# SGI

Sustainable
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Indicators

# 2014 Labor Markets Report

Labor Market Policy

Bertelsmann Stiftung

Indicator

# Labor Market Policy

Question

## How effectively does labor market policy address unemployment?

41 OECD and EU 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 rather effected a rise in unemployment.

### Germany

Score 9

The main problems of the German labor market up to the implementation of the so-called Hartz reforms in 2003 were related to a high degree of structural and long-term unemployment. The success in reducing structural unemployment since that time has been impressive: In the years prior and during the economic crisis, employment rates have risen continuously, while unemployment, after a modest rise in 2008 and a brief period of stagnation in 2009, has been on the decline following the end of recession. As a consequence, labor shortages could replace unemployment as the dominant problem of the German labor market in the future. Nevertheless, shortcomings remain. The German labor market is still characterized by inflexibilities such as a high level of employment protection (Global Competitiveness Report 2012 – 2013: 21).

The so-called German jobs miracle has several causes, including demographic change and wage moderation among them. The unemployed now have less ability to reject a job offer without risking a loss of benefits. Employed workers can also claim benefit support if their market income is below subsistence levels. Benefits offered in conjunction with work have reduced incentives to stay out of work. Furthermore, there is a comprehensive toolbox of active labor-market programs that includes financial support for training programs, self-employment or reintegration into the labor market; workfare programs; and employment subsidies for the hiring of the long-term unemployed. Traditional instruments of active labor-market policy such as job creation and training or skills-improvement measures are now seen as combinable instruments. Tailored to individual needs, they are intended to allow particularly the reintegration of the long-term unemployed in the labor market. Vocational education, basic skills and preparatory training, retraining programs, counseling measures, placement premiums, and start-up financing all combine to form a versatile labor-market toolbox (cf. Federal Employment Agency Monthly Report 2012: 32-36). Furthermore, these tools are continuously evaluated and optimized.

In addition, the law for the reorientation of labor-market policy instruments (Gesetz zur Neuausrichtung der arbeitsmarktpolitischen Instrumente), passed in January 2009, marked a further step toward increasing the flexibility of labor-market instruments. The liberalization of short-term contracts and the use of temporary employment programs (Leiharbeit) represent milestones in this regard. The unprecedented expansion of atypical employment contracts such as temporary, part-time and agency work may have been an advantage in terms of securing industrial flexibility during the recession. However, the government's approval of these less-regulated contract styles has created incentives for employers to use them with increasing frequency, with potentially severe consequences for the social welfare system in particular and social justice in general. Furthermore, opportunities for advancement within the low-wage labor market are low. These developments have fueled the debate over the introduction of minimum wages and an unconditional basic income. As in other countries, these proposals have been controversial. Critics argue that such plans could in fact raise unemployment rates among low-skilled workers. At least through the end of the review period, German policymakers had taken a very cautious approach implementing individual specific minimum wages for selected sectors, an approach posing little risk to employment.

## Norway

Score 9

Norway's unemployment rate is low and has remained low through the recent economic crisis. In 2012, this rate was just 2.5%. The aggregate level of employment is high by international standards, due mainly to the high rate of labor-force participation among women, often in part-time employment. But the level of absenteeism (short- and long-term illness and disability) is also high, potentially undermining the validity of unemployment statistics somewhat. 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 place limits on dismissal procedures. However, layoff costs are small for firms that need to downsize. This guarantees a certain amount of mobility in the labor force. Recent reforms have included the reorganization of the public offices serving job applicants. Salaries are often set largely through centralized bargaining processes and collective agreements. In general there is no minimum-wage policy. In most sectors, wage floors are set by negotiations between unions and employers. However, due to increased labor mobility, particularly from Eastern Europe, a growing number of economic sectors are now subject to a kind of minimum salary. The government has also engaged in several initiatives to prevent so-called social dumping. Recent economic literature portrays Norway and Denmark as successful examples of the flexicurity model, which combines high labor mobility (flexibility) with high levels of government-provided social insurance (security). However, there has been concern in Norway over workers' propensity to take early retirement, stimulated by early retirement incentives, some of which were marginally tightened as part of a comprehensive pension reform that came into effect on 1 January 2011. The aim is to reverse the trend toward early retirement.

## Switzerland

Score 9

Swiss labor-market policy is largely a success story, with some blots on the record. Although the "golden age" of containing unemployment through the political management of the inflow and outflow of labor from other countries is past, the achievements of Swiss labor-market policy remain remarkable. In the last quarter of 2012, the harmonized unemployment rate was 4.3%, significantly lower than the OECD average of 7.9%, or the rates in neighboring France (10.5%) or Germany (5.4%). Switzerland has the lowest youth unemployment rate and the highest employment rate of any country examined in the Bertelsmann Stiftung's SGI project.

Nevertheless, a few major problems are evident. The high employment rate is due to a particularly high share of part-time work. About 13% of men and more than 59% of employed women work part-time. The employment rate of women overall has increased dramatically in recent decades. In the fourth quarter of 2012, the employment rate among women was 74%, compared to 68% in Germany, 60% in France or 57% on average across the OECD. However, the employment rate for women is still considerably lower than that among men (80%).

A number of other inequities are also evident. Unemployment rates are highest among low-skilled foreign workers. There is still considerable wage inequality between men and women. In 2012, the median monthly wage for men was CHF 6,397 and CHF 5,221 for women. Not all of these differences are due to different skill levels; discrimination and the high share of part-time employment among women, which is an impediment to establishing a standard career, also play a role.

Highly skilled workers from EU countries pose few problems for Swiss labor-market policy; in particular since these employees are quite likely to return to their native country after a period of employment in Switzerland. In contrast, low-skilled foreign workers tend to stay in the country even if they become unemployed.

## Australia

Score 8

In the period up until late 2008, and again from mid-2009 on, Australia experienced declining unemployment and increasing employment growth. However, beginning in May 2011, unemployment edged higher, the trend rate rising from 5% in May 2011 to 5.5% in April 2013.

While a series of reforms were implemented over the 1990s and 2000s with the aim to improve flexibility and remove barriers to employment, no significant changes to industrial relations legislation occurred in the review period. The Fair Work Amendment Bill 2013 is currently before Parliament, but proposes only relatively minor changes, primarily in relation to rights to parental leave.

There have also been few changes to labor market policies focused on the supply side of the market over the review period. The main change was the transfer, starting 1 January 2013, of lone parents from Parenting Payment to the unemployment benefit if the youngest child is aged over 8. The unemployment benefit has a lower level of payment, a less generous earnings allowance, and more stringent requirements for active job search.

A recurring theme of commentary of the Australian labor market in recent years has been so-called skills shortages. One response to the perceived shortages in skilled labor has been to allow more skilled immigrants to enter the country on temporary "457" visas. The number of 457 visas issued expanded considerably over the review period: in the nine months before 31 March 2013, 95,700 new visas were issued, compared with approximately 68,000 three years before. However, in April 2013 the federal government announced a clampdown on the visas, claiming there was evidence of widespread misuse of the program by employers using the scheme to obtain cheap labor. The nature of the clampdown had not been revealed as of the end of the review period.

Citation:
Department of Immigration and Citizenship Subclass 457 – Temporary Work (Skilled) Visa Statistics: http://www.immi.gov.au/media/statis tics/statistical-info/temp-entrants /subclass-457.htm

## Canada

Score 8

The unemployment rate in Canada is driven by the business cycle, which reflects aggregate demand conditions. Labor-market policies and programs such as unemployment insurance and training programs have limited effect on overall unemployment, although these policies and programs are important for income support and the upgrading of skills. The fall in the unemployment rate to 6% in 2008 reflected the high commodity prices and strong demand conditions of the 2003 – 2008 period rather than effective microeconomic labor-market policies, although the latter could potentially have played a minor role. Program evaluations would be needed to document this. Equally, the rise in the unemployment rate after 2008 reflected the effects of economic crisis, not a failure of labor-market policy, just as the decline in the unemployment rate to 7.2% in April 2013 reflected the economy's resurgence, however tepid.

Specific labor-market programs are available to increase the workforce participation of aboriginal Canadians, whose employment rates are persistently below those of non-aboriginal Canadians. Thus far, however, these programs seem to be ineffective. Between 2007 and 2011, the labor-market performance of aboriginal Canadians deteriorated both in absolute terms and relative to non-aboriginal Canadians. The unemployment rate of aboriginal Canadians rose 2.2 percentage points, while the employment rate fell 2.2 percentage points, and the participation rate declined 0.9 percentage points. All these changes were worse than those experienced by non-aboriginal Canadians.

Overall, labor-market regulation is Canada is relatively light, and there are few labor-market rigidities that impede the operation of the labor market. The most important may be regional employment-insurance benefits that may somewhat reduce the outflow of labor from regions with high unemployment rates, even though labor mobility in Canada, both inter- and intraprovincially, is high. Workplace training represents one possible area of weakness. Responsibility for this function has been devolved from the federal government to the provinces, but it is unclear whether all provinces have developed effective policies and programs in this area. In the March 2013 budget, the federal government introduced the Canada Job Grant, which is aimed at providing financial assistance to businesses interested in upgrading their employees' skills. However, the program requires the participation of and financial contributions by provincial governments, so it remains unclear how widely this program will be adopted. The Canadian labor market is very flexible, particularly for a developed country. According to the World Bank's 2010 Doing Business report, Canada ranked 17th out of 180 countries for the ease with which employers can employ workers. The United States ranked first, but all other G-7 countries ranked well below Canada: United Kingdom (35th), Japan (40th), France (55th), Italy (99th), and Germany (158th).

Citation:
World Bank (2010) Doing Business 2011 http://www.doingbusiness.org/report s/global-reports/doing-business-201 1/~/media/GIAWB/Doing%20Business/Do cuments/Annual-Reports/English/DB11 -Chapters/DB11-EW.pdf
World Bank (2009) Doing Business 2010 http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/ Annual-Reports/English/DB10-FullRep ort.pdf
Finance Canada, Jobs, Growth and Long-term Prosperity: Economic Action Plan 2013, March 21, 2013 http://www.budget.gc.ca/2013/doc/pl an/budget2013-eng.pdf
Centre for the Study of Living Standards, Ottawa. Press Release June 20, 2012, Aboriginal Labour Market Performance in Canada Deteriorates Since 2007, http://www.csls.ca/PressReleaseJune 202012.pdf

## Denmark

Score 8

The Danish model has become known as a “flexicurity” model, meaning that it is not costly to fire employees and that the social welfare state will step in with motivation and training when necessary. On the positive side, there is a fair amount of mobility in Denmark, and youth employment and employment of women are comparatively high. The main challenge Denmark faces is getting more immigrants, and to some extent older people, into the job market.

In terms of unemployment, the Danish labor market performed very well prior to the global economic crisis. The unemployment level was close to 2%, and the Danish case attracted substantial international attention, with its “flexicurity” focus. The debate has highlighted the country’s flexible hiring and firing rules, as well as the social security ensured for citizens via the country’s generous social safety net. However, these elements were also in place during the 1970s and 1980s when unemployment was persistently high and when international bodies ¬– like the OECD – singled out Denmark as a model not to emulate. The main changes in labor market performance were driven by a sequence of reforms during the 1990s by the Social Democratic-led coalition government. These changes were introduced with the understanding that it was the country’s right and duty to maintain the social safety net, but that more clear requirements for claimants were needed. Thus, the policy focus shifted from income maintenance to job creation, as well as requiring claimants to search for jobs. There are now explicit participation or activation requirements for claimants of both unemployment insurance benefits and social assistance. Moreover, participation in active labor market programs no longer made one qualified for a period of extended benefits. The government also shortened benefit duration.

With the current economic crisis, the model faces challenges. A major challenge is to ensure that an increase in unemployment does not translate into an increase in structural unemployment. It is still to early to judge whether this will be the case, but several indicators suggest that the labor market has displayed substantial flexibility in coping with the crisis. First, wages have adapted to the new situation, and the deterioration in wage competition in the boom period prior to the crisis has to a large extent been eliminated. Second, although there has been some increase in long-term unemployment, the increase has not been as large as in previous crises, and there does not seem to be a trend increase in long-term unemployment. Finally, the high level of job turnover remains in place, implying that most unemployment spells are short, and that entry into the labor market is reasonably easy for the young. Youth unemployment has increased but it is still among the lowest in the OECD area.

The current government has continued the active labor market policy of previous governments, with emphasis on improving competitiveness. In 2012, the budgeted amount for labor market policy was approximately DKK 16 billion, almost 0.9% of GDP, much higher than most OECD countries. However, there is an ongoing discussion on the level and design of active labor market policies, and the government has appointed an expert group (The Kock-group) to assess the policies.

Citation:
Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Spring 2013 report, English summary available at: http://www.dors.dk/sw10551.asp
Ministry of Finance, Økonomisk Redegørelse, various issues. Latest issue May 2013.
Andersen, T.M., and M. Svarer, 2012, Active labour market policy in a recession, IZA Journal of Labour Policy, 1:7.

## Iceland

Score 8

Historically, labor market policy has generally been successful in Iceland. Jobless rates were low for many decades, with only a few periods of exceptions. Indeed, at the end of 2007, the unemployment rate was just below 1%. This changed in the autumn of 2008 as a result of the economic collapse, the bankruptcy of the three biggest banks and the dramatic deterioration in the government's fiscal situation. The unemployment rate rose to 8% in 2009 and then to a record high 10% in 2010. Thereafter, it fell to 7% in 2011 and 6% in 2012. A comparison of January – March 2012 (with a three-month average of 7.2%) and January – March 2013 (a three month average of 5.8%) indicates that the unemployment rate might still be going down. Yet if these figures were high by Icelandic standards, they remained low compared to rates in the European countries such as Ireland or Spain hit hardest by the financial crisis. This outcome represented one of the biggest successes of the post-crash government of 2009 – 2013, and was facilitated by ambitious egalitarian social policies as well as by a significant drop in real wages due to the depreciation of the currency.

Citation:
http://www.hagstofa.is/Hagtolur/Lau n,-tekjur-og-vinnumarkadur

## Latvia

Score 8

Unemployment rates have fallen consistently from 20% in 2010 to 16.2% in 2011, and again to 14.9% in 2012. The 2013 trend was similarly encouraging. Achieving further reductions will be increasingly difficult, as approximately 50% of the remainder is constituted by long-term unemployment. The government is actively adjusting its unemployment policies to focus structural unemployment. In 2012, the government made revisions to vocational training programs, extended the use of short-term vocational training programs, and introduced mobility allowances.

As of the time of writing, the Latvian government was awaiting the results of a World Bank study to introduce an evidence-based redesign of support measures. The new policy is expected to be more nuanced and tailored to the needs of particular groups of job-seekers.

Citation:
1. European Commission, Unemployment Statistics, Available at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemp loyment_rate,_2001-2012_%28%25%29.png&filetimestamp=20130417141135, Last Assessed: 20.05.2013.
2. IMF (2012), Article IV Consultation and Second Post-Program Monitoring Discussions Report, Available at: http://www.imf.org/external/pubs/ft/scr/2013/cr1328.pdf, Last Assessed: 20.05.2013
3. European Commission (2013), EU BOP Assistance to Latvia – Second Review Under Post – Programme Surveillance, Available at: http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/lv_efc_n ote_2nd_pps_mission_en.pdf, Last assessed: 21.05.2013.

## Malta

Score 8

Malta’s government claims to pursue the Europe 2020 Strategy, the aim of which is the creation of the necessary preconditions likely to encourage inclusive growth. Malta has one of the lowest unemployment rates in the euro area, and youth unemployment fell from 18.5% in April 2011 to 17.6% in April 2012. The rate of labor market participation increased from 58.2% in 2000 to 61.6% in 2011, the rise attributed to a shift in policy (particularly fiscal incentives and improvements in childcare facilities) to encourage female participation in the workforce. However, Maltese labor policy lags in several key areas. Significantly, the gender employment gap is particularly bad for women, as despite policy improvements a lack of affordable childcare and after-school care, as well as flexible working hours, still presents a significant hurdle for women in the workforce. Another variable that accounts for Malta having one of the lowest employment ratios in the European Union is the size of its informal economy, which is estimated at 25% of GDP – there are many unregistered workers, many of which who are non-nationals.

Moreover, while the rate of early school leavers actually decreased from 42.3% in 2004 to 33.5% in 2011, Malta in 2011 still claimed the highest rate of early school leavers in the European Union, thus there are serious shortcomings in the quality of Malta's workforce. This scenario is further exacerbated by the fact that economic restructuring has created a mismatch between demand and supply of skills in the workforce. The government has attempted to address this through the introduction of new vocational courses and colleges that offer learning more in line with the needs of industrial job creators. Unemployment among older workers has increased from 12% to 15% from 2004 to 2011. With this, attention has now been paid to the shortcomings of Malta's 2012 National Reform Program, as it does not propose a comprehensive active-aging strategy; what's more, many older workers tend to opt for early retirement. A long-term active labor market policy is required, rather than the current short-term, ad hoc program.

While Malta possesses a consolidated support system for the unemployed in terms of social benefits and retraining opportunities, its labor market in general is not inclusive enough to offer sufficient opportunity for lower-skilled individuals who struggle to find employment.

Citation:
Framework Agreement on Inclusive Labor Market March 2010 p. 4
Europe 2020– A European Strategy for Smart, Sustainable and Inclusive Growth March 2010 p. 3
European Economic Forecast Winter 2013 p.66
Pre-Budget Document 2013 August 2012 p.3
Council Recommendation on the National Reform Programme 2012 of Malta and delivering a Council opinion on the Stability Programme of Malta July 2012 p.4, p.7, p.8.
Europe 2020 Target: Early School Leaving p.2
Malta National Reform Programme 2012 April 2012 p. 32
Caruana. C & Theuma, M. The Next Leap: From Labor Market Programmes to Active Labor Market Policy. UHM

## Netherlands

Score 8

No other European country has improved its labor market position since the 1990s more than the Netherlands. Both in terms of net labor participation and (until very recently) unemployment, the Netherlands belonged to the top three nations in Europe. The same goes for qualitative labor aspects like physical conditions, the autonomy of the worker, and co-determination of the organization of work. None of these successes are largely due to government policy: for example, participation increased due to more women working part-time; lower unemployment is probably partly due to lower and somewhat harsher eligibility for unemployment benefits, and partly because troubled businesses are supported by being allowed to keep their labor force intact by making them eligible for temporary, partial unemployment benefits. There are some weak spots: relatively low labor market participation of migrants; little transition from unemployment to new jobs; relatively few actual working hours; a growing dual labor market between insiders (with high job security) and outsiders (with low to no job security); relatively high levels of discrimination on the job; and high work pressure. In terms of labor market governance, this leads to conservative policies: no big reforms in dismissal protection (but limitation of monetary compensation rights); no reduction in minimum wages (but some shorter duration); no reform of collective labor agreements. Some measures can be taken to improve the position of labor market outsiders and job-to-job transitions.

Citation:
P. de Beer (2011), Nederland presteert uitstekend, in Socialisme & Democratie, 9 + 10, pp. 85-95
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Additional reference Sociaal Akkoord between trade unions and employers of April 2013:
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Additional reference Zorgakkoord between government and (helath) care parties (unions, employers, insurers):
http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/04/24/kamerbrief-over-resultaten-zorgoverleg.html

## Austria

Score 7

Austrian labor-market policies are comparatively successful, if the reference is to labor markets in other European (especially other EU-member) states. In recent years, Austria’s unemployment figures have persistently been among Europe’s lowest.

One factor contributing to these rather successful labor-market outcomes is the social partnership between the Austrian Trade Union Federation (Österreichischer Gewerkschaftsbund, ÖGB). and the Austrian Economic Chambers. Many labor-market policies in Austria are effectuated through the Public Employment Service, another institution key to the country’s employment successes. The Austrian dual system of vocational education, in which young people receive on-the-job vocational training while still attending school, has also been successful, and is increasingly drawing international attention.

Compared with the situation 10 or 20 years ago, however, unemployment rates have risen significantly even in Austria. Both neoliberalism and globalization have been cited as decisive factors in this trend. The first explanation argues that job losses are associated with privatization, and could be reversed if government (and politics in general) would act more decisively to secure a stable labor market with better opportunities for employees. The second explanation points to the decline of traditional state power as a result of increasingly open global markets, a trend no national government could hope to control.

Labor-market policies are traditionally influenced by organized labor, represented by the Austrian Trade Union Federation. Like other European trade unions, the ÖGB has seen its ability to attract members decline, but still enjoys a comparatively high membership density.

## Belgium

Score 7

Unemployment rates did not increase in Belgium as dramatically as they did in other European countries during the global economic crisis, largely due to an active policy of employment support and time-sharing, as well as to the diversified nature of the Belgian economy and the relatively high proportion of public jobs (especially in Wallonia). These policies however have shown their limits, and the number of significant plant closures during the review period has created a feeling of economic depression in the country. The unemployment rate is thus bound to rise.

Youth unemployment is significantly higher than for more experienced workers, but the overall moderate rate of unemployment means that the general employment picture is a lot more positive than in, for example, Spain or Greece.

Unemployment rates also differ across regions and cities. Up until recently, Flanders (northern region) was successful in improving employment rates, but the region was hit by the global crisis given the high proportion of plants operated by multinationals (leading to a series of closures, for example, in the automobile industry). By contrast, some older industrial “steel belt” urban areas in Wallonia (southern region) consistently show high unemployment rates (up to 25% in some areas). The Brussels capital region suffers from chronic unemployment due to a mismatch between available jobs, which typically require highly qualified and bilingual workers, and available job seekers, who are largely (second- or third-generation) immigrants with low education (education policy is not adapted to promote skill acquisition by non-native speakers).

## Finland

Score 7

A deep depression in the Finnish economy in the 1990s resulted in a rapid and even dramatic increase in unemployment, and the country has not yet recovered in full. Comparatively, present achievements in stemming long-term unemployment, youth unemployment and low-skilled unemployment are still not satisfactory; especially the high level of youth unemployment is cause for concern. Recent government strategies include efforts to improve employment subsidies and labor market training; in 2010 the government initiated measures to promote self-motivated education and training for unemployed people receiving unemployment benefits. Youth unemployment is a special target for reforms that entered in effect at the beginning of 2013. While Finland maintains a system of set minimum wages and collective agreements, more attention is needed in matters of worker dismissal protections. Structural, institutional and political factors add to present difficulties. Finland is a large but sparsely populated country; in consequence, geography becomes an obstacle to labor mobility. Also, globalization has become a threat to labor market strategies, as companies out of cost-related considerations to an increasing extent move production facilities outside the country. In many sectors, the amount of temporary work contracts is on the increase. All this, of course, works against employment and job security.

Citation:
Heikki Räisänen et al., "Labor Market Reforms and Performance in Denmark, Germany, Sweden and Finland", Publications of the Ministry of Employment and the Economy, Nr 19/2012.

## Japan

Score 7

Even during the global financial crisis, Japan's unemployment rate remained below 6% (although this figure would likely be somewhat higher if measured in the same manner as in other advanced economies). This did not change dramatically even after the triple disaster of 2011. In terms of age cohorts, recent trends show divergent patterns: While unemployment rates among those under 30 years of age, especially among 20-to-24-year-olds, continue to be above average and have indeed risen since the late 2000s, the incidence of unemployment among 60-to-64-year-olds has declined significantly since the early 2000s – in large part due to government support schemes – and is now close to average.

However, as has taken place in many other countries, the Japanese labor market has witnessed a significant deterioration in the quality of jobs. The incidence of nonregular employment has risen strongly; while only one-fifth of jobs were nonregular in the mid-1980s, this ratio had risen to one-third by 2010. A major concern is that young people have difficulty finding permanent employment positions, and are not covered by employment insurance. Moreover, because of the nonpermanent nature of such jobs, they lack appropriate training to advance into higher-quality jobs in the future. In 2011, Japan passed a law to support job seekers through the implementation of a job-training scheme and some post-training financial support. While this has helped mitigate the effect of some structural issues, the measures do not yet address the open labor market.

Unemployment insurance payments are available only for short periods. In combination with the social stigma of unemployment, this has kept registered unemployment rates low. There is a mandatory minimum-wage regulation in Japan, with rates depending on region and industry. The minimum wage is low enough that it has not seriously affected employment opportunities, although some evidence shows it may be beginning to affect employment rates among low-paid groups such as middle-aged low-skilled female workers.

As of the time of writing, the LDP-led government was considering measures to liberalize the labor market, through policies such as making it easier to lay off workers. It remains to be seen whether the government can overcome the strong opposition to such policies in parliament, among vested interests and elsewhere.

Citation:
Ryo Kambayashi, Daiji Kawaguchi and Ken Yamada: The Minimum Wage in a Deflationary Economy: The Japanese Experience, 1994-2003, IZA Discussion Paper No. 4949, May 2010

## Luxembourg

Score 7

The gradual loss of industrial jobs in Luxembourg was more than compensated over time by a gain in services. More moderate wage development has been made possible by the postponing of a new index tranche (January 2012). Luxembourg's labor market is highly regulated, yet too many incentives in the marketplace result in high early exit rates. Only 29% of the workforce is Luxembourg nationals, while more than 43% is so-called transborder commuters (frontaliers), a circumstance that guarantees high flexibility and short-term fluctuation in the labor market. Because of the steady growth of the resident population via a high inflow of economic migrants and corresponding national employment, the unemployment rate has increased only moderately to 6.7% as of May 2013.

After three decades of strong economic growth and modest GDP growth, the period under review saw even qualified workers losing their jobs. Those who suffered first as a result of the global crisis were workers with limited employment contracts and those with the shortest work records at a firm, such as those who worked for interim agencies and cross-border commuters. Luxembourg employment protections are significant for full-time employees. For the cross-border labor market, commuter transfers from the units of the Greater Region – which includes aside from Luxembourg the adjacent regions of Belgium, Germany and France – are crucial, as these groups do not necessarily show up in unemployment statistics. As part of EU regulation 883/2004, which covers the coordination of social security systems within the European Union, Luxembourg has to reimburse the member state for the first three months' payments of unemployment benefits (which is handled by and paid according to the laws of the country in question).

Luxembourg's youth unemployment levels are low compared with the rest of the European Union (18.2% as of April 2013), yet the government has still enacted a plan to help boost youth employment (Plan d'action en faveur de l'emploi des jeunes) to especially assist young graduates having trouble adjusting to working life. The state Employment Agency has also responded with new measures for young university graduates. Other initiatives include a youth-employment center (established in 2012), strategic plans to push lifelong learning programs and regional employment services.

Because of a significant expansion in social care services for children and the elderly as well as the implementation of the European Employment Strategy, more women have entered the workforce during the period. The employment rate of workers 50 years old or older, however, is 40%, which is far below the EU average and national goals – a situation that is maintained by the many incentives for older workers to leave the labor market.

Citation:
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http://www.odc.public.lu/publications/pnr/2013_PNR_Luxembourg_2020_avril_2013.pdf
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Bilan compétitivité (2012): http://www.odc.public.lu/publications/perspectives/PPE_025.pdf
Evaluation by the Commission (July 2012):
http://register.consilium.europa.eu/pdf/fr/12/st11/st11263.fr12.pdf
Hartmann-Hirsch, C. (2010), A propos de la transnationalisation du marché de l'emploi: Est-elle "policy driven" ou "market driven"?, in: ASTI 30+. 30 ans de migrations, 30 ans de recherches, 30 ans d'engagements, édité sous la direction de Michel Pauly pour le compte de l'Association de Soutien aux Travailleurs Immigrés (ASTI), Luxembourg, pp. 124 – 137.

## South Korea

Score 7

Labor market policies have successfully kept the unemployment rate at about half the OECD average. The jobless rate fell from 3.7% in 2010 to 3.4% in 2011. The increase in the unemployment rate was smaller than in most other OECD countries since the beginning of the global economic crisis in 2008. Youth unemployment remains relatively high at 9.7%. This comparatively good performance can be attributed to the effects of the large fiscal stimulus package, the country's export competitiveness due to massive currency devaluation and corporatist arrangements that traded wage restraints for job security. On the other hand, labor market policies have been less successful in preventing the proliferation of precarious working conditions and irregular employment. This problem is particularly severe for young college graduates, who have been dubbed the "88 generation" because they cannot get regular jobs and their first irregular job or internship typically pays about KRW 880,000 (approximately $800 dollars) a month. The overall employment rate of 64% remains below the OECD average due to low levels of employment among women and the lack of effectiveness in government measures designed to address this problem. Consequently many of the unemployed are discouraged and stop looking for jobs, exiting the labor market altogether.

Citation:
OECD, Employment Outlook 2009 – How does KOREA compare? http://www.oecd.org/dataoecd/62/34/43707086.pdf
OECD, Employment Outlook 2011, http://www.oecd.org/document/46/0,3746,en_2649_33729_40401454_1_1_1_1, 00.html

## Sweden

Score 7

Swedish labor market policy needs to be understood in its historical context. The more than 40 years of Social Democratic rule elevated the policy goal of full employment above and beyond partisan differences. The 1970s and 1980s saw Swedish industry undergo massive restructuring, and although unemployment increased, it was still moderate comparatively speaking. Since the 1990s, a new scenario has emerged in which unemployment remains relatively high, and at the same time, economic growth is comparatively strong.

The current labor market statistics indicate that Sweden today does not differ in any significant way from comparable capitalist economies. If anything, unemployment among the youth and immigrants is higher than in the average, comparable country. This pattern raises questions about the efficiency of Sweden’s labor market policies and the overall regulatory framework.

The continuing EU integration and mobility of labor has triggered a new set of issues related to the domestic regulations in the market. Also, there has been extensive debate about introducing an apprentice model to help youth make the transition from education to the labor market. Additionally, Swedish policymakers have been trying to create a short-time work scheme for public employees, as exists in Germany. These examples may indicate that the old Swedish model of labor market policy is gradually moving towards the German model.

Union strength declined rapidly during recent years, but union power still remains strong by international standards. The strength of unions in part explains the relatively modest reform in labor market rules related to dismissal, minimum wage, and apprentice arrangements, which would entail some workers earning a lower salary. But this statement does apply only to insiders on the labor market. As employment protection legislation for precarious work does decline significantly. As in other European countries, in Sweden a dualization of the labor market is taking place, albeit at a slower speed than, for example, in Germany.

Whether related to culture or differences in training and work experience, immigrants to Sweden have severe problems successfully entering into the labor market. Sweden shares this problem with a large number of countries but it has proven to be exceptionally inept at this aspect of integration. The large number of unemployed immigrants erodes integration policies to a great extent and will be a major challenge for policymakers in the future.

During the financial crisis, however, the Swedish government relied on active labor market policies. In this respect, the old pattern of crisis management was in use. Nevertheless, the efficiency of active labor market policies is highly contested, especially given the high unemployment rates and the high youth and immigrant unemployment rates.

Citation:
OECD (2012), Employment Outlook (Paris: OECD)

## United Kingdom

Score 7

After a period of remarkably good and stable labor market performance in which the rate of unemployment was below that of the euro zone and even that of the OECD average, conditions in the United Kingdom have deteriorated in the wake of the 2008 crisis and the ensuing economic downturn. Underlying weaknesses (such as the comparatively high degree of working age inactivity linked to the high number of claimants of disability-related benefits) have come to the fore, and the unemployment rate has risen to its highest rate since the mid-1990s. While employment has slowly been increasing since late 2011, unemployment shows no signs of receding to pre-crisis levels, yet many commentators have been puzzled by the fact that the rise in unemployment has been less dramatic than might have been expected given the severity of the downturn. Particularly worrying is the rate of youth unemployment, which has hit 20%.

Attempts at increasing labor market flexibility through deregulation and the lowering of secondary wage costs have showed little effect so far. However, while the UK labor market may be in worse shape than it was a decade ago, it still shows better performance indicators than those of many European countries.

## Chile

Score 6

By international comparison, Chile (like most of Latin America) has very wide-ranging and restrictive labor market laws and regulations, at least on paper. Excessive regulation of job content, firing restrictions, and flexible and part-time contracts create disincentives to formal-sector employment. Minimum wages are high relative to average wages in comparison with other OECD countries.

There has been a slight decrease in unemployment during the period under review. That said, between 70% and 80% of salary earners work in a low-wage sector or do not even earn minimum wage but are statistically registered as employed.

Issues that would increase the flexibility of the labor market, such as greater integration of groups like women or low-skilled workers, have largely been ignored. Trade unions are on average relatively weak, with a large variance in strength ranging from very high (in state enterprises and the central government) to very low (in informal enterprises and state-owned enterprises), with factors influencing this divide ranging from inadequate legislation or enforcement to the prevalence of informality. Given the pressure brought to bear on wage topics by the stronger labor unions such as Central Unitaria de Trabajadores (CUT) and Comisiones Obreras (CCOO), labor market policy has shown a limited focus on wage level but not on the quality of labor. There is a clear lack of offerings or possibilities for continuing education and skill enhancement. Despite diminishing productivity, comparatively high wages have been established, including wage increase beyond the rate of inflation.

## Czech Republic

Score 6

Despite falling GDP, the total number of people working has increased since 2009 and by 2012 was slightly above the pre-crisis level of 2008. Unemployment was still higher than in 2008, but declined slightly during 2012. The main cause of this apparent success was a growth in activity outside of dependent employment, including self-employment, helping in a family business and working on contracts for specific tasks without set hours. A number of policies aimed at giving opportunities to the unemployed, such as socially useful temporary jobs and the support of short-time working and training projects, were either ineffective or saw reductions as part of policies for reducing the budget deficit. However, entitlement to unemployment benefits was toughened in January 2012, with benefit limited to five months for most claimants and a reduction after two months. Those unemployed for longer than two months can also be required to perform unpaid work in the community. It is possible that the worsening conditions for the unemployed and reductions in other state benefits have encouraged employees to accept pay reductions and those already unemployed to accept unstable forms of employment, thereby leading to a slight increase in numbers employed. The threat of unemployment is thereby reduced at the cost of worsening employment conditions.

## Estonia

Score 6

Important labor market reforms in Estonia coincided with the global economic crisis in 2008. The government carried out reforms to its labor market policy before the economic downturn at the peak of the crisis. Not surprisingly then, labor market performance since reform has been diverse and mixed. Additionally, the extremely turbulent economic environment had an effect on employment. In 2010 – 2012 the employment rate slightly increased and unemployment decreased substantially. The share of registered unemployed persons who participated in active labor market policy (ALMP) measures increased from 55% in 2011 to 84% in 2012. However, long-term unemployment and low skilled unemployment even increased in during the review period despite an improving economic situation. These trends suggest that labor market policy has failed to address the problems of the most disadvantaged groups. The high number of unemployed and low skilled youth is a serious threat to a the well functioning labor markets for two reasons. Firstly, employers complain that the shortage of skilled labor is the main obstacle in expanding their businesses. Secondly, many low skilled workers and youth leave the country in search of opportunities abroad, which decreases labor supply and tax income. Although the Estonian Employers' Confederation and the national government have recognized the problem, their reaction has remained at the rhetorical level.

Minimum wage regulations are in force, and the wage level is fixed annually according to a tripatrite agreement. Collective bargaining agreements are typically made at the level of enterprises or employment branches in Estonia. In 2012, disagreements on pay level sparked several strikes.

Unemployment insurance has been in effect since 2002, but in 2011 – 2012, a very sharp conflict arose concerning how to govern the Unemployment Insurance Fund (UIF). The major dispute between social partners concerned dissatisfaction with high unemployment insurance contribution rates and government's plan to integrate UIF resources into the state budget. Labor unions and the Estonian Employers' Confederation accused the government of limiting the autonomy of the tripartite council and of putting the capacity of the UIF to fulfill its mandate at risk . Despite protests of the labor market partners, the parliament passed the legal amendment in accordance with government plans.

## Israel

Score 6

With a working-age labor-force participation rate of 66% compared to the OECD average of 77%, Israel has a relatively large number of people outside the labor market. This situation is especially prevalent among Arab-Israeli women and ultra-orthodox male Jews. Many of the relatively well-educated Jewish immigrants who arrived from Russia in the 1990s (today accounting for 8% of Israel's population), who provided the country's industrial sector with a significant proportion of its high-level technical and engineering skills, are now approaching retirement age. This phenomenon, along with the fact of an increasingly technology-driven economy, will fuel increased demand for workers with good technical and engineering skills in the future.

While the Israeli government supports the free market, it acknowledges that state interference is necessary, whether through regulation or in the form of fiscal transfers. Indeed, following the 2008 economic crisis, the importance of regulation as a policy instrument was recognized in a broader sense. Over the past few years, the labor market has witnessed an expansion in labor regulation and labor laws. However, budgetary outlay related to this trend, largely in the form of negative income-tax payments and professional training costs, have been well under the average OECD outlay for labor-market policy.

The government has also adopted the Danish flexicurity model of labor-market regulation. Based on trilateral agreements between the government, employers and unions, it aims to improve the economic status of both unionized workers and the unemployed by ensuring that they receive severance packages and unemployment benefits when they find themselves out of work.

The government has sought to cultivate labor-market mobility by expanding the quantity of work permits provided. Nevertheless, despite the relatively low unemployment rate, it remains difficult to identify a clearly long-term strategic component in the state's policymaking in this area.

Citation:
"Labor Market: Bank of Israel yearly report 2012," Bank of Israel website (Hebrew)
Field, Simon and Małgorzata Kuczera, "OECD Reviews of Vocational Education and Training. A Skills beyond School Commentary on Israel," December 2012.
http://search.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=EDU/EDPC/VET(2012)10&docLanguage=En
Swartz, Eliezer and Ilan Biton,"Description and analysis of employment policy in Israel," Knesset research institute 31.10.2010 (Hebrew)

## Lithuania

Score 6

Although Lithuania's labor market proved to be highly flexible during the financial crisis, ongoing labor-market difficulties present some of the primary challenges to Lithuania's competitiveness. Unemployment rates remain high, especially among youth (with this rate among Europe's highest), the low-skilled, and the long-term unemployed. In its 2012 report, the European Commission assessed Lithuania's labor-market policies as lacking ambition, and as only partially addressing the most pressing concerns. In particular, the report said that additional measures are necessary to enhance labor-market participation and improve labor-market flexibility. The country's active labor-market policies have struggled to cope with the increased number of unemployed, with Lithuania's activation rate among the EU's lowest (only 4.7 % in 2009).

Despite the flexibility provided in determining wages, for which the country earned its highest rating in the area of labor market efficiency in the Global Competitiveness Report, hiring and firing practices are considered to be too restrictive (earning the country's lowest rating in the same index). In 2013, the current Lithuanian government increased the minimum wage by about 20%, to about €290, in order to fulfill pre-election promises. It is too soon to judge the overall effects of this decision on employment trends; while it caused no massive new wave of unemployment, rates stabilized at the beginning of 2013 after series of improvements in the latter months of 2012. Relatively high rates of emigration to other EU member states have partially compensated for the inflexibility of hiring and firing rules and the country's rigid labor code.

Citation:
COMMISSION STAFF WORKING DOCUMENT on the assessment of the 2012 national reform programme and convergence programme for LITHUANIA, http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/20_scps/2012/02_staff_working_document/lt_2012-05-30_swd_en.pdf.

## New Zealand

Score 6

Although the National Party-led government is reluctant to use direct interventions in the labor market, New Zealand's labor market policy has been relatively successful. Following the world financial crisis, unemployment (6.2% in the first quarter of 2013) has risen less than in most Organization for Economic Co-operation and Development (OECD) countries. In addition to longer-term measures to reduce non-wage labor costs, the government has concentrated on online information for job seekers (the Department of Labor's Jobs Online Index) and on measures to build up skill levels in the workforce and address skill shortages. A major problem in this regard is the loss of highly skilled workers to Australia. The movement of New Zealanders to and from Australia, which exceeds 50,000 individuals per annum, is highly related to economic conditions in both countries. Recent strength in the Australian labor market relative to the situation in New Zealand has encouraged migration between the two countries, although there are signs that a downturn in the Australian labor market, especially in the mining industry, may stem some of the outward flow. With regard to mainly low-skilled work, the Essential Skills Policy facilitates the entry of temporary workers to fill shortages where suitable New Zealand citizens or residents are not available for the work offered. Areas of concern remain, such as the differentials between urban and non-urban areas, and with respect to Maori and Pasifika populations, which had an unemployment rate of 14.1% and 15.4% respectively in the first quarter of 2013. Young people are affected by unemployment (17.1% in 2013) to a worrying level. The government has responded with a number of youth-based initiatives, including increased financial support for apprenticeship training, greater vocational preparation in schools and the introduction of a 90-day employment trial. The Canterbury rebuild, following a series of devastating earthquakes, is beginning to provide a strong growth stimulus for the economy and the labor market situation, including an anticipated construction boom. In order to facilitate this, the government has put in place a number of policies.

Citation:
Household Labour Force Survey (Wellington: Statistics New Zealand 2012) (quarterly reports).
OECD Employment Outlook 2012 (Paris: OECD 2012).
Department of Labour,'Labour Market Factsheet' (dol.govt.nz/publications/lmr-fs/lm r-fs-mar12.pdf), March 2012.

## Poland

Score 6

Despite Poland’s favorable overall economic record, the country’s labor market performance has been poor. The unemployment rate rose to about 12% in 2012; youth unemployment is high, and the general employment rate is still one of the lowest in the European Union. In every Polish region, there are islands where one will find areas of low unemployment, surrounded by areas where unemployment is much higher. Under the Tusk government, labor market programs have been expanded, but have failed to turn the tables on unemployment significantly. In spring 2013, a new round of labor market reforms was launched. Labor offices are planned to be reconstructed and new instruments such as temporary state payroll subsidies for troubled firms were introduced.

## Turkey

Score 6

Turkey’s population mid-2011 was 74.7 million and in 2012 rose to 75.6 million people; the working age population (those 15 years old and older) totaled 53.6 million in 2011 and 54.7 million in 2012. The labor force participation rate rose from 49.9% in 2011 to 50% in 2012. But according to the latest statistics at the time of writing, as of February 2013 the labor force participation rate fell to 49.6%. Analysis of the labor force participation rate by gender reveals that women in the workforce rose from 27.6% in 2010, to 28.8% in 2011 and to 29.5% in 2012. Yet the female participation rate in Turkey is still much lower than in the European Union. Total employment figures, which totaled 24.1 million people in 2011, increased by 711,000 to 24.8 million people in 2012.

While employment during the same period increased in the industrial and services sector by 47,000 and 710,000 positions respectively, employment in the agricultural sector fell by 46,000. Simultaneously, as the number of unemployed decreased from 2.6 million in 2011 to 2.5 million in 2012, the overall unemployment rate fell from 9.8% in 2011 to 9.2% in 2012, while the unemployment rate in the non-agricultural sector fell from 12.4% in 2011 to 11.5% in 2012. In line with improvements in the labor market, informal employment decreased by 1.1 percentage point, dropping to 42.1% in 2011. According to the State Planning Organization (2012), the main factors behind this are an economic recovery in the post-crisis period, the government’s employment packages and employment measures enacted through Law 6111 of February 2011.

The main challenge facing the government in the medium term is to create more jobs and more quality jobs for Turkey’s young and growing population, since many young people (from 15 to 24 years old) and many women are neither working nor attending school. The youth employment rate is 31.1%. The government faces the challenge of reducing informal jobs (or jobs without social security benefits) from its present employment levels of 42%.

Legislation over health and safety at work made some progress during the review period. In June 2012, parliament approved work health and safety legislation to align Turkish laws with the EU Framework Directive. In addition, in April 2012 parliament adopted a new law on civil service trade unions, which now allows collective bargaining; yet the law still falls short of the requirements set out by the International Labor Organization and the European Union. The government also adopted a new action plan to fight the growth of the informal economy for 2011 to 2013.

While unemployment insurance benefits were introduced in 2006, because of bureaucratic issues the number of beneficiaries is still low. According to Law 5763, all unemployed persons registered with Turkish Employment Agency (ISKUR) have access to general advice, job placement services, vocational training and temporary community employment programs. What’s more, during the period the number of working disabled increased.

The government plans to encourage the creation of jobs that offer flexible hours or work structures, and seeks to better connect these jobs to the social security net through a number of efforts. The government will pass regulations as part of the labor law to encourage telecommuting, job-sharing and flexible working hours; will establish a Severance Payment Fund to help preserve and protect workers’ rights and ensure the competiveness of enterprises; will increase resources allocated to ISKUR for labor market programs and improve the facilities and staff of ISKUR provincial directorates to ensure programs are implemented efficiently and quality is improved.

Citation:
State Planning Organization (2012)“Pre-Accession Economic Program 2013-2015”, Ankara
State Planning Organization (2012)“2013 Annual Program”, Ankara

## United States

Score 6

The United States continues to have one of the least regulated and least unionized labor markets in the OECD world, with union membership at less than 6.6% of private sector workers and 35.9% of public sector workers in 2012. Apart from the relatively difficult conditions for labor unions – which provide some boost to employment – the U.S. government plays a minimal role in promoting labor mobility and providing support for training and placement.

The central feature of the last three years, with regard to labor market policy, has been an attack on public employees' unions in a number of states with Republican governors and legislatures elected in the 2010 mid-term elections. Several states (Maine, Alabama, Ohio, Arizona, and Wisconsin) weakened public employee union rights to collective bargaining. Notably, Michigan, long a bastion of union power, became the 24th state with a "right-to-work" law, prohibiting a requirement of union membership as a condition for employment (in effect, making union dues voluntary for employees).

Meanwhile, federal policies have done little to address a growing problem of long-term unemployment. As of May 2013, 4.1% of the labor force had been unemployed for at least 27 weeks. The number of people who receive disability benefits has increased by 100% since 1995 – a trend that partly reflects the ability of some discouraged workers to obtain a secure, though reduced income by qualifying as disabled. Overall, the employment benefits of relatively free labor markets with low levels of unionization are balanced against a lack of positive governmental measures to promote labor mobility, enhance training, or deal with long-term unemployment. The result has been a middling level of unemployment,by OECD standards, though with much more severe levels among racial minorities and among older workers who lost jobs during the recession.

## Cyprus

Score 5

Until comparatively recently, Cyprus' labor market has been characterized by near-full employment and an oversized public sector paying high salaries. Services accounted for more than 77% of the market in 2012. However, the global economic crisis had a deep impact on the labor market beginning in 2011; the main unemployment rate rose steadily from 4% in 2010 to 14.2% in March 2013.

The regulatory framework protects labor rights and protects workers from unlawful dismissal. However, serious shortcomings are evident in its implementation in the private sector. Over the years, "tripartism" in the form of agreements between the state, businesses and employees have made the labor market less flexible. Automatic cost-of-living allowances protected incomes against inflation. In other cases, low salaries, a lack of access to social insurance and other serious problems can be observed. Most importantly, the labor market is distorted by the coexistence of a large public and banking sector characterized by high levels of benefits and job security with a relatively small private sector offering comparatively minimal opportunities. Unions, particularly within the public sector, have a strong voice, but migrant labor from the European Union and elsewhere is often exploited, widening the economic gap. The migrant workforce, made up mostly of EU nationals, has grown sharply in recent years, rising from 21.6% in 2007 to an estimated 30% (2011) of the active labor population.

The persistently high unemployment trend during the period under review led to the implementation of active labor market policies, such as the provision of counseling services and seeking to improve unemployed workers' employment prospects.

However, these policies have thus far proved insufficient in combating or curbing unemployment. The youth unemployment rate reached 26.7% in the first quarter of 2012, an increase from 22.4% in 2011. Long-term unemployment rose from 1.60% in 2011 to 3.2% in the second quarter of 2012. The degradation of the economy in general and the lack of comprehensive employment measures rendered active labor-market policies and other sectoral efforts largely ineffective.

Citation:
1. Labor statistics published in March 2013, available at, http://www.mof.gov.cy/mof/cystat/statistics.nsf/labour_31main_en/labour_31main_en?OpenForm⊂=1&sel=2
2. On the impact of immigration on unemployment and labor force, http://www.ucy.ac.cy/data/ecorece/FullTextChristofidesetal.pdf

## France

Score 5

Despite high overall spending and a large number of reform measures, labor market policy has shown poor results during the review period. Particular problems are centered in notoriously high youth unemployment figures; the employment rate of workers over 55 being one of the lowest in the OECD (41.5% in 2011 compared to OECD levels of 54% and EU target of 50%); and the difficulties of (especially young) French citizens with immigrant backgrounds to integrate into the labor market.

The reasons for such failure are many, and complex at that. The high level of youth unemployment is linked to the French job-training system, which relies heavily on public schools; yet diplomas from such training are not really accepted in the industry at large, which hinders a potential worker's transition from school to a job. As for senior workers, a retirement age of 60 and various early retirement schemes have led to the present situation. Heavy labor market regulation is another issue, as well as the high cost of labor. There is a dual labor market: one side that is highly regulated and protected (part of which are the five million public employment positions, one of the highest number in Europe) and one side that because of rigidity of regulations, leads to workers leapfrogging from contract to contract (of limited duration or interim employment) with few protections or security.

The Sarkozy government tried to pursue a more “active” policy toward recipients of unemployment benefits, by creating a unified labor service center and by launching a special social benefit which offers complementary benefits to the unemployed who return to (often badly paid) work. The Hollande administration has been successful in realizing some controversial labor market reforms, based on an agreement between social partners that was concluded in January 2013 and transformed in a binding law applicable to all. It is supposed to introduce more flexibility in the job market in exchange for better health services and training for workers made redundant.

## Mexico

Score 5

The most important issue in Mexico’s labor economy is the differentiation of the labor market into so-called formal and informal sectors. The informal sector consists of companies that are not legally registered for taxation or national insurance, and largely escape both the advantages and disadvantages of legal regulation. By OECD standards, the size of the informal sector is quite large. In November 2012,Mexico enacted a new labor reform bill with bipartisan support from the parties of the outgoing (National Action Party, PAN, Calderon) and incoming presidents (Institutional Revolutionary Party, PRI, Pena Nieto) that aims to increase market flexibility and reduce hiring costs. Although watered-down in terms of union transparency, supporters of the the bill claimed that it has the potential to increase productivity, boost employment, and improve competitiveness. The new law reforms Mexico’s labor regulations and allows employers to offer workers part-time work, hourly wages and gives them the freedom to engage in outsourcing. Opposing, but not being able to block the bill, the left-wing PRD deplores the ease with which employers can now hire and fire workers, outsource jobs, sidestep giving workers health benefits and hire part-time workers for a fraction of the pay they would otherwise receive.

On the other hand, the new law contains provisions to outlaw gender-based discrimination, and by lifting the ban on part-time employment, it will be easier for some, including single parents and students, to find work. Until recently, Mexican labor law was based exclusively on Article 123 of the constitution, as well as the 1931 labor law. The Mexican labor system was organized on principles that were fundamentally corporatist for insiders and exclusionary for the rest. The corporatist system declined as the economy became more oriented to market principles, the Cold War ended, and labor militancy became less of a threat.

However, a more modern philosophy did not replace the old system, and in turn, the labor legislation became cumbersome and anachronistic. The new law has thus updated Mexico's labor legislation to some extent. However, the new law is unlikely to produce major changes. Durable long-term change is notably hard to achieve due to Mexico's chronic labor surplus and its large informal sector of the economy. The government is facing entrenched interests – particularly from trade unions ¬– who maintain a strong following will try their best to halt reform. Despite the trade unions' relative loss of influence in the past two decades, they are still influential compared to other Latin American countries.

## Slovenia

Score 5

In Slovenia, unemployment has risen since 2009 and in 2013 reached the highest value since the start of the Labor Force Survey in 1993. There is a long tradition of labor market policy which dates back to Yugoslav time. The existing public works program, however, has not proven very effective. The Pahor government undertook a first attempt at liberalizing Slovenia's highly regulated labor market, but fell victim to a referendum initiated by the trade unions in June 2011. Labor market reform was eventually adopted unanimously by the National Assembly in March 2013. The reforms are relatively modest, but will make hiring and firing in Slovenia less bureaucratic. Within the framework of the 2012 Fiscal Balance Act, the Janša government slightly reduced the replacement rates for unemployment benefits, but left the generous maximum period of benefit receipt untouched.

## Hungary

Score value_6

When taking office, the Fidesz government promised 1 million new jobs in 10 years. In 2010, it introduced a new "public work" program under which unemployed persons, under the control of retired policemen, would do unskilled work under precarious conditions and for very modest remuneration. With the help of this program and increased employment abroad, overall employment has slightly risen since 2010. However, the unemployment rate has remained unchanged, and 50,000 jobs have been lost in the private sector between 2010 and 2013. In 2012, the government adopted a new Labor Code with a lower level of dismissal protection. In 2013, a new Job Protection Act went into effect that halved or reduced the social contribution tax and vocational training contribution up to a gross wage of HUF 100,000 for selected groups of employees.

## Ireland

Score 4

The government’s labor market policies have not made a dent in this crisis. The stabilization of the unemployment rate since 2012 may be attributed in large part to a resumption of emigration and withdrawals from the labor force.

The increased provision of places on training and education courses forms part of the government’s response to the unemployment problem. Responsibility for implementing this lies with Ireland’s national training and employment agency, An Foras Áiseanna Saothair (FÁS). This institution has been weakened by scandals and public criticisms over recent years. In this area policy-making has not been effective.

The program agreed with the Troika placed considerable emphasis on structural labor market reforms and activation measures such as reducing the minimum wage, reforming the unemployment benefit system to increase incentives to move from unemployment to employment, and generally reducing poverty–welfare traps. There is little to suggest that these measures have been effective.

From a macroeconomic perspective, it is unrealistic to expect reforms of this nature to have a major impact. The structural problems that existed in the Irish labor market did not prevent the achievement of full employment during the boom and the changes that are now being urged, while desirable, are not likely to make a serious contribution to restoring full employment. Aggregate demand remains weak and the prospects for recovery uncertain given the combination of weakening external demand and the prospect of two more years of budgetary austerity.

The statement issued by the Troika at the conclusion of its tenth review of Ireland’s program in May 2013 shifted the responsibility for action on the unemployment problem to the government. It implied that the familiar list of structural reforms and increased competitiveness were the appropriate instruments, while also hoping for some rebound in aggregate demand.

## Italy

Score 4

Existing labor market policies were inadequate to meet the challenges of the crisis. The new ones introduced under the Monti government have not significantly improved the situation. In combating the effects of the crisis, the government has concentrated resources into the existing salary integration programs (the “cassa integrazione”), which temporarily either partially or fully subsidize the salaries of workers kept idle by private companies, thus encouraging firms to avoid dismissing employees. But even these mechanisms have not enabled Italy to contain increases in unemployment during this period.

The difficult economic situation has further worsened one of the typical problems of the Italian labor market: the polarization between protected sectors and those that are largely unprotected and precarious. While older workers in the public sector and in large firms of the private sector enjoy sufficient and in some cases even excessive protection, young people and in general those working for small private-sector firms are much less protected. Unemployment has risen very significantly during the last two years but the increase has been particularly dramatic for young people. The lack of significant unemployment benefits has made their position extremely difficult. Shortcomings in labor market policies demonstrate the lack of liberalization and incentives to create low-income jobs. The existing system tries to keep people in their jobs but not to increase employment.

## Portugal

Score 4

Unemployment has increased very quickly over the last two years, reaching 17.8% in April 2013, over five percentage points higher than the 12.6% of May 2011. As a result of the Memorandum of Understanding (MoU) and of the government’s austerity measures, the government approved new labor legislation in May 2012 that considerably increases labor market flexibility, while unemployment benefits have been further cut. However, these measures have been insufficient to compensate for the fast falling economy as domestic demand collapsed. Indeed, it must be noted that the government’s 2013 budget forecast of 16.4% unemployment in the current year has already been surpassed by a large margin and there are no signs of the trend being reversed.

## Romania

Score 4

Romania’s unemployment rate declined from 7.4% in May 2011 to 6.7% in March 2013, owing, in most part, to decreasing youth unemployment falling from 24.8% in 2011 to 23% in 2012. At the same time, long-term unemployment increased slightly from 3.1% in 2011 to 3.2% in 2012. However, official employment and unemployment statistics are not a very reliable gauge of the Romania’s employment situation, given the large number of Romanians working either abroad or in the informal economy. Prior to the crisis, Romania‘s labor market policy expenditures were the lowest among the 27 EU members (0.27% of GDP compared to an EU-27 average of 1.6%) and roughly two thirds of this spending was used for unemployment benefits and early retirement. While unemployment benefits almost tripled from 2008 – 2010 in response to the global financial crisis, the already low spending on active labor market policies declined further in both absolute and relative terms.

## Slovakia

Score 4

Despite Slovakia's relatively good growth performance, the unemployment rate has not decreased. Currently standing at 13.7%, it is one of the highest in the OECD. Unemployment is especially high in the south, among the low-skilled and the Roma. Labor market policy featured prominently in the 2012 election manifesto by the Smer-SD. However, neither the Radičová nor the Fico government have managed to implement an effective labor market policy, and Slovakia has remained one of the OECD countries with the lowest spending for active labor market policy. The single most important deficit has been a lack of activation measures.

## Bulgaria

Score 3

Bulgaria has experienced a sharp rise in unemployment in the period 2009 – 2012. The structures of employment and unemployment indicate large and increasing mismatches. For one thing, the unemployed largely consist of people with low qualifications, experience and education. For another, while most people with higher education are employed, their work is in an area different to that they studied. The GERB government has done little to address these problems. It has refrained from overhauling the Labor Code with its many pre-1989 provisions and has not eliminated the minimum social security thresholds negotiated between the large trade unions and the large employer organizations, with its negative employment effects. Active labor market policies have been limited and have not been very successful.

## Croatia

Score 3

As a result of the economic recession, the unemployment rate has increased in the past four years. The main reason for the increase has been the fall in aggregate demand, but this has been exacerbated by the mismatch of supply and demand at regional, skill and expert levels. The groups of the population most affected by unemployment include youth up to 25 years of age, women above 45 and men above 50. Recent research on the skills mismatch in the Croatian labor market has shown severe mismatch on the labor market for young people, and that as many as two fifths of school leavers fail to find a job in the occupation for which they were trained (Matkovic, 2012a). It is not surprising therefore that youth unemployment almost doubled from 22% in 2009 to 43% in 2013. Moreover, long-term unemployment also doubled from 5.1% in 2009 to 10.3% in 2012. Only one fifth of the unemployed receive unemployment benefit, and the average duration for receiving benefit is three months.

Labor market policies in Croatia are insufficient to tackle the rapid increase in unemployment. Spending on active labor market policies is relatively low at just 0.51% of the GDP. Despite a high level of long-term unemployment, relatively little is spent on retraining, lifelong learning and adult education. Only 2.4% of the adult population receive training compared to an average of 9% in the European Union. The minimum wage in Croatia is not especially high at the equivalent of €371.34 per month – similar to Poland and Hungary and about half the level of Slovenia or double that in Bulgaria. However, high social contributions provide a disincentive to employers to hire workers. In order to reduce the disincentive, in 2013 the Milanović government reduced the rate of employer compulsory health insurance contribution on gross wages from 15% to 13% and adopted an Employment Incentive Act which exempts employers from paying health and other contributions if they take on long-term unemployed people without work experience. However, high marginal tax rates on unemployed people who receive social assistance impose an additional disincentive for the unemployed to find work (Matkovic, 2012b).

Citation:
Matkovic, T. (2012a)"Educational Origins and Occupational Destinations? Dissecting the Education-Job Mismatch in School to Work Transitions in Croatia," in: M. Arandarenko and W. Bartlett (eds.) Labor Market and Skills in the Western Balkans, Belgrade: FREN, pp. 73-100.
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## Spain

Score 3

Spanish labor market policies have shown very limited success from 2011 to 2013 and the high unemployment rate has actually risen during this period, reaching a painful figure of 6 million unemployed workers for the first term of 2013 (27.16%). Unemployment particularly affects low-skill occupations, immigrants, women and young people. There is also a severe mismatch between workers' qualifications and job availability, with many highly skilled employees not making adequate use of their expertise and capabilities. The debate on labor market reform has focused on two primary issues: the inflexibility of employment regulations (particularly concerning layoffs), and the existence of a dual labor market in which an enormous 35% of the workforce serves under temporary contracts and has no job protection, in contrast to the overprotected 65%.

Other issues playing an important role in this situation are the rigidity of Collective Agreements and the effects they had until 2010 in the increase of salaries, or the high public expenditures on unemployment benefits, which have continued to increase in this period. The Popular Party (Partido Popular, PP) government passed a radical reform of the regulation in all these areas (Royal Decree Law 3/2012) with measures such as reinforcing the temporary job companies as employment agencies; fostering the training contract and the extension of the eligible age (up to 30); introduction of new permanent contract to SMEs with fiscal benefits; bonuses for hiring groups especially affected, such as young and older people; restriction of the succession of temporary contracts and modification of the part-time contract; introduction of the possibility of modifying the functions of employees, as well as their workday and salary; prioritizing the enterprise agreement over the collective with the aim of moderating wages, etc.

Nevertheless, this new labor reform has had no significant effects so far, as the Spanish economy as a whole kept getting worse until mid-2013. Notwithstanding this, from its peak in February 2013 the total number of registered unemployed workers has started a relatively significant reduction in all economic sectors except agriculture (and 20% of the new contracts were directly connected to a new contract modality introduced by the labor market reform). Finally, it has to be mentioned that public spending in labor policies now represents an important percentage of GDP (from 2.2% in 2007 to 3.9% in 2010) mainly as a consequence of unemployment benefits.

Citation:
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## Greece

Score 2

Before the crisis a rigidly regulated labor market of hundreds of state-owned enterprises and a few hundred large private companies existed side by side with a little-regulated, if not completely unregulated labor market dominated by about 800,000 small and very small enterprises. In the state and large private-company labor market, employees enjoyed on average higher job security, higher salaries and better social protection than in the small enterprise market, where job insecurity and evasion of insurance contributions were rampant. This situation, which pitted labor market insiders versus outsiders, was exacerbated in the period of the economic crisis.

In 2011 – 2013 in the context of Greece’s bailout by its creditors, job security regulations were relaxed and dismissals were facilitated. Private companies were allowed to offer tailor-made, company-wide or even individual labor contracts, instead of agreeing to nationwide collective agreements between social partners. Such measures were detrimental to the rate of unemployment, job security and the previously existing division between labor market insiders and outsiders. Now, former employees of the public and the private sectors have become outsiders.

While in the public sector only those employed on a project-by-project basis or on short fixed-term contracts fell into unemployment, as their contracts were not renewed, in the private sector unemployment soared. According to OECD data, total unemployment increased from 7.2% in 2008 to 16.3% in 2011; in the same period, long-term unemployment went from 3.4% to 8.1%; low-skilled unemployment soared from 6.8% to 17%; and youth unemployment skyrocketed from 22.1% to 44.4%. After the implementation of the austerity policies mentioned above, the fiscal situation was stabilized.

In sum, the terms of the bailout have increased unemployment and disabled government policies for helping people into work. At best, this is a flexibilization of the labor market that will reduce costs and increase competitiveness, allowing a more sustainable economic path in the future. But in the short- and medium-term, such austerity simply increases unemployment dramatically.

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