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COMMISSION OF THE EUROPEAN COMMUNITIES

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Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

**amending Council Regulation (EC) No 577/98 on the organisation of a labour force
sample survey in the Community**

(presented by the Commission)

EXPLANATORY MEMORANDUM

1) CONTEXT OF THE PROPOSAL

- **Grounds for and objectives of the proposal**

In February 2005, following the mid-term review of the Lisbon Strategy, the Commission presented a Communication on growth and jobs which proposed a new start for the Lisbon Strategy, refocusing efforts on two goals: delivering stronger, lasting growth and more and better jobs. This included a complete revision of the governance of the European Employment Strategy so as to maximise efficiency and the synergies between national measures and Community action. Earnings are a central element in this context, influencing the overall costs of production, the level of employment and income, and the social situation of employees and their families. Information on wages and their determinants are a key element to monitor economic, employment, education and gender equality policies assuring that the benefit of EU growth and jobs reach everyone in society. It will also contribute to the evaluation of the new social agenda 2005-2010.

To meet these targets, the Commission needs information on the structure and distribution of earnings in the Member States by socio-economic characteristics and also in relation to the different forms of paid employment. This information is essential in order to analyse and understand the labour market and the changes taking place in the structure of the labour force. The advantages of having data on wages and salaries in relation to other employment characteristics are widely recognised.

The Labour Force Survey (LFS) is basically the first and most authoritative reference source for labour market information and therefore wages, as a fundamental variable to explain labour market behaviour, should be included as a compulsory variable in this survey to allow a more complete analysis of labour markets.

- **General context**

In 1998, Council Regulation (EC) No 577/98 introduced income as a new survey characteristic for which labour force survey data should be provided. However, because of the sensitivity of this kind of information, it was introduced only as an option, to allow the Member States to test the feasibility of collecting this kind of information in a labour force survey, to ascertain the best way of doing so without increasing the general non-response rate and to check the quality of the information collected.

Initially, in the implementing regulation, the Income module was made up of five variables: monthly take-home pay from the main job, additional payments from main job, unemployment allowances, additional payments of unemployment allowances and sickness, disability or invalidity allowances. The present proposal restricts the data requested to "Monthly salary from the main job". The aim of this variable is not to collect information on the levels of salaries in the EU Member States; it is to be used as a variable to explain labour market behaviours.

In 1998, only two Member States were collecting and providing this information to Eurostat. Since then, grants have been awarded to Member States willing to test the introduction of this variable in their surveys or to examine the link between LFS results

and administrative sources. About half of the Member States are now collecting wages in the LFS with satisfactory results and best practices for data collection have also been identified.

The value of collecting this information for policy purposes is widely recognised and a full coverage of the EU is needed. However certain Member States demand a simplification of the previous optional variable, in order to start the data collection and others can only include the variable in their LFS regular questionnaire if there is a legal obligation to provide this information.

Therefore, it is essential to amend Council Regulation (EC) No 577/98 accordingly and introduce wages from the main job as a compulsory variable in the LFS.

- **Existing provisions in the area covered by the proposal**

Council Regulation (EC) No 577/98 introduced income as a new optional survey characteristic for which labour force survey data should be provided. The aims of the proposal for a Regulation presented in this memorandum are:

- to change the optional status of this survey characteristic
- to limit the information to be provided on income to "wages from the main job"
- to allow Member States which will supply this information using administrative sources a time-limit of 18 months to transmit the data, and consequently reduce the response burden.

- **Consistency with other policies and objectives of the Union**

Not applicable.

2) CONSULTATION OF INTERESTED PARTIES AND IMPACT ASSESSMENT

- **Consultation of interested parties**

Consultation methods, main sectors targeted and general profile of respondents

The members of the Working Group on Labour Market Statistics and the Directors of social statistics have been consulted and their opinions have been taken into account. The present proposal received broad support both from the Directors of social statistics and from the Working Group on Labour Market Statistics.

Summary of responses and how they have been taken into account

To avoid extra burden, several Member States have asked to use administrative data as the basis for the provision of these data. Using administrative data means that data transmission will take longer. The Commission accepted this situation, which is reflected in the proposal for a Regulation.

As wages are a sensitive issue, the questions on wages have high non-response rate in general. Nevertheless, the response rate can be improved. Some countries have achieved quite good response rates for this variable and the reasons for this success have been identified and presented as good practices.

Another problem commonly mentioned is the difficulty in agreeing on a harmonised definition of wages. Some countries can only provide gross salaries, others net salaries and some others definitions which do not correspond to either of these two concepts. A

common definition is essential when levels or trends on salaries are measured. However, the data on wages collected by the LFS will be used solely as background information to build the ranking of the salaries (deciles), in order to analyse the effects of wages on labour market behaviours. In this case a common definition is not so relevant and will not have any significant impact on the ranking.

Lastly, some Member States have suggested that EU-SILC could be used to support analysis based on wages, since the problems of definition and response rate seem to be less relevant when this source is used. While the LFS may not be the best source of data on wages, it allows linkage to a wider range of other socio-economic variables and has a much larger sample size. This latter feature allows more detailed cross-classification. These two aspects are considered sufficient to justify the use of the LFS in this context.

- **Collection and use of expertise**

Scientific areas of expertise concerned

The national representatives in Eurostat's Working Group on "Labour Market Statistics" are experts with an in-depth knowledge of earnings and labour force surveys.

Methodology used

Open discussion between the experts at the meetings of the Working Group on "Labour Market Statistics", with conclusions recorded in the minutes and pilot studies conducted in most Member States.

Grants were awarded to Member States willing to test the introduction of this variable in their surveys or to examine the link between LFS results and administrative sources. Best practices for collecting data of this kind were identified from the technical reports provided by the Member States in the framework of these grants.

Main organisations/experts consulted

The experts were from the national statistical institutes.

Summary of advice received and used

There has been no mention of the existence of potentially serious risks with irreversible consequences.

Best practices for the collection of wages data in the LFS have been identified and disseminated. Examples of good practices could include the following:

- Questions should be easy to answer and limited in number; interviewers should be ready to provide all necessary clarification on the inclusion or exclusion of specific allowances.
- It is better to start with a question on exact salary, if possible checking against the pay slip, and if the person is not able to answer, to propose some earning bands.
- An introductory letter or explanation from the interviewer tends to give good results as far as willingness to answer the questions on this subject is concerned.

Moreover, in a number of countries, non-response could be corrected by imputation using other sources, such as administrative registers or other surveys (e.g. Structure of Earnings Survey). Several countries have tried this, with positive results.

Means used to make expert advice publicly available

All the final reports from the grants given to test questions on wages in the LFS or to link administrative sources with LFS data were included in the Circa website. The same will be done with information on imputation.

- **Analysis of effects and consequences**

We have considered the three following options:

Option A: Keep the optional status of the variable income and use EU SILC to collect information on the structure and distribution of earnings in the Member States by socio-economic characteristics.

Option B: Make the optional status of the LFS variable "income" (as specified in Regulation No 577/98) compulsory, by imposing a common definition of wages and the same deadline for the data transmission as for the other LFS variables (12 weeks after the end of the reference period)

Option C: Change the optional status of the LFS variable "wages from the main job" to compulsory, being flexible in the definition used and allowing a longer period of 18 months for data transmission in the case of those countries using administrative sources.

The option selected was option C, because it represents a good compromise between Community policy needs and a relatively minor burden for Member States. Adopting an approach with a flexible definition of wages provides the necessary information for policy needs and allows easier implementation in the Member States, as there are fewer questions to be included in the LFS questionnaire. Furthermore, this allows Member States to use administrative data without adverse effects.

Option A is highly unsatisfactory in terms of policy needs, because not all the countries will be able to provide data using the LFS, and EU SILC do not provide the same richness of information.

Option B is too rigid and burdensome for the Member States. It would (a) require the addition of several questions in the LFS questionnaire, (b) possibly compromise the general quality of the LFS because of the high risk of an increase in non-response levels and (c) preclude the use of administrative data.

3) LEGAL ASPECTS OF THE PROPOSAL

- **Summary of the proposed action**

The main objective is to give the Commission the tools to prepare socio-economic analyses linking wages from the main job with labour characteristics, for all Member States. A Regulation of the Council and of the Parliament which changes the optional status of the LFS variable "wages from the main job" to compulsory is the instrument to attain this objective. At the same time, it allows extra time for transmission of these data for countries willing to use administrative sources.

- **Legal basis**

Article 285 provides the legal basis for Community statistics. The Council, acting in accordance with the codecision procedure, shall adopt measures for the production of statistics where necessary for the performance of the activities of the Community. This Article sets out requirements relating to the production of Community statistics and requires conformity to standards of impartiality, reliability, objectivity, scientific independence, cost-effectiveness and statistical confidentiality.

- **Proportionality principle**

The proposal complies with the proportionality principle for the following reason(s).

With the present proposal the use of administrative sources is allowed in order to lighten the respondents' burden. An approach with a flexible definition of wages provides the necessary information for policy needs and allows easier implementation in the Member States in that fewer questions need to be included in the LFS questionnaire.

The proposal would entail a minimum workload and have no significant financial implications since it assumes that only one or two questions would be added to the national labour force survey questionnaire or that wages data would be imputed from an administrative source.

- **Choice of instruments**

Proposed instruments: regulation.

Other means would not be appropriate for the following reason(s).

Selection of the appropriate category for an act of the EP/Council depends on the legislative goal. Given the information needs at European level, the trend in Community statistics has been to use regulations rather than directives for basic acts. A regulation is preferable because it lays down the same law throughout the Community, which means that the Member States may not apply them incompletely or selectively; a regulation is directly applicable, which means that it does not need to be transposed into national law. Directives, on the other hand, whose purpose is the harmonisation of national laws, are binding on Member States as regards their objectives, but leave to the national authorities the choice of form and methods used to attain the objectives agreed at Community level. Directives must be transposed into national law. The use of a regulation is in line with other statistical legal acts on statistics adopted since 1998.

4) BUDGETARY IMPLICATION

The proposal has no implication for the Community budget.

5) ADDITIONAL INFORMATION

- **European Economic Area**

The proposed act concerns an EEA matter and should therefore extend to the European Economic Area.

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Council Regulation (EC) No 577/98 on the organisation of a labour force sample survey in the Community

(Text with EEA relevance)

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 285(1) thereof,

Having regard to the proposal from the Commission¹,

After consulting the Statistical Programme Committee (SPC), in accordance with Article 3 of Council Decision 89/382/EEC, Euratom of 19 June 1989²,

Acting in accordance with the procedure laid down in Article 251 of the Treaty³,

Whereas:

- (1) In accordance with the Lisbon Strategy and as confirmed by its mid-term review in 2005, Europe must focus its policies further on growth and employment to achieve the Lisbon goals.
- (2) The development of the Community and the operation of the internal market increase the need for comparable data which allow impact on the labour market of the structure and distribution of wages to be examined, particularly as a means of analysing the progress of economic and social cohesion.
- (3) In order to carry out the tasks assigned to it, the Commission requires data on the ranking of wages by socio-economic characteristics and also in relation with different forms of paid employment, which are essential to analyse and understand the labour market and the changes taking place in the structure of the labour force. In this regard, the advantages of having data on wages by deciles in relation to other employment characteristics are widely recognised.
- (4) The Community Labour Force Survey is essentially the first and most authoritative reference source for labour market information in the European Union, and information on wages, as a fundamental variable to explain labour market behaviour, should be a standard element of this survey in order to allow more complete analysis of labour markets
- (5) Council Regulation (EC) No 577/98⁴ should therefore be amended accordingly,

¹ OJ C , , p. .

² OJ L 181, 28.6.1989, p. 47.

³ OJ C , , p. .

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EC) No 577/98 is hereby amended as follows:

1. In Article 4, point (l) of paragraph 1 is replaced by the following:

"(l) wages from the main job;"

2. Article 6 is replaced by the following:

“Article 6

Transmission of the results

Within twelve weeks of the end of the reference period the Member States shall forward to Eurostat the results of the survey, without direct identifiers.

Data corresponding to the survey characteristic 'wages from the main job' can be forwarded to Eurostat within eighteen months of the end of the reference period when administrative data are used to supply this information."

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

⁴ OJ L 77, 14.3.1998, p. 3. Regulation as last amended by Regulation (EC) n°2257/2003 of the European Parliament and of the Council (OJ L 336, 23.12.2003, p. 6).