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Assessing labour market dynamics: European evidence

Thomas Kruppe

Employment Sector
INTERNATIONAL LABOUR OFFICE GENEVA

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Preface

This paper was prepared in the framework of the Employment Strategy Department's Labour Market Policy team in cooperation with the Key Indicators of the Labour Market (KILM) team. The paper is about labour market dynamics and participates in the employment sector's efforts to establish a knowledge base on labour market functioning. This terminology might sound unfamiliar to those who are not experts in labour economics. It is true that most statistics of the labour market are rather static and give a snapshot of the problems at a given point in time or show yearly averages. It is the unemployment rate of country x at time y which attracts attention. Such figures (called cross sectional in the terminology of statistics) when compared over time, also indicate labour market dynamics and movements but only show the surface of the real dynamics of the labour market: to give but one example: In Denmark, while the yearly average number of unemployment is around 160,000 in 1999, some 600,000 persons are affected by unemployment during the same year. The number of those having unemployment spells (flow) is much larger than the average yearly number of unemployed (stock) because the stock is only the balance between all flows in and out of unemployment. A given unemployment rate can either be composed of many short time spells of unemployment or by a fewer number of long spells.

This has implications for labour market policy: while short spells of unemployment (frictional unemployment) are part of the normal working of the labour markets in a market economy, long spells are not, and should thus be the main focus of labour market policies. Knowledge of the flows in the labour market is therefore important for finding the right labour market intervention.

In the present paper two methods for a flow analysis of the labour market are presented and their results compared. One is the user data base of the European Community household panel which allows the analysis of flows in yearly and monthly intervals and the other is the quasi flows distilled from the European Labour Force Survey. It shows that depending on the method, results diverge. It appears also that yearly information cannot capture the true extent of mobility which is much larger, as is revealed by monthly data.

Whilst much of the information contained in this paper is for the experts in labour market analysis, non experts might at least get a glimpse of how complex labour market flows are.

Rashid Amjad
Director a.i.
Employment Strategy Department
Employment Sector, ILO

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1. Introduction

This paper provides an overview of the flows into and out of waged or salaried ("dependent") employment - out of and into all other possible labour force statuses (LFS) – with emphasis on the transition between employment and unemployment. This study will concentrate primarily on the number of transitions which occur over a specific time period. Thus, the dynamic perspective here consists in the analysis of aggregated flow values based on a multiplicity of individual mobility processes. Although descriptions of labour market situations (employment rate, unemployment rate, etc.) are required in order to point out the priority areas for policy action, it is time to take a step beyond such static analyses of stock values. This is one aim of this paper, which discusses dynamic flows on the basis of data from the User Database (UDB) of the European Community Household Panel (ECHP).

In addition to the pure calculation of these flows and their counterflows, four new labour market indicators are introduced: The first of these, the **dependent employment (growth) indicator** (c.f. section two), is calculated as the net difference between all flows into and out of dependent employment. A positive value means that more people have been integrated into the (dependent) employment system than have left it, while a negative figure indicates a decline in dependent employment.

In contrast, the **general mobility rate** (c.f. section two) is calculated as the net sum of all flows into and out of dependent employment and reveals an important aspect of the functioning of the labour markets. Nevertheless, the measure of mobility depends on economic and labour market conditions as well as on institutional settings.

Analysing the (sub-) flows between dependent employment and unemployment, the difference between flow and counterflow can be interpreted as an **(re)integration indicator** (c.f. section three), analogous to the dependent employment (growth) indicator. A positive value indicates that more people have been (re)integrated from unemployment into dependent employment than have become unemployed; a negative figure, on the other hand, indicates a higher flow out of dependent employment into unemployment than have been (re)integrated into dependent employment from unemployment.

At last, the **(un)employment mobility rate** (c.f. section three), which is the sum of the flow from unemployment to dependent employment and its counterflow, is introduced. It indicates the overall rotation between these two segments of the labour market.

Bringing together the results of sections two and three, another outcome of this approach to labour market dynamics is the estimation of the relevance of unemployment as part of the employment system (c.f. section four). It can be shown, that the importance of the flows from unemployment into dependent employment (which is the one of the main target areas of active labour market policies) is widespread over the countries covered by this study. While in Luxembourg less than one third of individuals entering dependent employment between January 1994 and January 1995 were previously unemployed, the corresponding figure was more than two thirds in Spain (calculated with ECHP data, c.f. Table 4.1, coloum 3).

All these results will also be compared with findings from a former research project on the same topic, but based on the European Labour Force Survey (ELFS)[1] to show the importance of the use of a longitudinal calendar rather than cross-sectional information. The main objective of this part of the paper is to show that both the various ways of calculating transitions and the data set used have a strong impact on the results.

[1] Klaus Schömann, Thomas Kruppe, Heidi Oschmiansky: Beschäftigungsdynamik und Arbeitslosigkeit in der Europäischen Union, Discussion Paper FS I 98 – 203, Social Science Research Center Berlin, 1998.

The analysis of the ELFS uses the information provided on the main activity status in 1995 and the information given on the 'labour force status one year earlier' in response to the same survey.

In the longitudinal part of the analysis, based on the ECHP UDB, comparable calculations can be made by using the information on the main activity status in the first two waves (1994 / 1995). In both cases, this compares a status at a point in time (t) with the status one year previously (t-1), with an information gap between (t) and (t-1).

In a second step, the number of transitions within one year are estimated by using the calendar information on the labour force status, taking into account any transition which occurs between January 1994 as the starting point and the following 12 months until January 1995.

The calendar information is used to estimate the transitions between the month in which the interview for the second wave took place (1995 or 1996) and the previous 12 months as a 'moving time window'. Due to the strong deviation of the date of interview, the time observed thus starts between January 1994 (if the interview took place in January 1995) and December 1994 (because of the correctly-censored information, December 1995 is the last month for which calendar information is available). In order to have access to as much comparable data as possible for all steps of this analysis, the ECHP UDB was given a longitudinal design, which includes only individuals taking part in all three waves.

Beside the new insights into labour market dynamics of eleven (11) Member states of the European Union, as a first result, it also shows that the use of the calendar information of the longitudinal data set, covering the period of one calendar year, is the most informative way of calculating dynamic labour market flows. On the other hand, the European Labour Force Survey, with a high number of cases, gives the possibility of deeper analysis which at the same time is much more up to date. Nevertheless, an under-estimation of the the labour market flows occurs when by utilizing the cross-sectional ELFS, which may often be up to a substantial level. This becomes quite clear in the comparison of the share of the flows from unemployment into dependent employment in Denmark, which is, depending on the data source, estimated between one and two thirds (ELFS / ECHP, c.f. Table 4.1 columns 1 and 3).

The development of a longitudinal data set such as the ECHP compared to a labour market monitoring system, based on the information of dynamics flows, will be discussed at the end of the paper. Further interpretations will be the object of a future project, in which the results obtained here will be linked to their socio-economic and institutional context to identify 'good' and 'bad' transitions in the sense of transitional labour markets (Schmid 1998). This should also include the comparison of labour market transitions with data on active labour market policy participation balances (OECD 1996) as well as a coverage of target- or function-group-specific flows.

2. The dynamics of dependent employment

In the following tables of Section 1 and Section 2, all transitions into and out of dependent employment for 1994/1995 are balanced as a percentage of all dependent employed persons in that country in 1995. Column 1 indicates the sum of the flows into employment (from unemployment, self-employment, inactivity and education/training, and also from unknown previous labour force status). Column 2 lists the respective counterflows. Column 3 indicates the net difference between all inflows and outflows (Column 1 minus Column 2), which can be interpreted as a **dependent employment (growth) indicator**. A positive value means that more people have been integrated into the (dependent) employment system than have left it, while a negative figure indicates a decline in dependent employment.

Table 2.1: Change in Main Activity Status (1995 and one year earlier)

	Flows into and out of dependent employment		
	INFLOW	OUTFLOW	DIFF.
B	5.8	6.8	**-1**
DK*	12.8	9.8	**3**
D	8.5	7.8	**0.7**
EL	8.3	10.3	**-2**
E	17	12.2	**4.8**
F	11	9.2	**1.8**
IRL	13	7.5	**5.5**
I	13	10.6	**2.4**
L	5.7	5.1	**0.6**
NL	9.5	9.2	**0.3**
P	8.3	8.7	**-0.4**
UK	10.9	8.8	**2.1**

* DK without flows into and out of self-employment
Source: European Labour Force Survey 1995, authors' calculations
Cited from: Schömann/Kruppe/Oschmiansky 1998

Table 2.1 is estimated by using the **European Labour Force Survey 1995 (t)**. Due to the cross-sectional design and the resulting use of the '**LFS one year earlier'** question **(t-1),** a maximum of one transition per person can be recorded. This leads to an under-estimation of flows in any case where multiple transitions have occurred, especially if a person has returned to the same LFS he/she had the year before (which statistically appears here as no transition).

In most countries the net employment trend in 1994/1995 was positive. Only in Belgium, Greece and Portugal was the difference of all flows into and out of employment in 1995 negative. Ireland, Spain, Denmark, Italy and the United Kingdom reveal a substantial dependent employment surplus of more than 2%.

The net sum of Column 1 and Column 2 (cf. Table 2.5) could be seen as the general mobility rate for each country. The extent of mobility between the various labour market statuses is not, as is widely believed, highest in the United Kingdom in all EU Member States: Spain in 1995 had significantly higher employment turnover rates.

Table 2.2: Change in Main Activity Status (between 1994 and 1995)

	Flows into and out of dependent employment		
	INFLOW	OUTFLOW	DIFF.
B	6.4	9.3	**-3**
DK	9.1	9.6	**-0.5**
D	8.3	7.8	**0.5**
EL	15.8	14	**1.8**
E	18.4	13.8	**4.7**
F	7.9	4.4	**3.6**
IRL	13.9	11.7	**2.1**
I	10.7	11.7	**-0.9**
L	4	4.9	**-0.9**
NL	15.4	7.1	**8.3**
P	11.9	8.8	**3.1**
UK	10.6	10.4	**0.2**

Source: ECHP UDB (Main Activity Status), authors' calculations

Table 2.2 is calculated from the **User Database** of the **European Community Household Panel**. Utilising the longitudinal design,[2] the **labour force status** each individual stated in **1995 (t)** is compared with the one stated in **1994 (t-1)** in order to have results which are the most readily comparable with Table 2.1 based on ELFS data.

Besides the fact that the period between the two interviews (wave one and wave two) of the individual can deviate considerably within a given year, this kind of calculation is subject to the same risk of under-estimation as for Table 2.1 (as a result of the comparison between two points in time with a one-year information gap).

Nevertheless, comparing Table 2.1 and Table 2.2, we can find strong differences in country patterns. On the one hand, Denmark, France, Italy and Luxembourg now show a significantly lower inflow (> -1%), Greece, Spain, the Netherlands and Portugal a significantly higher (> 1%) inflow into dependent employment. On the other hand, outflow out of dependent employment appears to be significantly lower in France and the Netherlands, but significantly higher in Belgium, Greece, Spain, Ireland, Italy and the United Kingdom. This also leads to changes in the net employment trend (Table 2.2, Column 3). Whilst Belgium (but to a smaller extent also Italy, Ireland and Denmark) has more flows out of, rather than into dependent employment, all other countries have a positive net result, especially Portugal, France, Spain and in particular the Netherlands. Again, a comparison with Table 2.1 indicates differences between –3.5 (Denmark) and 8.0 (the Netherlands) percentage points. The results of both data sets are similar in all three columns only for Germany.

Table 2.3, also calculated on the basis of the **User Database** of the **European Community Household Panel**, takes advantage of the longitudinal design by using the **calendar information** on the labour force status of the individual for **each month**. In contrast to Table 2.1 and Table 2.2, here we count any transition and, therefore, have much more accurate information about labour market flows. Nevertheless, an under-estimation is probable for those transitions that have a duration in that status for less than one month. These are most likely to appear in the flows into and out of dependent employment. To maintain as much comparability as possible with the former analysis, a period which includes twelve possible transitions from **January 1994** to **January 1995** is selected. Unfortunately, there is no calendar information available for the Netherlands.

[2] Basis: only persons who take part in all three waves.

Table 2.3: Flows between Labour Force Status (January 1994 to January 1995)

	Flows into and out of dependent employment		
	INFLOW	OUTFLOW	DIFF.
B	16.4	17.7	**-1.3**
DK	21.1	23.3	**-2.1**
D	11.5	18.8	**-7.2**
EL	30.3	29.9	**0.4**
E	39.7	38.6	**1.1**
F	23.7	19.8	**3.9**
IRL	26.2	25.3	**0.9**
I	18.6	21.2	**-2.5**
L	9.7	13.1	**-3.4**
NL	..	..	**..**
P	18.2	17.4	**0.8**
UK	18.7	18.9	**-0.2**

NL: No calendar information available
Source: ECHP UDB (Calendar Information), authors' calculations

The first result that catches the eye is the much higher turnover rate in all countries. In comparison to Table 2.2, the inflow into dependent employment is between 3.2% (Germany) and 21.3% (Spain) higher, the outflow between 8.2% (Luxembourg) and 24.8% (Spain) higher. In other words, the general mobility rate (as the net sum of inflow and outflow) now varies from 22.8% (Luxembourg) to 78.3% (Spain) of all dependent employees in that country. The ranking of the countries shows only minor changes, with the exception of Greece (EL), which is in a middle position as per ELFS with 18.6%, and on the upper end behind Spain as per ECHP (calendar information) with 60.2%. By contrast, Italy with 23.6% tails Spain in the ELFS chart and has an average position in the ECHP (calendar information) with 39.8% of total labour turnover. Greater accuracy in measurement of flows in the labour market is gained by utilising the calendar information from the ECHP UDB rather than comparing two points in time, as is clearly indicated by the estimation of the general mobility rate of two to three times higher.

A closer look at the dependent employment indicator (Column 3) does not show a coherent pattern. In France, which now shows the highest integration into the dependent employment system, the difference between flow and counterflow increases only slightly. In the United Kingdom, the difference between the two flows changed from positive to negative, but also marginally (0.4 %). Although we observe a decrease for Greece, Spain and Ireland, a positive flow is still recorded whilst Belgium still shows a negative balance. In Denmark, Italy and Luxembourg, the negative balance has increased. In Germany, the formerly positive difference (0.5 %) now shows the highest negative balance (-7.5 %), which means a much higher outflow from dependent employment than into it.

Table 2.4: Flows between Labour Force Status (Last 12 Months before Date of Interview)

	Flows into and out of dependent employment		
	INFLOW	OUTFLOW	DIFF.
B	15.8	15.3	**0.5**
DK	19.8	18.7	**1.1**
D	..	..	**..**
EL	20.7	20.9	**-0.3**
E	38	36.3	**1.7**
F	18.6	15.8	**2.8**
IRL	25.7	21.1	**4.6**
I	17.2	18.8	**-1.5**
L	10.4	10.6	**-0.2**
NL	..	..	**..**
P	16.5	16.6	**-0.1**
UK	17.5	18.7	**-1.2**

D: No date of interview available
NL: No calendar information available
Source: ECHP UDB (Calendar Information), authors' calculations

Table 2.4 is also calculated on the basis of the **User Database** of the **European Community Household Panel**, using the **calendar information** on the labour force status of the individual for **each month**. The difference to Table 2.3 is that the period of twelve months **depends on the date of the interview of the second wave**: if the respondents were interviewed in January 1995, there is no difference to the calculation in Table 2.3. If the interview took place in any other month of that year, the window in time moves to cover the last twelve months prior to that date. Even if the interview was carried out in 1996, the observation period ends in December 1995, ie. the last month calendar information was available (recorded in wave three). In France the calendar information was usually ascertained in this way by the interviewer, but for all other countries the period covered is the respective calendar year.

In comparison to Table 2.3, all inflows and outflows are lower (except inflow in Luxembourg), especially in Greece and France. We note that the difference between outflows in the two tables are smaller than the differences between inflows in Greece, France, Portugal and the UK and higher for all other countries. The cause of this effect is not quite clear yet, but could be a result of general changes in the economic cycle between 1994 and 1995, which play a part in this estimation, combined with some effects of memory gaps. This leads to an accumulation of events in the data set for certain months vis-à-vis the interview date. In any case, the interpretation of this table on a country by country basis is more difficult because the overall coverage of the time period analysed now exceeds one year and can last up to 23 months within one country (January 1994 to December 1995).

Table 2.5: General Mobility Rate

	Sum of Flows into and out of dependent employment			
	ELFS (y)*	ECHP(y)	ECHP (m)	ECHP (mm)
B	12.6	15.7	34.1	31.1
DK	22.6	18.7	44.4	38.5
D	16.3	16.2	30.3	..
EL	18.6	29.7	60.2	41.6
E	29.2	32.2	78.3	74.4
F	20.2	12.3	43.6	34.3
IRL	20.5	25.6	51.5	46.8
I	23.6	22.4	39.8	36
L	10.8	8.9	22.8	20.9
NL	18.7	22.5	..	..
P	17	20.8	35.6	33.1
UK	19.7	21	37.5	36.2

* DK without self-employed

Source:
ELFS (y): European Labour Force Survey 1995, authors' calculations
Cited from: Schömann/Kruppe/Oschmiansky 1998
ECHP (y): UDB (Main Activity Status, self-defined), authors' calculations
ECHP (m): UDB (Calendar Information), authors' calculations
ECHP (mm): UDB, (Calendar Information by date of interview), own calculations

Table 2.5 provides an overview of the **general mobility rate**, which is calculated as the **net sum of all flows** into and out of dependent employment (Column 1 and Column 2) from all previous tables (2.1 to 2.4) in this section. This mobility rate reveals an important aspect of the functioning of the labour markets. Nevertheless, the measure of mobility depends on economic and labour market conditions as well as on institutional settings. However, the figures can only be counted as one part of an evaluation of the employment system.

This becomes quite clear in the case of Spain, which has the highest general mobility rate, independent of data source and model of estimation. The figure of up to 78.3 per cent of all dependent employees (Column 3) does not mean a real rotation of more than three quarters of job holders, but is an effect of the high segmentation of the labour market, which still had a highly protected part for insiders in 1995 and another part for short-term, fixed-term contract workers and, therefore, a high number of transitions. Further evidence for this hypothesis is the strong difference between the estimations of the changes on a yearly basis (Columns 1 and 2) and the estimations of the transitions on a monthly basis.

While the 'relative ranking positions' of Denmark, France, the Netherlands and Greece vary substantially by data source and/or estimation model, Spain and Ireland are always at the top of Table 2.5, the United Kingdom in the middle field and Portugal, Germany, Belgium and Luxembourg always at the bottom.

3. The dynamics between dependent employment and unemployment

Table 3.1: Change in Main Activity Status (1995 and one year earlier)

	Flows between dependent employment and unemployment		
	UN->EMP	EMP->UN	DIFF.
B	2.9	2.6	**0.3**
DK*	3.8	3	**0.8**
D	3.2	3	**0.2**
EL	4.6	4.7	**-0.1**
E	11.6	7	**4.6**
F	5.1	4.4	**0.7**
IRL	4.4	3.5	**0.9**
I	5.9	2.4	**3.5**
L	1.5	1.3	**0.2**
NL	2.9	2.5	**0.4**
P	3.4	3.3	**0.1**
UK	3.8	3	**0.8**

* DK without flows into and out of self-employment
Source: European Labour Force Survey 1995, authors' calculations
Cited from: Schömann/Kruppe/Oschmiansky 1998

Another important aspect of country-specific mobility flows is revealed by a more detailed analysis of the flows between unemployment and employment. The following tables are estimated in a similar way to the tables in Section 1, starting with **Table 3.1** and **Table 3.2** as the comparison of the changes in **main activity status** based on either **ELFS data** or **ECHP UDB data**.

Comparing Table 3.1 with Table 3.2 only for Greece (-1.6 %), Spain (3.8 %) and Italy (1.6 %), the inflows and for France the outflow (2.5 %), differ by more than one per cent. Nevertheless, these (mainly smaller) changes are enough to change the balance of the flows between dependent employment and unemployment in Belgium, Germany and Luxembourg from positive to negative and in Greece from negative to positive.

Table 3.2: Change in Main Activity Status (between 1994 and 1995)

	Flows between dependent employment and unemployment		
	UN->EMP	EMP->UN	DIFF.
B	2.6	3.2	**-0.6**
DK	4.5	3.4	**1.2**
D	2.5	3	**-0.5**
EL	6.2	4.7	**1.5**
E	7.8	7.3	**0.5**
F	4.2	1.9	**2.3**
IRL	4.2	3.9	**0.3**
I	4.3	3.1	**1.2**
L	1.4	1.5	**-0.1**
NL	3.1	2.3	**0.8**
P	4.2	3.6	**0.5**
UK	3.4	2.4	**1.0**

Source: ECHP UDB (Main Activity Status), authors' calculations

To return to the arguments developed in Section 1, a far more precise measurement is an analysis based on the **calendar information** of the **ECHP UDB** as shown in **Table 3.3**. The difference between flow and counterflow (Column 3) can be interpreted as a **(re)integration indicator**, analogous to the employment indicator introduced in Section 1. A positive value indicates that more people have been (re)integrated from unemployment into dependent employment than have become unemployed; a negative figure, on the other hand, indicates a higher flow out of dependent employment into unemployment than those people (re)integrated into dependent employment from unemployment.

The negative balance for Germany appears to be relatively small, taking into consideration the general high reduction in dependent employment of 7.2 per cent (cf. Table 2.3, Column 3). Independent of the level of their general mobility rate and also of a positive or negative sign for the respective employment indicator (cf. Table 2.3, Column 3), all other countries show a positive (re)integration indicator (cf. Table 3.3, Column 3).

Belgium, Denmark, Italy, Luxembourg and the United Kingdom exemplify the significant role played by labour market policy: it appears, temporarily at least, to have successfully reversed the general trend towards negative employment growth for both those who are (or will be) unemployed, by concentrating policy efforts on the unemployed and/or on a reduction of labour supply (i.e. early retirement) to give better prospects to the unemployed.

Table 3.3: Flows between Labour Force Status (January 1994 to January 1995)

	Flows between dependent employment and unemployment		
	UN->EMP	EMP->UN	DIFF.
B	7.9	6.7	**1.2**
DK	13.6	11.1	**2.5**
D	5.4	5.8	**-0.4**
EL	17.8	16.1	**1.7**
E	26.8	25.6	**1.2**
F	10.7	9.9	**0.7**
IRL	10.8	9.7	**1.1**
I	9.4	8.3	**1**
L	2.9	2.6	**0.3**
NL	..	..	**..**
P	9.8	9.4	**0.4**
UK	7.1	6.2	**0.9**

NL: No calendar information available
Source: ECHP UDB (Calendar Information), authors' calculations

Moving the time analysed on the basis of the date of interview, Column 3 of **Table 3.4** shows a reversed picture of Table 3.3. Portugal is the only country with higher flows from unemployment to dependent employment than vice versa. As already mentioned above, this calculation method takes a different time period into account, which could lead to the generally lower flows as well as the difference in the (re)integration indicator. At least in part, a more prosperous economy is due to the changes in the relative size of the two complementary flows. However, there was no decline in long-term unemployment in the spring/summer of 1995, despite the various labour market policy initiatives targeted at this particular group (European Commission 1995, OECD 1996).

Table 3.4: Flows between Labour Force Status (Last 12 Months before Date of Interview)

	Flows between dependent employment and unemployment		
	UN->EMP	EMP->UN	DIFF.
B	6.4	6.9	**-0.5**
DK	9.1	9.4	**-0.3**
D	..	..	**..**
EL	12.9	13.7	**-0.8**
E	21.6	23.4	**-1.9**
F	8.9	9.7	**-0.8**
IRL	7.9	9.7	**-1.8**
I	7.6	8.3	**-0.6**
L	2.1	2.5	**-0.4**
NL	..	..	**..**
P	8.3	7.6	**0.8**
UK	5.5	6.3	**-0.8**

D: No date of interview available
NL: No calendar information available
Source: ECHP UDB (Calendar Information), authors' calculations

Nevertheless, it is possible that we have a more accurate estimate from data recorded in the recent past than data collected a long time ago. We should also remember that the calculation of changes in the main activity at two points in time depends on the date of interview, which produces some bias in the period observed.

Table 3.5 gives an overview of the **(un)employment mobility rate**, which is the **sum of the flow from unemployment to dependent employment and its counterflow**. It indicates the overall rotation between two segments of the labour market, which is rather low in Luxembourg and rather high in Spain, independently of the data set or calculation method. Besides this, in column 1, calculated from ELFS data in Table 2.1, the main group (the Netherlands, Belgium, Germany, Portugal, Denmark, United Kingdom) shows a pattern of 5 to 7 per cent, while Ireland, Italy, Greece and France, at 7.9 to 9.5 per cent, are also close in the (un)employment mobility rate. Whereas we find significant differences in the pure numbers, the impact of the data set and calculation method used in the 'relative ranking position' of the countries on the (un-)employment mobility rate is of minor importance. Only for France do the data source and estimation used have greater significance.

Table 3.5: (Un-)Employment Mobility Rate

	Sum of flows between dependent employment and unemployment			
	ELFS (y)*	ECHP(y)	ECHP (m)	ECHP (mm)
B	5.5	5.9	14.7	13.3
DK	6.8	7.9	24.8	18.5
D	6.2	5.4	11.2	..
EL	9.3	10.9	33.9	26.6
E	18.6	15.1	52.4	45
F	9.5	6.1	20.6	18.5
IRL	7.9	8.2	20.5	17.6
I	8.3	7.5	17.7	15.9
L	2.8	2.9	5.6	4.6
NL	5.4	5.4	..	..
P	6.7	7.8	19.1	15.9
UK	6.8	5.8	13.3	11.9

* DK without self-employed
Source:
ELFS (y): European Labour Force Survey 1995, authors' calculations
Cited from: Schömann/Kruppe/Oschmiansky 1998
ECHP (y): UDB (Main Activity Status, self-defined), authors' calculations
ECHP (m): UDB (Calendar Information), authors' calculations
ECHP (mm): UDB, (Calendar Information by date of interview), own calculations

4. The relevance of unemployment as part of the employment system

So far, Section 1 gave an overview of the overall flows into and out of dependent employment, while Section 2 analysed the sub-flows between unemployment and dependent employment. Bringing together the two parts, the relevance of unemployment in the national employment systems can be shown. In **Table 4.1**, this is calculated as the **share of the sub-flow from unemployment** in the overall flows **into dependent employment** (Column 1 of Tables 3.1 to 3.4 as a percentage of Column 1 of Tables 2.1 to 2.4).

The Spanish labour market, with 50 to nearly 70 per cent of all individuals entering dependent employment from unemployment, is highly segmented into one part with only a small amount of fluctuation and another part rotating significantly between unemployment and dependent employment. For the time observed here, this was due to the huge number of fixed-term contracts and strict employment protection regulations, both of which situations have undergone several changes since then (cf. Schoemann/Rogowski/Kruppe 1998). This finding is reproduced by both data sets and all calculation methods by a 'relative ranking position' which always varies under the top three.

Greece, with nearly 40 to over 60 per cent (ranking position 1 to 6), reveals a pattern similar to Spain, but given the lower general mobility rate (Table 2.5), the situation seems less precarious.

Belgium has a proportion of 40 to 50 per cent, which, in the case of the ELFS data (Column 1), is the third highest share, but only ranks seven out of ten using an estimation based on the ECHP calendar data referring to the date of interview (Column 4). In France, nearly 45 to 53 per cent enter dependent employment from unemployment. With a ranking position

between one and eight, France shows the highest variation due to the different calculation based on the ECHP User Data Base.

The opposite is the case for Italy (40 to 50 per cent), which changes its ranking position only from five to six.

In Portugal the proportion of former unemployed persons out of all persons entering dependent employment is 34 to 54 percent. With a high variation in both the general mobility and the (re)integration rate, the ranking position changes from seven to three.

In the United Kingdom the range caused by the different data sets and estimation methods is relatively small (31 to 38 per cent). There is an overall low fluctuation between unemployment and dependent employment (Table 3.5), but at the same time an average general mobility rate (in comparison to the other countries). The unemployed are of minor importance in filling vacancies in the United Kingdom in comparison to all the other countries analysed here due to the relative low unemployment rate. Nevertheless, a flow out of unemployment of this size constitutes a good basis for a cut in unemployment in the future.

Table 4.1: Share of Flow from Unemployment in all Inflows into Dependent Employment

	ELFS (y)*	ECHP(y)	ECHP (m)	ECHP (mm)
B	50	41.3	48.5	40.7
DK	29.7	49.9	64.6	46.1
D	37.6	29.5	46.8	..
EL	55.4	39.4	58.6	62.4
E	68.2	42.4	67.4	56.7
F	46.4	52.9	44.9	47.8
IRL	33.8	30.6	41.3	30.7
I	45.4	40.5	50.2	44.3
L	26.3	34.1	30.2	20
NL	30.5	20.3	..	..
P	41	34.8	53.6	50.5
UK	34.9	32.1	38.2	31.7

* DK without self-employed
Source:
ELFS (y): European Labour Force Survey 1995, authors' calculations
Cited from: Schömann/Kruppe/Oschmiansky 1998
ECHP (y): UDB (Main Activity Status, self-defined), authors' calculations
ECHP (m): UDB (Calendar Information), authors' calculations
ECHP (mm): UDB, (Calendar Information by date of interview), own calculations

In Ireland, which has a high general mobility rate (cf. Table 2.5), only 31 to 41 per cent of newly dependent employed persons were formerly unemployed. Since a high number of youngsters entering the labour market from education, their integration is at the expense of the unemployed.

Denmark, with nearly 30 to 65 per cent, shows the highest variations depending on data source and estimation model. This could not be explained by the missing self-employed in Column 1 (ELFS data). Although Denmark shows the second lowest share of unemployed persons among all transitions into dependent employment using the ELFS, estimates based on the ECHP calendar data result in the highest share. This again has to be seen as a clear advantage of using transition data on monthly intervals instead of comparing the status at two points in time with a gap of more or less one year.

Luxembourg has the lowest share (20 to 34 per cent) entering dependent employment from unemployment. With the lowest general mobility rate, the lowest (re)integration rate and the lowest unemployment rate, this is boosted by vacancies being filled by cross-border workers.

Germany, with 29 to 47 per cent transitions from unemployment into dependent employment, has an average to below-average share. In connection with its low general mobility rate, the effort to reintegrate unemployed persons has to be strengthened if the unemployment rate is to be cut substantially.

Statistics from the Netherlands are only partially comparable due to the missing calendar information. Taking into account the average general mobility rate (Table 3.5), it is obvious from the low share of flow from unemployment into dependent employment (Table 4.1) that groups with other labour force status are mainly used to fill vacancies, namely inactive persons changing into part-time jobs, who afterwards again enter inactivity. This may be one reason for the high share of the long-term unemployed in the Netherlands.

5. Conclusions

In summary, it can be concluded that the dynamic perspective of labour market flows and mobility between different labour market statuses provides a rather vivid illustration of the dynamics of employment and unemployment. This analysis, which provides information on the quality of transitions in the ELFS and ECHP UDB, should be seen as a first step. Linking these results on employment dynamics to socio-economic characteristics must follow in order to identify 'good' and 'bad' transitions in the sense of transitional labour markets (Schmid 1998).

The European Labour Force Survey, which contains some - albeit rather rudimentary - retrospective information, is a good but not adequate information system. The European Community Household Panel with its monthly calendar information is better equipped to enable this reporting system to be developed into an 'early warning system' for the labour market. What is clear is that if the publication of the ECHP findings could be much closer to the year of the survey than it is today, this source of data could be developed into an extremely informative monitoring system. In indicating trends inside the employment system at an early stage and which could, therefore, enable labour market policy-makers to take timely corrective action (on this cf. Auer & Kruppe 1996).

The aim of such a monitoring system would be to permit more detailed and informative analyses and cover, in addition to the flows discussed here, target- or function-group-specific flows such as the flows into and out of long-term unemployment, self-employment, and branch and occupation-specific transitions. Last but not least, the wide coverage of the survey ought to be used to obtain information on the impact of labour market policy measures on the various transitions.

The data set provides indications of gender-related difference in the composition of the flows, so an extension along this dimension is also possible with little additional effort. Unfortunately, other extensions cannot be realised given the small number of cases and the even small number of waves. In order to identify cultural and institutional differences between national employment systems, the employment flows considered here need to be further linked to the structure of participation in active labour market policy measures. Even very crude comparisons between these employment balances and labour market policy participation balances (OECD 1996) show that in the Scandinavian countries, but also in Ireland and France, one of the reasons for the relatively high level of employment transitions are the substantial inflows into labour

market policy measures. At a later stage, with more waves of the ECHP available, a control on the effects of active labour market policy measures would seem possible.

Overall, the ECHP provides more detailed information on transition at comparably less cost than the ELFS, but the latter has more accurate data due to the high number of cases surveyed.

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