# **Employment Security: Conceptual and Statistical Issues**

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## Abstract

As labour markets become more flexible, employment security is negatively affected. Protected formal employment has fallen, and various kinds of non-standard employment have emerged. This paper explores some conceptual and related empirical issues surrounding employment security in the light of recent developments in the labour market. It takes into account subjective and objective elements of employment security, and differentiates between contractual, behavioural and governance indicators at the national, enterprise and individual levels.

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## 1. Introduction

In the last two decades the global labour market has changed profoundly both in its composition and in its dynamics and has become more flexible than before. Growing internationalisation of economic activity has affected the nature and type of labour relations. It has rendered regulation of employment and standards of employment more difficult. Markets are more competitive. Technology is changing rapidly, and with it the organization of work. There are relatively more people engaged in service activities than in manufacturing and agriculture, and relatively more women in the work force than in the past.

Various kinds of employment that differ from full time protected regular wage and salary employment have also emerged. Such employment can be temporary, informal or external. An umbrella term "non-standard employment" is usually used to refer to such employment. There are more and more people in these kinds of non-standard work, more working with non-permanent contracts, and ever increasing numbers of displaced workers.

These changes in the labour market have been accompanied by a general decline of security of employment. Overall, it is generally accepted that

- the trend towards increased labour market flexibility, or easier hiring and firing, has negatively affected employment security (Britton, 1997, Standing, 1999);
- non-standard employment which increases with flexible labour markets has tended to be less secure with lower wages on the average, and laws governing benefits have been increasingly de-linked from such employment (Houseman and Osawa, 2000);
- more women than men are in less secure employment relations;
- workers in the services sector enjoy less employment security than workers in the industrial sector (Buechtamann, 1993) and as employment in services rises, employment security falls.

Recent surveys from some developed countries show that there has been a significant decline in people's perceptions of employment security (OECD, 1997, p. 134). In many developing countries, employment in low-income, unprotected informal activities has increased. Such employment amounts to over 60 per cent of total employment in Africa and Latin America and around 40 to 50 per cent of total employment in developing Asia (du Jeu, 1998).

Reports of increasing incidence of less secure employment, feelings of insecurity in employment and of lay-offs and redundancies also abound in the press (see for example *The Economist*, June 10-16, 2000). Much of this evidence is anecdotal. Some

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<sup>&</sup>lt;sup>1</sup> In Europe, this increase in perception of employment insecurity seems to have accompanied what many have termed employment revival (see for example Auer, 2000, for a discussion on employment revival in Europe in the nineties).

surveys of workers also show that workers in various countries report that employment security ranks as one of the most important qualitative aspects of a job.

Given that employment security is an important dimension of quality of employment and that secure employment is the main means to secure income, the importance of employment security as a socio-economic and statistical concept can hardly be over emphasised.

This paper articulates certain conceptual and statistical issues surrounding employment security. It is an attempt to develop a methodology for evaluating the degree of employment security in the labour market taking into account different dimensions of employment security.

The paper is divided into five sections. The next section covers definitions of employment security and discusses its conceptual underpinnings. Section 3 provides a brief overview of the debate on the relevance of employment security in the present global context, and the importance of employment security as an economic and statistical concept. Section 4 examines in detail the central question of this paper - how to measure employment security. This involves an examination of the objective and subjective elements of employment security, and methods to statistically capture these elements. Section 5 provides a short conclusion.

## 2. Defining employment security

Secure employment is usually understood by the absence of fear of employment loss - that is, not having the threat of loss of employment.

In the literature, employment security generally refers to protection against unfair or unjustified dismissals. According to the most commonly used definition, "employment security means that workers have protection against arbitrary and short-notice dismissal from employment, as well as having long-term contracts of employment and having employment relations that avoid casualisation" (ILO 1995, p. 18). Clearly this definition covers only one category of the labour market - wage and salary workers. It is they who are employed by some legal entity, and are at risk of being dismissed by that legal entity, and can have a stable or unstable employment relation with their employer.

A definition such as the above becomes particularly problematic when a large part of the workforce is self-employed. Self-employment includes a rather heterogeneous group of workers. Employers, own account workers, and various kinds of non-standard workers such as 'independent workers', 'contract workers' etc. fall into the category of self-employed. The above definition of employment security does not apply to these self-employed workers. Nor does it apply to the various kinds of 'non-standard' employment, where there is often an absence of any 'relation' with any one employer. Statistically, these non-standard workers are often taken to be self- employed.

Own account workers, a subset of self-employed workers, form the largest employment group in many countries especially in the developing world. In 1996, 'own account workers' accounted for 35.2 per cent of all employment in Jamaica, 30.8 per cent in Bolivia and Thailand and 42.3 per cent in Pakistan and Indonesia. 24.8 per cent

in Italy and 34.4 per cent in Greece (ILO, 1999). There was also been a marked increase in self-employment in Iceland, Italy, Portugal, Sweden and the UK between 1979 and 1992 (OECD, 1994a, p. 8).

In this context it needs to be noted that part of the reason for exclusion of various kinds of self-employment from the discussion on employment security is the belief that in self-employment, the 'self' is responsible for her/his employment, because the self has voluntarily chosen it. And the 'self' has <u>control</u> over her/his employment and cannot be dismissed by another. Yet, the statistical category termed self-employment may in reality include some categories of disguised wage work, such as sub-contractors, external workers, consultants, or home workers. Further, even if there is no 'control' over one's employment by any single employer, factors such as markets, credit availability and legal provisions, on which self-employed workers have little or no control, may result in their employment loss.

Figure 1 sketches the dynamics of self-employment. Entry into self-employment could take place from different labour market categories - recent entries, unemployed, and previously wage and salary workers. A large part of self-employment is also what is usually best known as 'informal' employment - and entry to such self-employment is often because of lack of other remunerative/protected jobs in the economy. For many informal workers, self-employment, or creating one's own employment, is often the only option because it is characterised by relative 'ease of entry'. Once in self-employment, there are usually shifts from one self-employed activity to another, depending on demand and supply situations.

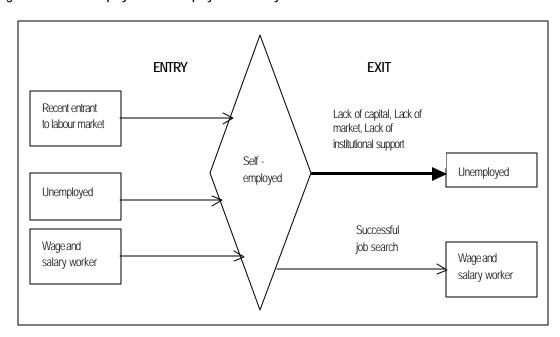


Figure 1. Self-employment and employment security

Security of employment for self-employed workers is dependent on availability of or access to credit to continue or expand business, on the marketability of their products and services, and on the access to skill training to diversify to other work, in case markets for their existing products or services shrink. Employment security of these

workers also depends on the availability of space where they can carry out their activity. In the absence of these, there may be exit from self-employment to unemployment, or from one kind of self-employment activity to another. In some cases successful job search may lead to a move to wage or salary work.

In this paper, taking self-employment into account, employment security is defined simply as protection against loss of employment. It means the ensured possibility of continuing employment, even though it need not be in the same job. It is, in other words, the security of an institutional framework for continuing employment.

Employment security, like other aspects of socio-economic security, has both subjective and objective elements. "Thus an objective indicator of employment security is the proportion of the employed with stable or regular contracts of employment; a subjective indicator is the reported expression of belief that employment continuity is assured" (Standing, 1999, p. 168).

Objective indicators of employment security generally relate to labour market characteristics and the legal and institutional environment ensuring continuing employment. These would depend on behavioural factors, contractual factors and governance factors which <u>influence</u> inflows and outflows from employment to unemployment, and the rate of turnover of new employment (Standing, 1999, p. 170).

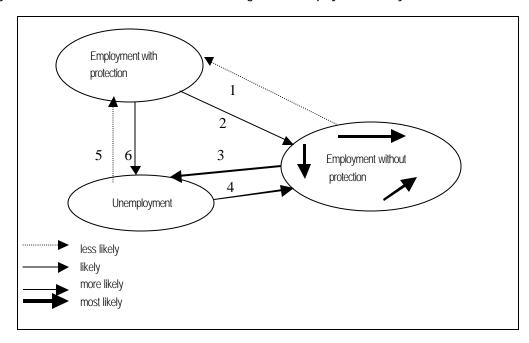
To illustrate this graphically, the labour market is viewed as comprising three sets of workers - workers in protected employment, workers in unprotected employment, and unemployed workers (Figure 2). Protected employment is employment that is legally protected against arbitrary dismissal and is likely to continue. Unprotected employment includes work of a limited, or uncertain duration or where there is no legal support to continuing employment. This is discussed further in section 3.1. From each of these groups, there can be an exit to inactivity, but we do not consider that option in this context<sup>3</sup>. Each of these labour market movements is likely to have an impact on employment security. The movement back and forth from unprotected employment to unemployment (lines 3 and 4), and the movement from employment with protection to employment without protection, as shown by lines 2 and 6, are likely to lead to a decline in employment security. Though it is possible that there is a movement from protected employment to unemployment and back to protected employment, it can be intuitively argued that this is a less likely scenario, because by definition protected employment has a lower likelihood of employment loss. Instead the back and forth movements from unprotected employment to unemployment is more likely. In situations where a country does not have a system of unemployment benefits, the movement between unemployment and unprotected employment is indeed more frequent, and the incidence of unprotected employment stronger. Employment security will also be lower if flows within the category unprotected employment increases, as depicted by the dark arrows.

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<sup>&</sup>lt;sup>2</sup> This is particularly important for self-employed workers such as street vendors, who often face the threat of being forcibly moved from their work place, because they may not have any legal right to work in a public place.

<sup>&</sup>lt;sup>3</sup> The difference between unemployed workers and inactive workers is that the former are searching for work, but failing to find work, whereas the latter are not involved in active job search.

Figure 2. Movements across labour market categories and employment security



Perceptions of employment security are not merely a function of actual level of unemployment even though it might be true that when overall unemployment rates are high, the fear that one might lose one's job is also high. Subjective perceptions of security relate to the subjective experiences of individual workers of their employment and their continuing employment. As Stock (2000, p. 3) notes, subjective notions of employment security, "representations of the social environment which mediate responses to objective changes in the situation", are extremely important.

Employment security is different from 'job security'. Job security is the security of being employed in a job, or occupation that justifies a worker's qualifications and skills. Employment security also differs from income security to the extent that income security need not be solely employment based. Income security could depend on transfers from the state, firms or families. Therefore it is possible to have employment security, but not job security, and income security but not employment security. On the other hand, if one has employment, one has access to income. But the question is, what kind of income? Is it 'decent' employment that provides a 'decent' income? In spite of distinctions between different kinds of security, it is clear that employment security and income security are correlated.

Employment security is also correlated to representation security. Though it is possible for any group of workers to organize and make their voice heard, voice representation is generally more difficult for workers in non-standard employment. There is generally less evidence that temporary, part-time and non-regular workers such as home workers or casual workers are members of workers unions, or have any other form of representation organisations. There is also a barrier to unionisation in informal

employment in developing countries, though certain innovative forms of voice representation have been successful in some cases.<sup>4</sup>

## 3. Why employment security is important

The debate on employment security versus labour flexibility has been widespread and passionate. It has been shaped by the ideological agenda. The neo-liberal literature, for example, has discussed in great detail the costs of institutional employment security provisions, through employment protection laws, which relate to hiring and firing and rules governing unfair dismissals. From the employers' perspective, employment security is a constraint variable that interferes with the firm's efficient working. Employment flexibility, on the other hand, allows greater leverage to adjust firms' production according to the market - which includes demand for products, technology and competition. The actual impact of flexible labour markets on total employment has been debated (Buchele and Christiansen, 1998, pp.123-125). Some have argued that employment flexibility might allow greater employment (Cranefield Network, 1997). However, there is an unambiguous inverse relationship between employment flexibility and employment security, at least in the medium term. This is evident from some recent surveys in developed countries conducted during a period of increased labour market flexibility that showed that employment insecurity has increased (OECD, 1979, p. 134). In the long term it is also possible that sustained flexibility might make workers 'expect' less security.

The main cause of increased flexibility is therefore usually attributed to 'economic push' - organizations have been forced to change employment practices in the face of increased competition, fluctuations in demand, technological change and volatile markets (Atkinson 1985, Piore and Sabel 1985, Boyer 1989, Harvey 1989, Harvey 1991). As one report puts it "the people that an organisation employs are, in nearly all cases, the most expensive item of their operating costs. There is increasing pressure on such costs" (Cranefield Network, 1997, p. 30). Employment flexibility is a pragmatic managerial response to such problems (Bagguley 1991, p. 153). Easy 'hiring and firing' favours new ideas, new skills and new approaches to work (OECD, 1994a, p. 175).

Market considerations have thus dictated legal provisions with respect to employment security. Some have gone as far as to argue that by raising the costs of workforce reduction, employment protection laws impair allocative efficiency of labour markets and therefore lead to loss of societal welfare (Posner, 1984).

There are however, important arguments in favour of employment security. Employment security is the main means to income security. It enhances worker welfare. International human rights instruments broadly acknowledge the right to protection against employment loss. According to Article 23 of the Universal Declaration of Human Rights, 1948, it is the right of all persons "to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment".

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<sup>&</sup>lt;sup>4</sup> Examples of successful unions of informal women workers are the Self-employed Women's Union, South Africa and the Working Women's Forum, and the Self-employed Women's Association, India.

Employment security is especially important in developing economies that do not have a system of unemployment benefit. Loss of employment in such situations leads to loss of income, and loss of livelihood. This may mean hunger and misery not only for the person losing his employment but his or her family and dependents, as fall back options beyond the community and family networks are few.

Over and above these arguments based on workers' rights and protection against loss of employment as a human right, employment protection encourages stable employment relationships that create an atmosphere of macroeconomic stability. Secure employment means stable employment relations that encourage investment in worker training and skill development and which in turn increases the commitment and motivation of workers, and the productivity of the firm. Security of employment can also lead to increase in worker loyalty and discipline (Sengenberger, 1992). At a macroeconomic level Bertola (1990) argues that aggregate employment levels are less cyclical in countries with high employment security, and little non-standard employment. That is, less flexible labour markets react less strongly to macro-economic shocks, and are more likely to preserve overall stability.

However, "if a flexible labour market is essential economically, and if employment protection is an impediment to flexibility, then as long as other forms of security are provided, employment security is surely a tradable right" (Standing, 1999, p. 184). In other words, it is argued that if it is possible to provide basic income security for all citizens, then employment insecurity need not be a priority and perceptions of employment insecurity may even change because other coping methods may then be available.

A basic income or citizen's income would definitely reconcile the conflict between economic efficiency and social justice. This approach, nevertheless, overlooks the non-pecuniary benefits of employment - the sense of social participation that it provides, and the psychological effects on self-confidence and self-respect that employment brings. Further, while the implementation of such a policy is a challenge for all countries, this is especially so for poorer countries.

For those on both sides of this debate, employment security is an important dimension of the labour market and its dynamics. Further, it is an important aspect of workers perceptions and expectations of their employment. Therefore, an examination of the methods of empirically representing employment security will now follow the foregoing presentation of the conceptual issues involved.

## 4. Indicators of employment security

Based on the definition of employment security used in section 2, this section seeks to provide a method for measuring employment security - or the security of protection against employment loss.

Objective indicators of employment security relate to labour market characteristics, contractual characteristics and governance characteristics. Standing (1999) characterizes them as behavioural indicators, contractual indicators and governance indicators. Subjective perceptions of employment security are influenced to an extent by these objective conditions. But it is possible that subjective perceptions differ from objective

conditions, because workers' expectations may depend on a variety of other factors as well. They may be determined by "a complex mix of objective and subjective considerations" (OECD, 1997, p. 129).

Further, employment security may be assessed at three levels - national or macro level, enterprise or meso level and individual or micro level. At the individual level there are both subjective and objective indicators of employment security - part quantifiable and part non-quantifiable.

Figure 3 presents objective indicators of employment security in the form of a matrix. The horizontal axis shows the three types of objective indicators - behavioural, contractual and governance. The vertical axis indicates three levels of employment security - the national level, the enterprise level and the individual level. Figure 4 shows the subjective indicators of employment security that relate to the individual level only.

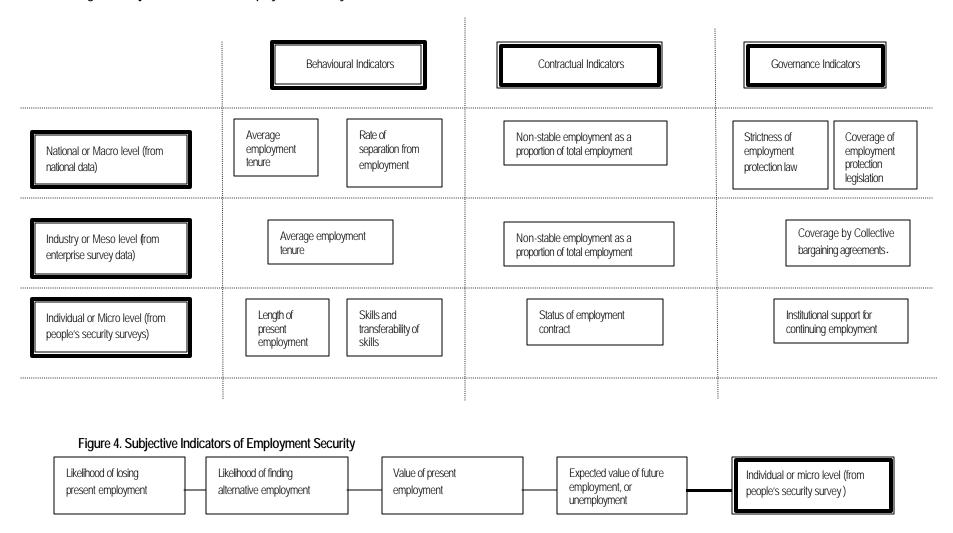
Once indicators of employment security are identified, each indicator needs to be quantified. Qualitative indicators need to be given normative value. For example for an indicator such as 'strictness' of employment protection law, more strictness may be deemed to be better than less 'strictness' and values may be assigned to this indicator, taking into account the institutional and economic context. This quantified matrix can then be used to calculate single employment security indicators at each of the three levels, assuming that the three categories of indicators - behavioural, contractual and governance - have equal weights.

Further, each indicator needs to be disaggregated by gender. Objective employment security of women workers and men workers are likely to be different because of the different experience women have from men. More women relative to men tend to be in non-standard employment. Perceptions of employment security, or subjective employment security is also likely to be different between women and men depending on the value attached to present employment and available coping methods on loss of present employment.

Normally, macro level employment insecurity will reinforce insecurity at the industry and individual levels. For example, in times of macro economic crisis, the provision of enterprise employment security may become a problem, and there may be a rise in non-stable employment contracts as well as a rise in individual perception of employment insecurity. The three levels of employment security are therefore related. It is unlikely though that they have a clear linear relationship and that macro level employment security is an aggregation of individual level or industry level indicators. The exact relationship between the indicators at the three levels merit further exploration.

Indicators at the macro level of employment security can be created from national level data, those at the industry level from enterprise level statistics and perceptions at the individual level from surveys of workers. The next section of the paper discusses each of the indicators in greater detail.

Figure 3. Objective indicators of employment security



### 4.1 Indicators at the national or macro level

The state of the economy, the rate of growth of GDP, the rate of growth of employment, and income distribution are all likely to determine the level of employment security at the macro level. In general, people feel more insecure about their employment if there is a high rate of unemployment or underemployment.

During recessionary conditions when workers are being laid off, a large proportion of workers are in low-income, irregular, informal employment, in non-permanent contracts or non-stable employment contracts, thus overall employment security would be lower than in a situation where the economy is growing, new jobs are being created and unemployment is low. Macro level employment security, is therefore, the "availability of employment opportunities in the economy as a whole" (Buechtemann 1993, p. 6).

### **Behavioural Indicators**

Behavioural indicators relate to certain behavioural characteristics in the labour market such as average length of employment, rate of separation from employment or rate of labour turnover in the economy. These indicators in other words represent a measure of stability of employment. Long average length of employment is statistically taken to imply employment security, though it is possible that individual workers may face severe uncertainty about the continuation of their employment, even if they have stable employment. Nevertheless, for the purpose of statistically representing employment security, it may be useful to conceptualise the objective element in employment security in terms of stability. Accordingly there can be two kinds of behavioural indicators:

- Rate of separation from employment This variable refers to number of 'quits' from employment. These could refer to dismissals, lay-offs, or voluntary quits. When the rate of separation is high, employment stability is lower, and so would be the level of employment security. It may also be useful to examine these rates for different gender and occupational groups and different age cohorts. The available data of separation rate refers to only wage and salary workers. Downsizing by firms, lay offs, and closing down of firms increases the number of 'quits' in wage and salary employment.
- Average length of employment The longer the average length of employment, the greater the stability in employment, and the higher the level of employment security. However, data on length of employment is less easily available than length of tenure, tenure being defined as 'length of employment with particular employer'. The former is a better indicator of employment security because even if one loses employment with one employer, as long as there are other comparable employment opportunities available, and one is employed, there is security of continuing employment. Short employment tenures, but continuous employment is, however, a less likely possibility though in certain high skill workers in the corporate sector this may indeed be the case. In most cases loss of employment with one employer is usually followed by a period of unemployment. Further existing data on employment tenure, because of the way employment tenure is

defined, apply to wage and salary workers. However, in the absence of data on average length of employment, average employment tenure, for which data is more easily available, is often used as an indicator of employment security. The distribution of tenure, and average tenure are used to compare the extent of employment stability across occupations, industries and countries. Countries that have more temporary employment and casual employment are likely to have shorter average employment tenures.

However, data on average length of employment needs to be adjusted for the effects of business cycles, because of their likely influence on the turnover rate. Further, it is important to study average tenures for different age cohorts, or to control for age in order to get the real picture of employment stability amongst different age cohorts. Average employment tenures are also likely to vary by occupational status and gender.

### Contractual indicators

These indicators are constructed with the purpose of calculating the proportion of employment with non-stable contracts, or non-regular contracts. In other words, these would be indictors of non-stable employment:

Rate of employment in small enterprises - This is the percentage of employment in small enterprises as a percentage of total employment. Small enterprises can be registered or non-registered. Small enterprises that employ less than 10 workers are often non-registered, and are referred to as informal enterprises. A large part of these are own account enterprises (self-employed). Most of these enterprises face intense competition and have high birth and mortality rates. It is generally true that employment in small enterprises, especially in informal enterprises, is non-stable employment, often with no proper written contracts.

Data on employment in small enterprises are usually available from national and industrial statistics, national economic censuses or labour force surveys.<sup>5</sup> However this indicator of employment security needs to be used in a specific context - where economic conditions result in high turnover rates of small enterprises.

Non-standard employment - This is statistically a somewhat unclear subject. We use the umbrella term non-standard here, but various other names have been used: 'atypical', 'precarious', 'contingent', 'temporary', 'casual', 'informal' 'unprotected' and 'vulnerable'. Not all of these terms refer to the same concept, though they are all different from what is usually standard full time protected formal sector employment (Figure 5).

In the International Congress on Labour Law and Social Security, held in Caracas in 1985, 'precarious employment' was one of the central themes, but it was used

<sup>&</sup>lt;sup>5</sup> Definitions of 'small' enterprises differ amongst countries. In general, 'small' enterprises are taken to be those, which employ less than 50 to 100 employees, and informal enterprise that employ less than 5 or 10 workers.

interchangeably with 'atypical' and 'vulnerable' employment and was defined as "that type of employment that is not typical or, normal. The latter is a full time job to be done for one and only identifiable employer for an indefinite term of duration" Pok (1999, p.10). According to this definition, 'precarious' employment can include informal employment, part time employment and all kinds of temporary employment. However, part-time employment may have access to benefits and might be covered by labour law, if it is regular part-time employment.

Another term that has been used in the literature to describe non-standard employment is 'contingent' employment. According to Osterman (2000), this group covers the following:

- a) Independent contractors workers who are identified as independent contractors, independent consultants, freelance workers, whether they are self-employed or wage and salary workers.
- b) On call workers workers who are called to work only as needed.
- c) Temporary help agency workers workers who are paid by temporary help agencies.
- d) Contract workers workers employed by a company for a specific job. This could be a small manufacturing enterprise (SME), or an informal sector firm.

All these categories are by definition 'temporary' employment. Eurostat (1996) has a slightly different definition of temporary employment though there are some overlaps between the categories. Categories (a) and (b) below for example are included in category (d) above:

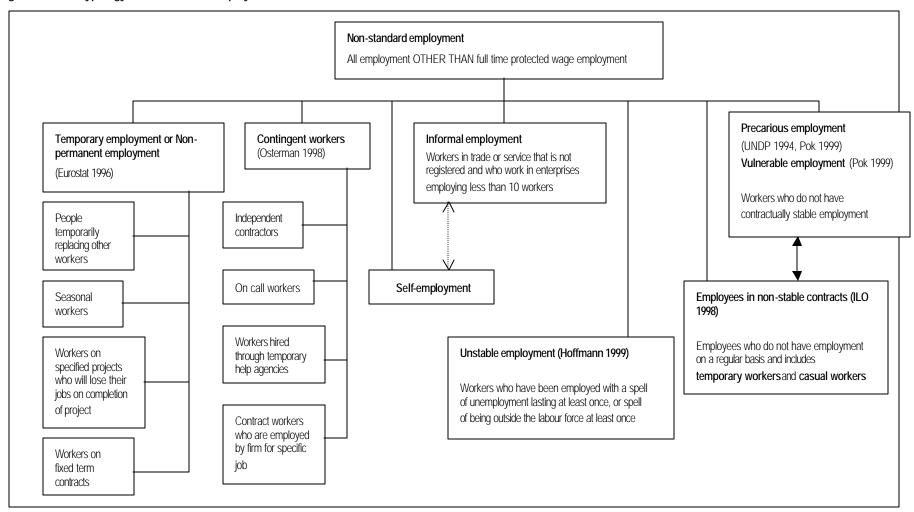
- a) people who are temporarily replacing another worker
- b) seasonal workers
- c) workers working on a specified project who will lose their job when the project ends
- d) workers on fixed term contracts.

Other kinds of non-standard employment are self-employment, a large part of which is informal employment.

Hoffmann (1999) proposes another typology of 'pattern of activities during the year t', which includes 'unstable' employment and mobile employment. These are:

- a) Stable employment This applies to those who have been employed for the whole period at the same job
- b) Mobile employment This applies to those who have been employed the whole period but have changed jobs, or industry or occupation at least once during the period.
- c) Unstable employment This applies to those who have been employed, with a spell of unemployment lasting at least once, or a spell of being outside the labour force at least once during the period under consideration.

Figure 5. A typology of non-standard employment



'Unstable' employment has been of recent interest to capitalist industrialized countries. Though unstable employment is not a 'new' concept in many developing countries, it has certainly increased in the form of informal or casual employment in the recent years. However, precise data on 'unstable' employment is difficult to find. Not all jobs, which are non-permanent, may be non-regular, or precarious. It is difficult to find data on non-regular, non-permanent jobs.

The European Union has given this category of statistics some importance in recent years. A variable 'permanency of job' is used that refers to employment that is "...temporary if it is understood by both employer and employee that the termination of the job is determined by objective conditions such as reaching a certain date (temporary work), completion date (external work) or return of another employee who has been temporarily replaced..... to be included in these groups are also the following

- a) persons with seasonal jobs
- b) persons engaged with an employment agency or business and hired out to a third party for carrying out of a 'work mission' of limited duration
- c) persons with specific training contracts" (Eurostat, 1996, p. 65).

Another statistic that is used (provided by Eurostat and National statistical organizations of Europe) is the proportion of the workforce that has fixed-term employment. By this measure, 35.2 per cent of the workforce was temporarily employed in September 1995 in Spain; and 84 per cent of all jobs created in France between March 1994 and March 1995 were 'temporary' jobs (Cranefield Network, 1997, p. 11)

Non-standard employment may also be measured by using data on employment status. The distribution of employment by status provides a clearer way of looking at non-stable employment. The International Classification on Status in Employment (ICSE) 1993, gives the following categories of status:

## a) Employees

- Employees with stable contracts or regular employees. These workers have had, and continue to have, an explicit (written or oral) or implicit contract of employment, or a succession of such contracts with the same employer on a continuous basis.<sup>6</sup>
- Employees who do not have employment on a regular basis, for instance temporary workers or casual workers.

### b) Self-employed

 Workers who on a continuous basis employ others to work for them. It is likely that many such employers do not have their business registered, and these small enterprises are more likely

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<sup>&</sup>lt;sup>6</sup> On a continuous basis implies a period of employment, which is longer than a specified minimum determined according to national circumstances.

- to close down. However, it is difficult to say what would be the employment security of this status.
- Own account workers. This group is large in most developing countries that do not have unemployment benefits scheme. This employment is also highly irregular, and may vary with months or seasons.
- c) Unpaid family workers. Those who work in a market oriented establishment operated by a related person living in the same household. Though they are 'unpaid' they contribute to the family income and their survival depends on their continued employment.

In general, it can be argued that employees who do not have stable contracts, and self-employed without employees are employment statuses that are likely to be characterized by non-stable employment. If the proportion of non-stable defined in this way is high in a particular country in a particular year, it implies greater employment insecurity.

Contractual indicators of employment security at the macro level are probably the most challenging as far as data is concerned. This section provides an overview of the various alternative ways of measuring contractual employment security at the macro level based on the various definitions of non-standard employment and existing data on such employment that is currently available.

#### Governance indicators

Governance indicators are designed to reflect provisions within the overall legal framework that ensure various forms of employment protection. Employment legislation relates to workers' entitlements such as right to participate in the arbitration process, the right to join trade unions, and the right to protection from unfair dismissals. This last 'right' however is not universal, and some developed countries such as Austria, Belgium, Denmark and the USA do not recognise such a right. Because of its economic and social implications, this right has become one of the most sensitive issues in labour law today. "Protection against dismissal is seen by workers is seen as crucial since its absence can be lead to dire economic consequences in most countries" (ILO 2000, p. 8). The 'strictness' of employment legislation is one indicator and the percentages of total employed that are covered by legislation and regulations are another basic governance indicator.

<u>'Strictness' of employment protection laws</u>: The issue of substantive and procedural fairness is at the core of the labour protection legislation at the national level. Employment protection is a complex phenomenon and employment law relates to several aspects of protection, the most common of which are the following:

- ruling out dismissal in case of illness or pregnancy of worker;
- ruling out dismissal on grounds of age, gender, ethnic background or political views;
- giving adequate notice to an employee dismissed for misconduct (defined usually as dishonesty, gross or repeated instances of insolence, sexual harassment, unprovoked assault and intimidation). It is up to the employer to

prove legally that the employee did indeed misbehave. This notice period varies across countries;

- o providing for appeal in case of unfair dismissals;
- o penalizing non-compliance with the law.

Data on national legislations for protecting workers against arbitrary dismissals can be found in the employment law, or labour codes of individual countries. Normally, employment protection law applies to standard employment and those employees hired on a short-term basis can be dismissed, or their contract not renewed. Most countries extend standard employment protection to short term or fixed term contracts, after a certain period of tenure. However this is often sidestepped by hiring from employment agencies, or by using self-employed subcontractors or consultants.

Employment protection laws of most countries rule out dismissal on grounds of race, colour, sex or disability. But laws vary in terms of what is 'just dismissal' and what is not. The USA Federal Law on employment protection simply states that dismissals are possible for 'good causes'.

Table 1. Employment Protection Law - the case of Germany and USA

Germany	Kuendigungsschutzgesetz (All full time employees)
	1) Employees are protected against dismissal on grounds of sex, origin, race, language, national origin, colour, creed, religious and political beliefs, trade union membership, industrial action, marital status, sexual orientation, age, pregnancy, completing military or community services, disability, taking parental leave. Protection is based on socially unjustified dismissal (a minimum of 6 months employment tenure required).
	Employers are obliged to provide burden of proof. Justified dismissals apply if obligations are breached, plant regulations or collateral contractual obligations are violated, f economic necessity requires rationalization or if for operational reasons employees are made redundant.
	3) Notice must be given in accordance with employment duration: Up to 2 years = 4 weeks, between 25 years = 1 month, 510 years = 2 months, 10 – 20 years = 4 months, more than 20 years = 4 months.
	4) Severance must be paid equal to 1 year of employment. Beyond the age of 50 and where 20 years of employment apply, an employee is entitled to 18 months of severance pay- compensation entitlement.
	5) Employees can appeal against unfair dismissal after 1 week to works councils and, if necessary after 3 weeks of receiving notification of dismissal, to a labour court for a final ruling.
USA	Federal Labour Law (Federal employees)
	Dismissal on grounds of national origin, sex, colour, physical disability, pregnancy, race, or trade union affiliation is prohibited. Open-ended employment relationships can only be terminated, if both parties agree on restrictions or state law prohibits discrimination.
	2) Dismissals are permitted on the grounds of "good causes".
	3) Notice: no statutory provisions.
	<ol> <li>Severance pay is only granted under collective bargaining agreements (no state responsibility), if any. Most large employers do grant redundancy for employees for economic reasons.</li> </ol>
	5) In the absence of institutional mechanisms, appeals for revisions can only made in accordance with individual statutes and the proceedings listed therein.
Cauras (II O. 2000)	l

Source (ILO, 2000).

It does not provide a statutory period of notice for dismissals. In contrast, in Germany, employers need to provide proof that dismissal is indeed just and they have to give advance notice to to-be-dismissed-employees. The notice period varies, from one month for those employed for 2 - 5 years to 4 months for those having worked for nore than 10 years (Table 1).

Using these different aspects of labour legislation relating to protection against termination of employment, indicators of 'strictness' of employment protection laws have been designed for some OECD countries (see Grubb and Wells, 1994, Standing, 1988, Standing 1990). These indicators usually relate to protection against dismissals of regular workers, notice period for dismissals and severance pay etc. Table 2, from OECD (1994) ranks employment protection strictness in terms of regular procedural inconveniences, notice and severance pay and difficulty of dismissal. The table shows that in terms of overall ranking for strictness of protection against dismissals, the southern European countries, such as Italy, Greece, Portugal and Spain, as well as Austria, scored high, whereas Switzerland and the UK rank low.

It is often argued that the realities of increasing competition, have often led to deregulation. In the words of one author:

In the beginning, (in Japan) labour related regulations were regarded as social regulations, and thus were beyond the scope of the deregulation campaigns. However, faced with tardy recovery from business slump after the bubble boom, it was thought that the inactive external labour market was impeding the flow of workers from declining industries to emerging new businesses and slowing the restructuring of the economy. .... Traditionally, restricting dismissals was the employees' safety net. In the era of restructuring, where dismissals are inevitable, an active labour market which can provide the unemployed with suitable new employment opportunities swiftly and smoothly functions as a safety net...In response to these factors the Employment Security Law of 1947 and the Worker Dispatching Law of 1985 were drastically modified (in 1999) (Araki, 1999).

<u>Coverage of employment security laws</u>. It is not enough to have employment protection laws. Equally important is the proportion of the workforce covered by such laws. Overall enforcement of employment protection is influenced by the extent of coverage of such protective measures. The following features are therefore important:

- Proportion of total workforce that are covered by these laws
- Sectors to which these laws apply
- Work status covered by these laws
- Age groups covered by these laws
- Size of establishment covered by these laws

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<sup>&</sup>lt;sup>7</sup> The notes to Table 2 explain the method used for assigning scores to the three indicators of 'strictness' of employment protection legislation.

Table 2. Indicators of the "strictness" of employment protection legislation (EPL)

	Regular procedural inconveniences		and seve It individu									Overall		
	Procedures	Delay to start of notice		e period a 4 yrs	after 20 yrs	Sever 9m	ance pay 4 yrs	after 20yrs	Definition of unfair dismissals	Trial period	At 20 yrs	Reinstatement	ranking for strictness of protection	
	Scale 0-3	Days		Months			Months		Scale 0-3	Mon	ths	Scale 0-3	1	
Portugal	2.0	17.0	0.8	2.0	9.1	0.2	1.7	9.3	3.0	1.0	20.0	3.0	16.0	
Spain	2.25	40.0	1.0	3.0	3.0	0.2	1.3	6.0	2.0	1.7	35.0	0.0	15.0	
Italy	1.5	0.0	0.3	1.1	2.2	0.7	3.5	18.0	0.0	0.8	32.5	3.0	14.0	
Austria	2.0	5.0	0.8	1.2	2.5	0.0	2.0	9.0	1.0	1.0	9.0	1.0	13.0	
Greece	2.0	1.0	0.6	1.7	9.0	0.3	0.9	4.6	1.0	2.0	9.0	2.0	12.0	
Sweden	2.0	7.0	1.0	4.0	6.0	0.0	0.0	0.0	1.0	6.0	32.0	0.0	11.0	
Finland	2.0	56.0	2.0	2.0	6.0	0.0	0.0	0.0	0.0	4.0	20.0	0.1	9.5	
Germany	3.0	10.0	1.0	1.0	4.5	0.0	0.0	0.0	2.0	6.0	18.0	2.0	9.5	
Norway	1.5	3.0	1.0	2.0	5.0	0.0	0.0	0.0	2.0	1.0	15.0	2.0	8.0	
Netherlands	3.0	35.0	0.6	1.0	5.3	0.0	0.0	0.0	1.0	2.0	5.3	1.0	7.0	
France	1.5	12.0	1.0	2.0	2.0	0.0	0.4	2.7	0.0	1.2	15.0	0.0	6.0	
Belgium	1.0	3.0	2.0	3.6	11.4	0.0	0.0	0.0	0.0	3.3	12.5	0.0	5.0	
Denmark	0.5	0.0	1.6	2.8	5.0	0.0	0.0	1.5	0.0	3.0	9.0	1.0	4.0	
Ireland	1.5	3.0	0.2	0.5	2.0	0.0	0.5	3.9	0.0	12.0	24.0	1.0	3.0	
United Kingdom	1.0	3.0	0.2	0.7	2.8	0.0	0.9	4.6	0.0	24.0	10.8	0.0	2.0	
Switzerland	0.5	1.0	1.0	2.0	3.0	0.0	0.0	0.0	0.0	3.0	3.0	0.0	1.0	

Notes: This table shows the situation in 1980. Rankings increase with the strictness of employment protection. The variables tabulated under each key are as follows:

**Procedure-** procedures to be followed when issuing a regular dismissal notice; 1 for a statement in writing to the employee of reasons for dismissal, 2 for notification to a third party (work councils or local employment exchange), and 3 when prior permission for dismissal must be obtained from the third party.

Delay to start of notice-the delay between a decision to dismiss and the time that notice can become effective after following required procedures in days (e.g. notification by registered letter is assumed to take 3 days).

Notice period 9m, 4y, 20y - the lapse between issuance of a dismissal notice and the effective cessation of employment in months. This column refers to who have been with the employer for 9 months, 4 years and 20 years.

Severance pay 9m, 4y, 20y – a lump sum payment to the dismissed employee at the time of cessation of employment: the three columns differ as for notice period above.

**Definition of unfair dismissal** – scored 0 when workers capability or redundancy of the job are adequate grounds for dismissal, 1 when social considerations, age or job tenure must, when possible, influence the chose of which worker to dismiss, and 3 when worker capability can never be a basis for dismissal.

Trial period - the maximum length of the period after hiring during which an appeal against dismissal on grounds of unfairness cannot be made.

Compensation at 20y – the compensation payable to a worker who has been unfairly dismissed after 20 years. with the employer.

Reinstatement – scored 0 if following a court's judgement of unfair dismissal, reinstatement is never granted, 1 if reinstatement is 'rare', and 2 if reinstatement is 'possible' and 3 if the employee always has the option of reinstatement.

Source: OECD (1994b) pp.70-71

Data on coverage of employment protection law is not easily available. A proxy for this, namely, the percentage of people covered by collective bargaining agreements and rates of unionisation can instead be used. Table 3 lists coverage measured in terms of collective bargaining and unionisation in 23 countries from different parts of the world. It shows that there is tremendous variation amongst countries in terms of extent of workers covered by protective laws. In Indonesia and Thailand only 2.6 per cent and 4.2 per cent respectively of wage and salary workers are unionised (and wage and salary workers are a small proportion of total workforce) while Russia is at the other extreme with 74.8 per cent unionised. Coverage by collective bargaining is probably a better indicator in this context, but data on coverage by collective bargaining rates is available for far fewer countries as the first column shows. In Germany 90 per cent of wage and salary workers are covered by collective bargaining agreements.

It is important to note that 'strictness' and coverage of employment protection law as governance indicators of employment security at the macro level are limited by definition to wage and salary employment.

Table 3. Coverage of employment protection law in selected countries

Country	Coverage measured by bargaining coverage rate and salary workers (%)		Coverage measured by rate of unionisation of wage and salary workers (%)		
Argentina	72.9	(1995)	38.7	(1995)	
Bangladesh	na		7.5	(1995)	
Bolivia	11.1	(1994)	59.7	(1994)	
Brazil	n.a		43.5	(1991)	
Bulgaria	n.a		58.2	(1993)	
Canada	37		33.4	(1998)	
China	15.1	(1995)	70	(1995)	
Egypt	n.a		38.3	(1995)	
Germany	90	(1996)	28.9	(1995)	
Hungary	45	(1995)	60	(1995)	
India	Less than 2% (as percenta sector wage earners)	age of formal	22.8	(1991)	
Indonesia	n.a		2.6	(1995)	
Japan	25	(1994)	24	(1995)	
Jordan	n.a		24	(1995)	
Mexico	n.a		42.8	(1991)	
Nigeria	40	(1995)	17.2	(1990)	
Poland	n.a		33.8	(1995)	
Russian Federation	n.a		74.8	(1996)	
South Africa	n.a		40.9	(1995)	
South Korea	n.a		12.7	(1995)	
Thailand	26.7	(1995)	4.2	(1995)	
UK	25.6	(1994)	32.9	(1995)	
USA	n.a		14.2	(1995)	

Source (ILO, 1998).

## 4.2 Indicators at the enterprise or meso level

Employment security at the enterprise level is conceptually nearest to the traditional definition of employment security as protection from 'arbitrary dismissals' or 'hiring and firing' (Buechtmann, 1993). To that extent enterprise level employment security relates mainly to those who are in wage and salary work, and who can be hired or fired by the employing authority. Enterprise level employment security may involve internal reassignments, change in the exact nature of job performed, as well as change in pay. This latter, in fact, has been quite frequent in the Japanese system, and Hashimoto (1990) has argued that enterprise level employment security and job security are inversely related.

Enterprise level employment security lies at the heart of the existing debate on employment security and economic efficiency. As noted earlier, the general climate under which firms operate such as the overall macroeconomic situation, institutional measures for labour protection, as well as some factors that are to do with the corporate philosophy of the firm, its perceived competitiveness with other firms producing similar goods or services and size of the firm are important variables affecting employment security at the enterprise level. Data relating to indicators of employment security at the enterprise level can be collected from enterprise surveys.

The viability of the firm is an extremely important aspect of enterprise level employment security because if the firm is likely to be 'merged' with another, or closed down then some or all workers in that firm are likely to lose their employment.

Corporate philosophy is another important determinant of employment security. The corporate philosophy of the firm can be based on the following notions:

- a) 'right to life-time employment', implying a relation between employer and employee that is long lasting, though this may be achieved by concessions to job security. This is generally associated with the Japanese system.
- b) high performance work philosophy where economic efficiency dictates. There is usually a small protected work force, and production is adjusted by bringing in non-standard employment as and when required.
- c) 'corporate paternalism' that requires workers to be loyal and committed in exchange for employment security.

The first notion is characterized by greater employment security. In the second, there is no employment security for the large non-standard workforce. In the third, employment security depends on how the firm defines 'loyalty'.

Indicators of employment security at the firm level can be categorised into behavioural indicators, contractual indicators and governance indicators.

#### Behavioural indicators

Average tenure of employment in a firm is an important micro level indicator of employment security. This average needs to be calculated on the basis of all employees - regular as well as non-regular. The longer the average tenure of employment, the greater the stability of employment.

#### Contractual indicators

As noted earlier non-stable employment covers temporary workers, subcontractors, external workers, casual workers and seasonal workers. It is necessary to have information on what proportion of the workforce during the reference year in the firm are

- a) regular full-time
- b) regular part-time
- c) non-regular part-time
- d) temporary
- e) subcontractors
- f) workers hired through agency
- g) unpaid family workers
- h) casual workers

The first two categories constitute stable employment at the firm level. Non-stable employment is measured by the proportion of workers in categories c) to h) in proportion to all workers. If the proportion is high on the average, then the firm offers relatively low employment security.

#### Governance indicators

If a high proportion of workers are unionised, or if all workers in the firm are covered by collective bargaining agreements that pertain to 'hiring and firing', then there is likely to be greater employment security in the firm. Relevant data for this indicator is therefore the proportion of total workers in the enterprise who are unionised, or who are covered by collective bargaining agreements.

### 4.3 Indicators at the individual or micro level

Data on employment security at the individual level can be gathered from surveys of workers.<sup>8</sup> At the individual level there can be two sets of indicators:

- a) subjective indicators of employment security, which measure perception of employment security
- b) objective criteria of employment security such as length of employment, nature of skills, and extent of institutional support for continuing employment.

## Subjective indicators of employment security

An individual's perception of employment security is his feeling about the likeliness of his continuing employment. Feelings of security relate to a wide range of labour market developments, which includes the expected threat of job loss. Some

<sup>&</sup>lt;sup>8</sup> As example of this, the InFocus Programme on Socio-Economic Security initiated People's Security Surveys. These surveys gather information on people's perception of employment security, as well as objective indicators of employment security.

studies in psychology have used in-depth interviews to identify uncertainty as a major component in the experience of employment insecurity. It has been argued that employment insecurity is a question of what people perceive, and how these perceptions are reflected into attitudinal responses, in terms of the *threat X powerlessness* model of psychology. "The concern with regularity and control informs the centrepiece of this model" (Stock, 2000, p. 5). The essential elements of this model are

- a) perceptions of threat of employment loss
- b) perceptions of power or powerlessness to cope with that loss

The severity of employment loss depends on the seriousness of the outcome to the person, the transferability of skills that the person possesses, and the degree to which unemployment might cause problems. Perceptions of power or powerlessness involve the person's judgements about his or her ability to control the situation. Variables that are important in this context are therefore the individual's perception of employment loss, the individual's expected situation were she to lose this employment, and coping methods available to the individual to deal with the changed situation. In economic terms one can translate these into the following indicators:

- a) perception of likelihood of losing present employment
- b) perception of likelihood of finding alternative employment
- c) perception of value of present employment
- d) expected value of new employment, or unemployment as the case may be

## Objective indicators of employment security

Objective employment security indicators at the individual level can be categorised into contractual, behavioural and governance indicators:

#### Contractual indicators

If a worker has the status of a wage and salaried worker with a stable contract, then he is likely to feel somewhat secure in this employment. Workers who are in non stable employment, and own account workers whose continuing employment depend on factors such as demand for product/service, access to credit, etc. are likely to be in less secure employment. Type of contract, whether it is stable or unstable, is therefore the relevant contractual indicator of employment security at the individual level.

#### **Behavioural** indicators

The greater the length of present employment the more secure employment can be assumed to be. The behavioural indicator of individual level employment security is therefore the length of present continuous employment. However, because of rapid technological change, the focus now is very much on skills. So-called low skilled workers, whose skills are easily transferable, or whose skills can be displaced by computers are more likely than others to lose their employment. Therefore, if workers are categorised into two broad groups - high skilled and low skilled, the likelihood of the latter suffering from greater employment insecurity is greater. However, not all low-skilled work need be insecure work and using skill levels as an indictor of employment security needs to be done cautiously.

#### Governance indicators

This is of vital importance and relates to institutional support to the individual for continuing employment. This support could be in the form of legal recognition of employment and work. It could also be association with a workers' organisation that endows voice representation. Such institutional support can come from government, or non-governmental organisations. Some individuals may be in employment that is covered by employment protection law. A vast majority of others may not fall under the purview of such laws, but in some instances, albeit few, support for continuing employment may come from community groups and non-governmental organisations. The relevant indicator is therefore the existence or the non-existence of institutional support for continuing employment.

## 5. Some concluding remarks

In the past two decades the world economy has witnessed remarkable changes in the structure and dynamics of the labour market. International trade and competition have intensified; new technology has destroyed some traditional jobs and created some new jobs. During this period market considerations have dictated labour market outcomes. Employment protection has been deregulated and ensuring employment security has not been a top priority for policy makers. Continuing employment for many has become more or less the individual's responsibility.

But what are the numbers of people who feel more and more threatened about losing their jobs? What are people's perceptions about their employment security? Has there indeed been a fall in employment security as most labour market analysis suggests? It is only through a systematic statistical representation that takes account of various aspects of employment security, that one can answer this question. The objective of the foregoing has been to underline such an approach.

This paper has attempted to clarify what employment security means, why definitions of employment security need to take account of self-employed workers and why employment security is important as an economic and statistical concept. It proposes methods of measuring employment security that take into account various dimensions of employment security - the national or macro dimension, the enterprise or meso dimension and the individual or micro dimension. At the national and enterprise level, the paper lists indicators that measure objective employment security. At the individual level the paper argues that surveys of workers can be so designed as to elicit information on indictors on both subjective and objective employment security. Further, at the individual level objective and subjective employment security can be measured for all types of workers, whether employees or self employed. Objective indicators of employment security are again categorised into behavioural indicators, contractual indicators and governance indicators. Subjective indicators of employment security relate to perceptions of threat of employment loss and perception of power or powerlessness to cope with that loss.

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