

**SGI** Sustainable Governance  
Indicators 2009

Economy and employment

# Labor market report



*Indicator* Labor market policy

*Question* How effectively does labor market policy address unemployment?

*30 OECD countries are sorted according to their performance on a scale from 10 (best) to 1 (lowest). This scale is tied to four qualitative evaluation levels:*

- 10-9 = Successful strategies ensure unemployment is not a serious threat.*
- 8-6 = Labor market policies have been more or less successful.*
- 5-3 = Strategies against unemployment have shown little or no significant success.*
- 2-1 = Labor market policies have been unsuccessful, and unemployment has risen.*

## Denmark

*value 10*

In recent years, labor market conditions in Denmark have been benign. Official unemployment rates are at their lowest levels in decades, and the employment rate is among the world's highest. However, bottlenecks have appeared in some job categories, which are to a certain extent covered by increased immigration from abroad, including the new EU countries. The low unemployment rate is often attributed to the Danish model of "flexicurity," which aims to combine a flexible labor market with high levels of social protection and active labor market policies. Indeed, the labor market is rather flexible, and it is, for example, easy for employers to fire and hire employees. Apart from general framework conditions, wages are set at the company level.

Unemployment benefits are generous by international comparison for all job categories, not only concerning the duration of payment, but also concerning replacement rates, especially for low-income groups. An elaborated system of active labor market policies assists job seekers with generously funded training and retraining programs. Nevertheless, it would be incorrect to attribute the low unemployment figures exclusively to labor market policies. Instead, much of its success can be attributed to benign macroeconomic conditions fueled by a boom in real estate prices, which has in turn stimulated private consumption. This presents a situation that is not free of future risks.

Regarding the labor market, experts have hinted at various possibilities for improvement. For example, they note that some social benefits might be over-generous to the point of creating disincentives to search for a job. This is particularly the case for persons with low levels of formal qualifications, who cannot expect to earn high salaries. However, there has been some tightening of social benefits in recent years and particularly with those aiming to assist immigrants. Moreover, this problem has also been reduced to a certain extent by a tax rebate for people in employment. Lastly, the system also creates many incentives for individuals to enter

into early retirement. To a certain extent, however, these problems are expected to be reduced by reforms that will take effect in 2019.

## Iceland

### *value 10*

The decades-long low levels of unemployment in Iceland, with few and short-lived exceptions, bear testimony to an essentially flexible labor market in which workers move rather easily between jobs and locations. Other factors have contributed to this outcome, including fiscal and monetary policies that have kept inflation higher than it might otherwise have been in order to keep unemployment low, and an overheated economy that in recent years has been driven by an influx of foreign capital and foreign labor. Labor legislation governing nationwide, central bargaining over wages and salaries has remained essentially unchanged since 1938, with only relatively minor changes.

This means that the old mechanism by which labor unions were able to demand wage increases beyond productivity increases – one of the triggers of high inflation in the past – remains largely intact. Inflation has been relatively low in recent years, although the rate remains Europe's second highest, after Turkey. The relatively low rate has to some extent resulted from labor unions' determination to keep wage demands within bounds.

However, unions still have the power to demand wage increases that the employers' association could not accept without the government stepping in to facilitate a deal, as was common practice in the past. In that sense, the labor market lacks flexibility. Labor market outcomes can still be determined in closed-door negotiations, a salient feature of nationwide or industry-wide wage bargaining. Put differently, labor market policy in Iceland addresses unemployment more effectively than it addresses inflation. Greater flexibility would be assured by having wages and salaries negotiated firm by firm, as is increasingly done in parts of the service industry, such as in high-tech computer firms.

## Norway

### *value 10*

The unemployment rate in Norway has recently reached its lowest level in 20 years. Thus, unemployment is considered to be under control. This success is due, on the one hand, to successful labor-market policies, and on the other hand to a strong economic boom driven in part by the high price of oil. The country's labor market policy has traditionally been proactive, with an emphasis on retraining long-term unemployed workers. Unemployment benefits are generous. Employment-protection laws impose restrictions on dismissal procedures. However, layoff costs are small for firms which do need to downsize. This guarantees a certain amount of mobility in the labor force.

There is no minimum-wage policy in Norway. However, in most sectors wage floors are set by negotiations between unions and employers. Indeed, wage setting is dominated by collective agreements, and bargaining is still quite centralized.

The recent economic literature portrays Norway and Denmark as successful examples of the application of the so-called “flexicurity model,” combining high labor mobility (flexibility) with high levels of government-provided social insurance (security). However, concern has mounted over an increasingly large part of the population leaving the work force early due to health concerns and early retirement plans. Reforms of the early retirement and pension arrangements have thus been the subject of considerable recent discussion.

## Canada

*value 9*

Canada displays the strongest job-creation record over the past decade of any of the Group of Seven (G-7) economies. Unemployment in Canada – which stood at 6.3 percent in 2006 and 6.1 percent in the first quarter of 2007 – is at a much lower level than it was in the 1980s and 1990s. Low unemployment rates in Canada are due to appropriate macroeconomic policies, low interest rates, a strong U.S. economy (during the period under consideration) and the recent boom in global commodity prices. The Bank of Canada’s inflation-targeting strategy insures a low and stable inflation rate, which in turn provides conditions for reasonable wage expectations.

These policies have also translated into a low incidence of long-term unemployment. Only 8.7 percent of the unemployed in 2006 were in long-term unemployment, which places Canada in fifth place among OECD countries. Nevertheless, there are significant regional disparities, and the Atlantic provinces exhibit much higher unemployment rates than the other provinces. For example, in 2006, Newfoundland had an unemployment rate of 14.8 percent compared to Alberta’s 3.4-percent rate. Labor market regulations (e.g., the minimum wage, which represents about 40 percent of the average wage) are not important barriers to employment.

## Ireland

*value 9*

Over the last 15 years, the number of employed individuals in Ireland has increased at an unprecedented rate. This increase has resulted in a reduction in the overall unemployment rate from 15 percent in the mid-1990s to between 4 percent and 4.5 percent since 2000. Moreover, the traditionally substantial net emigration from the country has been reversed, and in recent years Ireland has recorded one of the highest rates of net immigration of any OECD country. All of these indicators are eloquent evidence of the success of the country’s labor market and wider economic policies in achieving the goal of full employment. Additional evidence of this success is provided by the fall in the long-term unemployment rate and rising in the

employment rates of women as well as younger and older people.

Factors that have contributed to the Irish economy's remarkable expansion include the aggressive targeting of foreign investment (with incentives including a 10 percent rate of corporate taxation), rising skills levels through investments in education and annual transfers from the European Union equivalent to about 5 percent of GDP.

While the evidence is largely positive, toward the end of the period under review, significant job losses occurred in the industrial and manufacturing sectors. Several international corporations relocated their operations outside of Ireland. Furthermore, given the high number of individuals employed in construction-related industries, some have argued that a slowdown in the growth of housing prices could result in a significant increase in unemployment. Nonetheless, unemployment was not an issue in the recent election campaign, which suggests that it is currently not considered a serious threat in Ireland.

## New Zealand

### *value 9*

Labor market policy in New Zealand has been very successful in recent years. It achieved the extremely low unemployment rate of 3.8 percent in 2006, along with a relatively high level of employment. This has been achieved in part by a mix of deregulatory reforms in the 1980s and 1990s, which effectively de-unionized much of the workforce. According to the OECD, the degree of unionization was approximately 22 percent in 2002. Thus, low unemployment is a result of macroeconomic restructuring rather than a specific policy targeting unemployment.

Nevertheless, individual and collective rights of employees remain protected. There is a minimum wage for adults, as well as for youths (80 percent of the adult rate). The government mandates that anybody working on a public holiday must be paid 1.5 times the regular wage, and be given an additional day of annual vacation. Unemployment benefits are paid on a weekly basis and vary depending on the recipient's family status and age, though the level is comparatively low. The country's labor market participation rate is relatively high, particularly for women. Indeed, there is a growing shortage of skilled and professional labor, to which the government has responded by relaxing immigration criteria.

However, this overall picture does not reflect regional and ethnic differences. For example, a few districts have unemployment rates of over 10 percent, and 8.6 percent of Maori are unemployed, compared with just 2.9 percent of New Zealanders of European descent. The workforce participation rate for Maori has climbed, reaching 67.6 percent in 2007 compared to 61.4 percent in 1999.

## Sweden

*value 9*

Throughout most of the postwar period, Sweden has had an extensive and active labor market policy. This policy has served to facilitate labor transition between different regions and sectors of the economy and to assist the unemployed in finding new jobs. For a very long time, the so-called “Swedish model” of organizational involvement and interest accommodation sustained labor market policy. It was not until the 1980s that labor market relations suffered as a result of the aggressive promotion of the introduction of so-called “wage-earners’ funds” by a confederation of labor unions.

Moreover, the Swedish employers’ association has argued more and more that the labor market is overregulated and that the unions are too powerful. At this time, a rather intense debate is being waged over whether the labor market regulatory framework impedes flexibility or serves as a necessary vehicle for helping the unemployed find jobs. Fighting unemployment has been an overarching policy objective for most of the postwar period, and for most of that time, Sweden has enjoyed a sustained high level of employment.

The most problematic period was in the early 1990s, when unemployment skyrocketed into double digits. The potential downside of the extensive labor market policy – and particularly of the high level of income compensation for the unemployed – has been that it removes incentives for the unemployed to look for jobs. The current non-socialist government seeks to reinforce those incentives by lowering the level of compensation and to force the unemployed to look for work in a region geographical area larger than was previously the case.

Viewed as a whole, the history of labor market policy in Sweden has been highly successful. Only recently have political concerns been voiced arguing that the system in reality promotes a preservation of the status quo instead of flexibility and security in transition. Consistent with the workfare model of social security, the current government appears set on increasing incentives for finding employment.

## United Kingdom

*value 9*

Measured in terms of the rate of unemployment, labor market performance in the United Kingdom has been good, and unemployment has been in decline or stable for more than a decade. UK unemployment rates have been substantially below those of the euro zone for more than ten years and below the OECD average since 2000. This fact is especially impressive given the substantial immigration into the UK labor market from EU accession countries. But relying on this indicator alone is misleading, as there are some persistent problems in this policy area.

A point worth criticizing is the working age inactivity rate, which has hovered above 21 percent since the 1992 recession. This reflects in part a lack of skilled labor, which constitutes a major problem for the labor market as a whole. While the United Kingdom compares well internationally in terms of its supply of university graduates, there are insufficient numbers of individuals with intermediate and

vocational qualifications.

Many of the unemployed end up claiming disability-related benefits. In 2005, the government started a “Pathways to Work” policy initiative to move people out of incapacity benefit in which new claimants are offered specialist advice, programs to help manage their conditions, and access to a range of tailored support.

As part of the government’s overall strategy for ensuring employment opportunities for all, there is a working tax credit available to people with low incomes who work at least 16 hours a week. The credit is based on a welfare-to-work principle that stresses job-seeking and discourages long-term reliance on social welfare. There is no social policy in the traditional sense for the unemployed as a separate group. Instead, all efforts target the re-integration of the (temporarily) out of work into the labor market. Unemployed individuals capable of, available for, and actively seeking work can receive benefits in the form of the “Jobseeker’s Allowance.”

The UK labor market is regulated only lightly. The government introduced a national minimum wage in 1999 that poses no considerable burdens to industry, and its increases have thus far been subject to favorable economic conditions.

## United States

*value 9*

The U.S. economy has been free of any major recession since 1992, and unemployment levels have remained stable, in roughly the 4 percent-5 percent range. This success has reflected the competitiveness and high rates of growth in the U.S. economy over a period of more than two decades and the effectiveness of monetary policy, which is overseen by the Federal Reserve Board, as a method of regulating aggregate economic performance.

Macroeconomic policy (i.e., the mix of monetary and fiscal policy) in the United States is much more targeted at a satisfactory employment situation than it is in most other OECD countries, especially in the euro zone. There are relatively few restrictions on entry to the labor market, except from abroad, labor mobility is very high, and payroll fringe costs are comparatively low. Despite the existence of a statutory minimum wage, it has been kept so low that it renders a person working at this wage a member of the “working poor.”

However, the Earned Income Tax Credit (EITC), which was greatly expanded in the 1990s under President Bill Clinton, considerably lifts the net income of such workers. At the same time, it also contributes to full employment because it constitutes an incentive for wage-earners to earn as much income as possible because the tax credit is increased for the lower income brackets as self-earned wage income grows and is only slowly phased out for the higher wage-income brackets.

## Australia

*value 8*

In mid-2007, the unemployment rate in Australia stood at 4.5 percent, the lowest rate in 30 years. Nonetheless, unemployment is still perceived to be one of the most important economic threats to the country. It is unlikely that this unemployment rate can be further reduced, since it has a sizeable structural component. Moreover, given the relatively small size of the Australian economy and its reliance on natural resources and the mining industry, it is difficult to identify the precise contribution of labor market policy to reductions in unemployment.

Nevertheless, the government's macroeconomic management, with the assistance of a benign international economic environment, has been key to the decline in unemployment. The country has experienced a noninflationary rate of growth, and a recession has been avoided, while the government has successfully limited wage increases which could increase structural unemployment.

Overall, policy during the period of this review gave greater emphasis to increasing labor force participation than to decreasing unemployment. The government effectively promoted a wide range of programs aimed at increasing the ability of the unemployed to compete in the labor market, at making timely information about job opportunities available, and at providing opportunities for workers to enhance their skill levels. A current initiative aims to overhaul the centralized system of industrial arbitration.

Regulatory impediments to the labor market are relatively low. Unemployment insurance has never been implemented, and unemployment benefits are essentially uniform for all unemployed persons. Currently, collective agreements are the dominant form of wage setting, a result of reforms implemented in 1993. Industrial relations reforms in 2005 further increased labor market flexibility, giving preeminence to individual contracts over collective agreements, reducing dismissal protections, curtailing union power and severely limiting the right to strike. The reforms also changed the mechanism by which minimum wages were set. Until 2005, they were set by an independent quasi-judicial body that considered submissions from trade unions, employer groups and the government in making its determinations.

Since 2006, minimum wage levels have been set by the Fair Pay Commission, which is required to take into account the interests of the non-employed in making its decisions. A majority of the public regards these reforms as having excessively reduced employee protections, and believes industrial relations policy to favor employers over employees. Critics emphasize a comparative lack of investment in education and training, and a failure to consider demand side policies. Another important dimension of labor market policy is a general trend toward tightening eligibility criteria for welfare benefits, and toward requiring benefit recipients to search for employment, engage in training programs and/or "work for the dole." The total number of people on welfare rolls has begun to decline in recent years.

## Austria

*value 8*

The traditional Austro-Keynesianism policy, which has been pursued by the government in cooperation with its social partners, has proven less and less effective owing to the increased effects of globalization and the impact of the EU's single market policy. Nevertheless, social partners still make agreements on such things as minimum wages in collective agreements.

Austria's unemployment rate is below the OECD average. In general, Austrian labor-market policy aims to promote increased flexibility in the labor market force, particularly by limiting the benefits given to unemployed persons. At the same time, however, owing to a recent rise in unemployment, the government has increased the funding it provides to promote an active labor-market policy. Regarding the relatively low employment rate of older people, the main problem of the Austrian labor market, these increases have already achieved some positive results.

## Finland

*value 8*

Labor market policy in Finland has been only partially successful in addressing unemployment. Achievements with regard to long-term unemployment, unemployment among low-skilled workers, youth employment, and employment of older individuals are satisfactory, but far from excellent. This is due to several interrelated factors. Finland is a large but sparsely populated country, and geography presents an obstacle to smooth labor force mobility.

Globalization has threatened labor market strategies, with cost-conscious companies increasingly moving production out of the country, contributing to unemployment and declining job security. Minimum wage and collective bargaining agreements are in force, and wages for full-time employment must exceed the regular social assistance level. However, dismissal protection regulations are not strong enough and in many sectors, temporary work contracts make it difficult for employees to plan and organize their careers and lives.

## Japan

*value 8*

Despite long-term economic sluggishness, unemployment rates have been kept at tolerable levels, although young persons and older individuals seeking new jobs do face higher jobless rates. This can be attributed to relatively flexible labor market institutions, such as companies' abilities to reduce overtime and hire non-regular workers, rather than to any specific measures within the reporting period. Indeed, employment regulations in Japan are relatively flexible. The non-salary costs of

employing a worker are moderate, and layoff costs are not high. While regulations on the number of allowable work hours remain rigid, they often tend to be ignored for managerial positions. In late 2006, Shinzo Abe's government promised a round of labor reforms that would give a "second chance" to suffering workers, for instance by raising minimum wage levels and thus reducing fringe workers' hardship. However, by early 2007, Abe's labor reform proposals had drawn considerable opposition from employers and labor unions, and faced uncertain prospects for passage. Some have argued that companies should be given more power to lay off regular workers, but there is little political will to do so.

## Netherlands

### *value 8*

The level of unemployment in the Netherlands currently stands at 3.2 percent. Youth and long-term unemployment have come down, but the employment of older individuals has to some extent increased.

The Netherlands has a tradition of wage moderation reaching back to the Accord of Wassenaar agreed to during a period of economic stagnation in 1982 by employer organizations and trade unions. This policy has led to a relatively low level of unemployment in the Netherlands and is often referred to as "the Dutch miracle."

The recent decline in unemployment is due to both cyclical and structural improvements. Favorable international developments, wage moderation, healthy growth in productivity and government reforms have contributed to this development. The recent governments led by Jan Peter Balkenende have undertaken reforms of the labor market in many areas, including unemployment benefits, health insurance and labor disability. In addition, the minister of social affairs has recently loosened restrictions on the dismissal of employees and introduced a maximum amount for dismissal compensation.

At 70 percent of the last-earned income, benefits in case of job loss are relatively high in the Netherlands. This percentage guarantees a certain level of income security. Nevertheless, other measures – such as the repeal of follow-up benefits in 2003 and the heightening of the obligation to seek work in 2007 – aim to ensure that these arrangements do not serve as disincentives for people to look for work.

At 73 percent, the participation rate in the labor market is high. In 2006, this included 82 percent of men and 64 percent of women. Although participation by women, older employees and immigrants in the labor market is still deficient, it has been growing. Measures taken to stimulate these groups to participate in the labor market – for example, changes in the early retirement scheme and the introduction of a new saving arrangement ("levensloopregeling") – have had promising results.

Although unemployment is currently not considered a serious issue in the Netherlands, the labor market is not free of structural problems. Mobility within the labor force is low, dismissal protection is high, and minimum wages are among the

highest in Europe. Unemployment among immigrants is significantly higher than that of the native population, primarily as a result of low market qualifications.

Another fact that is detrimental to the very favorable rating of Dutch labor market policy is the relatively high proportion of economically inactive people in the Netherlands and especially those in disability benefit programs. At the end of 2002, the number of individuals in these disability programs came very close to the politically contentious level of one million, and these programs have been accused of being a means to hide true levels of unemployment. Legislative changes in 2004 and the 2006 reform of the system of disability benefits appear to have established stricter requirements for entry into these contested disability programs.

## Switzerland

*value 8*

When compared internationally, Switzerland has a very low unemployment rate (3.1 percent at the end of 2006). In 2005 and 2006, the number of new jobs noticeably increased. Experts attribute this primarily to the country's liberal employment market policy, which allows for a high degree of flexibility. However, the opening of the employment market for foreigners in the mid-1990s has been blamed for some subsequent problems. The regulation of foreign workers had functioned well before this time, in that the number of employment permits granted was linked to the demand for labor.

By contrast, many foreign workers today possess permanent employment permits which cannot be withdrawn or taken away, even if demand for labor decreases. In addition, by signing a number of bilateral agreements with the European Union, Switzerland has opened its employment market to workers from EU member states. The reduction in the ability to regulate the labor supply has reduced the labor market's previous flexibility.

## Czech Republic

*value 7*

Labor market regulations and policies modeled on those of Western Europe have been developed and harmonized with EU rules, where necessary. Unemployment benefits are not particularly generous and are only paid for six months. Active policies for remedying unemployment suffer from a lack of resources, which severely limits the scope for individual work with clients. Little attention is paid to evaluating the effectiveness of the various instruments of active labor market policy in existence. In general, the labor market situation is not a reflection of specific labor market policies. Unemployment has been kept within limits thanks to a growth in the service industry, a boom in tourism and the successful attraction of FDI.

## Germany

*value 7*

By international standards, Germany's labor market has a comparatively high level of unemployment and inflexible regulations. Traditionally, protecting employees against layoffs has been preferred to having a flexible employment market that offers little job protection, but a high likelihood of employment elsewhere.

In 2005, the number of registered unemployed reached 5 million – the highest amount since 1949. Passing this symbolic figure led to public shock and contributed to the SPD's election loss in the autumn of 2005. At the beginning of his center-left government, Chancellor Schröder had frequently referred to his aim of reducing unemployment, saying that his administration's success should be measured against the reduction in unemployment that occurred.

Extensive labor market policy reforms also took place under the auspices of the Agenda 2010 project, bringing about improvements and a genuine paradigm change “from status protection to basic income support,” as one expert points out. The reforms – together with the German economic revival – first really started taking effect in early 2005, with the beginnings of the grand coalition under Angela Merkel as chancellor. However, large disparities between the former East and West Germany remain. Although the unemployment rate in the West reached 9.2 percent between 2001 and 2006 in the West, it hit 19.8 percent in the East.

## Slovakia

*value 7*

Unemployment in Slovakia is among the highest in the EU-25, but has dropped substantially since 2001. Labor market reforms undertaken by the Dzurinda government, including the liberalization of labor law, cuts in unemployment benefits, the introduction of welfare-to-work programs and individualized job counseling, constitute an important aspect of this development (OECD 2007). However, the Dzurinda government also kept spending on active labor market policy relatively low, especially in the eastern regions where the unemployment rate is highest and long-term unemployment looms large. Steps taken by the Fico government in the opposite direction, namely toward re-regulation of the labor market, might have adverse effects on employment figures.

Annotation:

OECD, Economic Survey of the Slovak Republic 2007 (Paris: OECD, 2007).

## Spain

*value 7*

Unemployment in Spain has fallen dramatically. While unemployment was still at 19.8 percent in 1994, it totaled no more than 8.2 percent in the third quarter of 2006. Thus, in one decade the percentage of people without regular work has diminished by 60 percent, with structural unemployment dropping by 5 percent to 6 percent since the mid 1990s. This development was accompanied by a similarly impressive rise in employment. These developments can be attributed to four factors: two external shocks over the last decade, Spain's entry into the euro zone, increased immigration and effective labor market policies.

Despite this positive evolution, Spain's achievements remain far below Lisbon objectives, and the country's unemployment rate (especially for women) and its proportion of fixed-term contracts and low-wage jobs are still among the highest in the European Union. Strict protections for permanent workers strongly decrease labor mobility. Furthermore, it reinforces the duality of the labor market between permanent workers and those with temporary contracts – whose number has surged in recent years, representing now one-third of workers (OECD average: 13 percent). The country's inefficient and overly complex wage negotiation system and inflation catch-up clauses in working contracts, which are very common in Spain, have a negative impact in general and create real wage inertia, making the economy more vulnerable to external shocks.

The problem of market segmentation between permanent workers and those with temporary contracts has been addressed in 2006 by limiting recourse to temporary contracts, improving budgetary incentives for permanent contracts and through an extraordinary program to change fixed-term contracts into permanent jobs.

## Belgium

*value 6*

Belgium is a federal state, and labor law competencies are shared across different power levels (federal, regional and local). This means that one cannot easily judge "national" policies or outcomes. There are two main, recurrent problems with Belgium's labor market policy. For one, there are differences between unemployment benefits, and the minimum wage is too low. Secondly, because of high social insurance costs on labor, it is very expensive for companies to hire new employees. This decreases the potential for employment, especially in small companies or start-ups.

Responsibility for both problems rests with the federal government. It is the federal government that sets the minimum wage and decides on the amount of unemployment benefits, pension policy and issues of health insurance. The implementation of such policies, however, is carried out by the regional and local administrations.

In Flanders, unemployment has been substantially reduced, in part through efforts by the Flemish government to improve conditions for small and midsized companies. The region's unemployment rate at the time of this writing was approximately 8 percent. In some areas there is a considerable lack of trained personnel.

In Wallonia, unemployment has risen over the past few years and hovered around 18 percent throughout the review period. The situation differs, however, from subregion to subregion. In some provinces (Walloon Brabant), the employment situation is good, whereas in others (Hainaut), the unemployment rate is over 20 percent, and large segments of the population are permanently excluded from the labor market. It should be noted that Wallonia has had to cope with major structural changes, such as the decline of its steel and coal industries. The Walloon authorities have tried to fight unemployment by creating jobs in government bureaucracy. This policy, however, has resulted in huge public debt and an oversized public administration.

The Brussels region has suffered from a persistently high level of youth unemployment. Unemployment in this region is particularly problematic for unilingual people and those of immigrant backgrounds, poor education or inadequate work-training. Overall, Belgium's labor market policy has a mixed record. Strong disparities continue to persist between different parts of the country, as do structural problems in taxation, social security as well as unemployment benefits.

## Hungary

### *value 6*

The Hungarian labor market has been characterized by a low employment rate and weak labor mobility. The slight increase in unemployment in 2005 and 2006 was caused largely by changes in registration rules. In late 2005, the Gyurcsány government tightened unemployment benefits and introduced new wage subsidies for workers who had not finished school, unemployed older workers and people returning to work from nursing or child care.

On the local level, workfare programs have mushroomed. Active labor market policies have had some positive impact on employment, but have not been sufficient to overcome structural barriers to employment, most notably the strong mismatch between workers' skills and employers' demands, and the inflexible housing market.

## Italy

### *value 6*

Labor market policy in Italy might not be described as overly successful, yet unemployment rates have crept downwards over the past 10 years (which can, partly, be ascribed to a more flexible labor market). Official employment figures place Italy in a middle position among OECD countries. But government action to increase employment numbers is still lacking a clear strategy and importantly, has not led to an overall coherent labor market policy. In the context of the European Union's

Lisbon strategy, Italy must increase its employment rate to better manage demographic changes and its related problems.

In the last few years the labor market has undergone significant changes, which has led to more fixed-term contracts while traditional employment has declined. This development addresses younger people in particular, and a large part of the country's unemployed has thus shifted to work in unstable situations. Discussions in France and Spain over such tenuous work opportunities and the growing, young and educated underclass, or "generation 1,000 Euro," have outlined concerns for this generation which seems to be struggling in their desires to live autonomous lives.

In sum, the labor market seems to be improving at the cost of an unsustainable pension system and a widening gap between a younger, professional generation and an older, pensioner generation.

## Luxembourg

### *value 6*

Labor market policy has had only mixed success in Luxembourg. There are a number of problems, some of which are themselves due to questionable policy measures. On the one hand, there is a serious shortage of high-skilled labor in the country. More than half of newly created jobs require a university degree, while only 25 percent of people in any given age cohort gain such a degree and about 20 percent leave school without any degree. In addition to the educational system's problems, there are strong incentives for early retirement. Only about 30 percent of individuals between 55 and 65 years old are still at work. Less than 30 percent of women work outside the home.

On the other hand there is a high supply of unskilled labor in the region. A large wage differential compared to France and Belgium has led to a strong influx of workers into the country. The minimum wage in Luxembourg is 19 percent higher than in Belgium and 12 percent higher than in France. Hence, more than a third of Luxembourg's total workforce is made up of cross-border commuters. At the same time, very generous unemployment and social security benefits tied to the country's guaranteed minimum income lead to a high reservation wage level for Luxembourg natives. This, in turn, causes higher than necessary unemployment rates. Low-skilled young people make up one of the most problematic groups in this respect, as they are able to earn unemployment benefits even without prior periods of employment.

## France

### *value 5*

The increasing level of unemployment is a significant issue which all governments have had to face since the 1970s. During the 1990s, various measures, including the introduction of the 35-hour work week and programs targeting the problem of youth unemployment, aimed to reduce the overall level of joblessness. Yet because the

employment market in France is one of the most regulated in the whole of Europe, such individual measures have had little effect, despite the large amounts of financial resources invested in them.

A particular problem of the French employment market and its related employment policies is that it fails to integrate certain societal groups. Large sectors of the population, including the young and elderly, are virtually excluded from the labor market.

The new government under Prime Minister François Fillon (since 2007) set out with the promise to render the labor market more flexible, reduce regulations and improve incentives for jobless citizens to actively seek employment. The subsequent protests and the public's insistence on existing welfare state provisions show that the French government will face strong opposition to its reforms, making implementation a questionable goal.

## Mexico

### *value 5*

Mexico is characterized by a high level of poverty, and a huge percentage of its comparatively young labor force is poorly educated compared to their counterparts in most other OECD countries. Mexico's unemployment figures are based on very restrictive criteria, and are misleading as a guide to the general labor market. Mexico's unemployment problems are made more tolerable by the export of significant numbers of workers to the United States, whether legally or otherwise.

Labor market participation is also relatively low in Mexico, due to the relatively low participation of women in the workforce. This is more the result of broad social circumstances than of government policy. In addressing unemployment, governments have attempted to foster economic growth through fiscally responsible public finances and an open economy. Nonetheless, economic growth has been mediocre. Specific public programs provide some money to laid-off workers seeking new skills, but these are limited in scope and reach.

## Poland

### *value 5*

The Polish labor market has suffered from high unemployment, low employment and strong regional disparities. While the official unemployment rate has fallen strongly since February 2003, it is still the highest in the EU-25. Unemployment benefits are limited, and labor law is relatively employer-friendly. For most of the 1990s labor market policy was primarily aimed at reducing the labor supply by encouraging early retirement. An active labor market policy was institutionalized on a large scale in 2004. Its implementation, however, has suffered from a lack of funding and experience. Notwithstanding initial announcements, the PiS government has paid little attention to labor market policies and has not introduced major reforms. The

recent decline in unemployment numbers has been caused by the country's strong economic growth and massive emigration, rather than by labor market reforms.

## Portugal

### *value 5*

At 7.6 percent, unemployment in Portugal is a serious matter. That is a significant increase over the 1999 level of 4.1 percent. The high figure is at least partially caused by a long history of very rigid labor market policies. The unions support the laws that regulate labor relations (and thereby result in the system's rigidity), and governments have been unwilling to force the issue. The current governmental policies aimed at diminishing the deficit have resulted in a lack of public and private investment, which – in the short term, at least – does not help reduce unemployment. Moreover, as labor relations and the opening of the East to the European Union lead foreign investors to leave Portugal, the prospects for improved employment levels only grow dimmer.

OECD studies suggest that Portugal ranks among the Western industrial democracies with the most rigid employment protection legislation in terms of individual labor contracts for permanent workers. The same does not hold true when it comes to flexibility in collective agreements and the provision of temporary jobs, which was increased in 2003. As a result, Portugal deviates less from European and OECD averages when it comes to collective dismissals and temporary contracts. At the same time, however, the effects of these changes appear to have been only limited.

## South Korea

### *value 5*

Labor market policies have been successful in reducing general unemployment, but less so in preventing the spread of precarious working conditions and youth unemployment, which are major problems. Compared to other OECD countries, Korea's general unemployment rate is low, but is perceived as a very serious problem, in particular with reference to young people after graduation. Youth unemployment is in the range of 10 percent.

Part-time employees make up 38 percent of all gainfully employed individuals, according to the government. Labor unions put this figure at 50 percent. Hoping to regularize these workers' situation, the government has passed comprehensive labor market reform, including a 2006 irregular worker protection law aimed at enhancing this population's job security. Employers now must give temporary and part-time workers the status of regular workers after they have worked in the same company for more than two years.

However, the additional costs associated regular workers have made small and medium-sized businesses reluctant to comply with the new law. Indeed, the measure has had the reverse effect of increasing employment instability. Seeking a legal

loophole, some businesses now try to dismiss non-regular workers and replace them with new temporary workers, in order to bypass the two-year conversion regulation. They also try to let subcontractors run part of their business operations. Consequently, many part-timers and day laborers face mass layoffs.

The government has also been unable to significantly increase the employment rate in Korea, which is well below the OECD average mainly due to the relatively low rate of labor market participation by women. Policies to curb youth unemployment have so far met with a similar lack of success.

## Turkey

*value 5*

As of 2006, the country's unemployment rate was 9.9 percent. The country faces a low employment-participation rate, mainly because few women are active in the labor force. To increase employment opportunities over time, Turkey must preserve the flexibility of its labor market and maintain a relatively high but sustainable GDP rate over the next decades.

Despite a respectable growth rate for five successive years, government policies have failed to remedy the unemployment problem. Parallel to a serious unemployment problem, there is a shortage of well-trained and skilled employees such as mid-level managers, technicians, computer programmers and other personnel. The minimum wage was raised at the end of 2007 but remains below €300 per month.

One common complaint is the employer's tax burden. Total taxes and deductions on the minimum wage amount to almost 30 percent of the total wage. Therefore, the cost to the employer on a minimum monthly wage of €300 paid to an employee is about €415. This is important in considering the increase in illegal (unrecorded, untaxed employment with no social security benefits) levels of employment. Collective bargaining is no longer a driving force in labor negotiations as trade unions have lost both members and bargaining power in recent years. Over time, Turkey has sustained the flexibility of its labor market through the lax enforcement of laws on taxes and social security. But this policy is not sustainable. The country has to engage the related problems which are the large wedge between labor costs and workers' disposable income, due to high taxes and the varying quality of the legal system.

## Greece

*value 4*

Successive governments, including the incumbent during the period of this analysis (the conservative New Democracy party), have failed to balance labor market supply and demand. Although the unemployment rate dropped from 12 percent in 1999 to about 8 percent in 2007, it remains among the highest in the European Union. Unemployment is particularly high among women, the young and residents of the

northern and northwestern regions of Greece. Long-term unemployed constitute about half of the total unemployed population. As the OECD 2007 Economic Survey of Greece describes, labor mobility is low. This can be seen in the low monthly numbers of people leaving unemployment, in the long average job tenures, and low levels of gross labor flow among industries.

Structural problems remain. Youth unemployment is high. State vocational training happens only infrequently, and unemployment benefits are low. In the public sector, employment protection is high and pensions are generous. Unions defend these privileges very strongly. By contrast, workers in the private sector have lower job security, are often “hidden” in a myriad of small family businesses, have lower levels of unionization, and face the regulatory inefficiency of the state administration in enforcing legislation. The current Kostas Karamanlis government has recognized the problem of structural unemployment, and has introduced reforms aimed at making the labor market more flexible. Such attempts proved highly controversial, leading the government to pursue a series of small, incremental reforms.

This report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at [www.sgi-network.org](http://www.sgi-network.org)

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