being caught up in a low wage trap on a long term basis. To avoid this danger of a permanent large low wage, low skill underclass it is essential to press forward with policies for training and high quality services, so that high skill jobs become a steadily higher proportion of the total.

_International Competitiveness and Delocalisation_. This last trend points to some of the new features emerging in the employment policy debate: the growing role played by increased international competition and international location of manufacturing and service activities. Policy is directly influenced by fear of delocalisation due to information and communication technology.
An important factor in the discussion about the scope for downward wage flexibility is the size of the non-tradeable sector, given its particular role in absorbing low skilled, low wage employment. It has often been claimed that the non-tradeable service sector in Japan acted as an employment reservoir in times of slack demand, both within the large firms, organised around lifelong contracts, and in the economy at large with many relatively low skilled service jobs. The steady low levels of unemployment in Japan are also explained by the cushioning effect of the non-tradeable sector. There are, however, good arguments as to why the non-tradeable service sector has been shrinking significantly over the last decade in all OECD countries, and in the EU in particular.

First and foremost, it is obvious that IT has significantly increased the tradeability and mobility of many service activities. The present trend in many service sectors towards the relocation of activities such as programming and simple clerical functions, illustrates how the new technology has created a 'global service village'. Labour cost differences in such activities are the major variable. Firms, even those which had little international experience, are discovering the basic principles of the international division of labour. But there might well be a more fundamental trend underlying such international relocation. Many Western firms are also discovering the relatively high levels of human capital in many Asian countries. The latter, after years of heavy investment in education, particularly in science and technology, are starting to reap some of the benefits and attract some of the complementary physical capital. Whether this is a reflection of a more lateral division of labour or the result of a more straightforward process of catching up, is an open question. What is certain, however, is that an increasing number of jobs in OECD countries, even in high-skilled activities, previously protected because they were essentially non-tradeable, are becoming subject to international competition. It is this new pressure across the occupational spectrum which gives rise to some of the most outspoken fears of low wage competition and rapid growth in structural unemployment in the OECD economies.

In Figure 12 we illustrate this growing concern using a relative unit labour cost indicator, 'delocalisation pressure', based on the gap in labour costs between low and high wage states, corrected for the gap in labour productivity. The indicator illustrates how over the last ten years the delocalisation pressure has increased dramatically between Europe (and in particular Germany) and the South East Asian economies. For the US and Japan the rise in delocalisation pressure has been less pronounced. There is growing concern that international flexibility, initiated by multinational corporations 'delocalising' production towards regions with lower labour costs, will lead to severe job losses. This concern is held not just with respect to delocalisation to South East Asia but also increasingly within Europe, both because of the proximity of low labour costs in Central and East Europe, and because of the social chapter of the Maastricht Treaty.
Such trends towards delocalisation accord with international competition and the free movement of capital. While national governments might be unable to do much about delocalisation, local government has, in our view, a more active role to play in keeping such firms within their region. Indeed local authorities have a prime responsibility in creating economic conditions to ensure that subsidiaries of foreign firms become embedded in the domestic economy so that the region in which they are located becomes essential to the subsidiary’s competitiveness. Local authorities might well have to focus less on attracting foreign firms with subsidies and switch their attention to creating favourable infrastructure, such as education and training, networking with small and medium sized firms, and collaboration with local universities and other research and technical institutes.

**FIGURE 12 DELocalisation PRESSURE**

![Graph showing delocalisation pressure](image)

Delocalisation pressure = labour cost (constant prices per man-hour) divided by labour productivity (output per man-hour); (1975=100).

Source: Freeman and Soete, 1994.

Probably to the frustration of many policy makers, the problems of structural unemployment remain complex and are unlikely to be solved by immediate conclusions. What is clear is that the subject represents a major challenge to the European Union. If the EU is not capable of coming up with long term solutions to the steady growth in structural unemployment, member states may start to act by themselves, ignoring each other’s experience. This process is already occurring in many European countries: with the Scandinavian countries taking the lead. The breakdown of the Scandinavian social system, particularly in Sweden and Finland, is a dramatic features of the present unemployment crisis. It is linked in part to the peripheral position of Scandinavia, but it is also related to a rag-bag of different structural factors: the unsuccessful attempt at monetary convergence with Germany and the ERM, the possible over stretching of the social system, the structural adjustments towards less technology intensive commodities and the globalisation of large domestic firms. These states, while confronted with such problems earlier and more profoundly than other states, might show how institutional change can be introduced democratically. The present Finnish, Swedish and Danish experiments might be relevant to other European states.
More disturbing, however, are individual 'beggar-thy-neighbour' responses to unemployment. Such strategies are not confined to traditional protectionist proposals. They include various attempts at reducing domestic labour costs relative to major competitors through devaluations, reduction or even abolition of minimum social legislation, including minimum wages, child labour law and environmental regulation. 'Flexibility' in the sense of social deregulation has a negative connotation. The role of the EU in setting out early the rules of the game in this area is of the utmost importance. No doubt there is scope for job creation in many member states by eliminating some labour market rigidities. However, the point should not be overstretched: labour markets, contrary to financial markets, will never adjust quickly to prices. The EU should bring clearly to the forefront the scope for positive flexibility, to be defined just like positive adjustment or economic integration in terms of common policies likely to strengthen the innovative qualities of the European economies. As we have seen, the world economy, particularly in Asia, has grown more rapidly than in the Trans-Atlantic area. The fact that unemployment mostly concerns Europe is part of a more general structural shift in economic growth to the Pacific rim. How Europe will respond to this shift is still an open question.

1 This paper is partly based on a report prepared with Christopher Freeman for IBM Europe (Freeman and Soete, 1993) and a forthcoming book also with Christopher Freeman Work for all or mass unemployment, London, Frances Pinter, June 1994.
2 See, for example, the McCracken Report, OECD, 1975.
3 'Developed' countries because those degrees of freedom have always been more restricted in developing countries.
4 It might even have been overstretched in this area. However, the actions of central banks have become increasingly dependent on the markets' reactions.
5 Sakurai, 1993
6 It should be emphasised that the 'decomposition' methodology used by Sakurai (1993) and illustrated in Figure 3, only allows for directly attributable employment gains/losses due to foreign trade. Indirect effects, for example, through increased competition, are not taken into account.
7 Sakurai, 1993, p.31.
8 This statement needs to be interpreted with care given the partial nature of the methodology used. The welfare gains, are left out of the mechanical employment decomposition methodology used in Figure 3.
9 We do not discuss here the various policy proposals directed at reductions in labour costs while leaving wages intact. Proposals at shifting the tax burden away from labour towards other inputs such as materials or energy are undisputed, but their uncoordinated implementation in individual states appears to jeopardise international competitiveness.