

**SGI** Sustainable  
Governance  
Indicators

# 2015 Labor Market Report

Labor Market Policy



## 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.

### 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. There is also some concern relating to the export of welfare benefits. The government has 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. Labor-market flexibility in terms of hiring and firing rules is very high; trade unions and their representatives or allies on the firm level have no legal ability to interfere with employers' human-resources decisions (in contrast to Germany), and there is no minimum wage – a policy that was rejected by the Swiss people in a popular vote in 2014. 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 second quarter of 2014, unemployment stood at 2.9%, as compared to 5% in Germany and an average of 11.6% in the euro zone overall. Youth unemployment (among 15- to 24-year-olds) is only insignificantly above the average unemployment rate (3.4% in August 2014), and the employment ratio (the working population as a percent of the working-age population) of 79.4% in 2012 was well above the average employment rate in neighboring countries (Germany 73%; Italy 58%; France 64%).

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.

While the employment rate among older workers is very high in international comparison, the OECD urged the Swiss government in 2014 to increase this share further, and in particular to keep employees in the workforce for some time beyond the current official retirement age (65 for men; 64 for women). The government rejected this proposal, arguing that there is not sufficient demand for workers after age 65. In addition, attempts to increase the retirement age seem bound to fail if put to a popular vote.

## Canada

Score 8

The unemployment rate in Canada is primarily 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. Overall, labor-market regulation in Canada is relatively light, and there are few labor-market rigidities that impede the operation of the labor market. The most significant of these 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 generally high.

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; the aboriginal unemployment rate remains almost twice the national average, with no sign of improvement. Many observers have expressed concern that the Canadian labor market is currently experiencing more weakness than is implied by the official unemployment rate, which has steadily fallen in recent years to about 7% in 2014. The long-term unemployment rate shot up during the past recession, and has remained high since. The number of working-age people in the workforce has been shrinking. The federal government has recognized the need to improve the economic environment in order to encourage businesses to hire new workers, as well as the need for more effective workplace training, but its proposals have not been met with much enthusiasm. The proposed small-business job credit aimed at reducing firms' employment-insurance costs, for example, was criticized for a flawed design that experts said would give firms an incentive to fire workers and cut salaries. Similarly, the Canada Job Grant Program, which was provided for in the 2013 and 2014 federal budgets and is aimed at providing financial assistance to businesses interested in upgrading their employees' skills, has triggered a host of complaints from the provinces, whose participation and financial contributions are required. Less than half of the provinces and territories that agreed to implement the grant had finalized their funding agreements with Ottawa by summer 2014. The federal government has also faced controversy over the ballooning temporary-foreign-worker program, under which a growing number of low-skilled temporary foreign workers have entered the workforce, including in regions such as southwestern Ontario, where the labor market has been in steady decline over the last decade.

Overall, 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 could employ workers. The United States ranked first, but all other G-7 countries ranked well below Canada,

as follows: United Kingdom (35th), Japan (40th), France (55th), Italy (99th), and Germany (158th).

Citation:

World Bank (2010) Doing Business 2011 <http://www.doingbusiness.org/reports/global-reports/doing-business-2011/~media/GIAWB/Doing%20Business/Documents/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-FullReport.pdf>

2014 Federal Budget “The Road to Balance, Creating Jobs and Opportunities”, posted at <http://www.budget.gc.ca/2014/docs/plan/pdf/budget2014-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/PressReleaseJune202012.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 income support and, when necessary, motivation and training to help workers find jobs. On the positive side, there is a fair amount of job mobility in Denmark, and youth employment and the 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 country’s generous social safety net provided income support in case of job loss. 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 too 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 a government appointed expert group (the Kock-group) has made a number of recommendations for improving the efficiency of labor market policies.

It is somewhat difficult to assess the labor market situation since more jobless are self-supporting due to reforms of unemployment insurance and the social assistance scheme. A decline in overall unemployment is generally expected.

Citation:

Danish Economic Councils, The Danish Economy, Various issues. Latest issue: Autumn report, English summary available at:

[http://dors.dk/graphics/Synkron-Library/Publikationer/Rapporter/Efter%202014/Trykte%20rapport/E14\\_English\\_Summary.pdf](http://dors.dk/graphics/Synkron-Library/Publikationer/Rapporter/Efter%202014/Trykte%20rapport/E14_English_Summary.pdf)

Ministry of Economic Affairs, Economic Survey - August 2014.

[http://english.oim.dk/media/666426/Economic\\_Survey\\_August\\_2014.pdf](http://english.oim.dk/media/666426/Economic_Survey_August_2014.pdf)

Andersen, T.M., and M. Svarer, 2012, Active labour market policy in a recession, *IZA Journal of Labour Policy*, 1:7.

## Germany

Score 8

Germany's success in reducing structural unemployment has been impressive. Employment rates have risen continuously since the mid-2000s. In 2014, they reached an all-time high of more than 42 million persons employed. Unemployment rates are at their lowest level in 20 years. Germany's youth unemployment rate is the second lowest in the world, suggesting a highly efficient vocational training system.

Nevertheless, shortcomings remain and it is far from certain that Germany's labor market success will continue. For example, unemployment rates have not altered significantly since 2011, signifying that without further reforms the lower bound has been reached. In general, however, Germany has improved its position among the leading nations, though mostly because of other countries' worsening performance

(Global Competitiveness Report 2014 – 2015: 207). On a structural note, Germany's labor market is still characterized by inflexibilities such as a high level of employment protection (Global Competitiveness Report 2014 – 2015: 207). Here, Germany ranks below the global median of our sample. Particularly wage determination (recently aggravated by the adoption of a minimum wage) and relatively rigid hiring and firing practices seem to be Germany's weak spots. On the other hand, in conjunction with high employment levels, this may also indicate a healthy balance between economic efficiency and social protection.

With regard to micro-based labor market instruments, unemployed persons today risk severe benefit cutbacks if they reject a job and employed workers can claim benefit support if their market income is below subsistence levels. Both this threshold for benefits as well as the risk of having benefits revoked have tremendously 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 such as job creation and training or skills improvement measures are now seen as combinable. Tailored to individual needs, they are in particular intended to allow for the reintegration of the long-term unemployed into 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 2013: 32-36). Furthermore, these tools are continuously evaluated and optimized.

The expansion of atypical employment contracts such as temporary employment programs (Leiharbeit), part-time and agency work may have been an advantage in terms of securing industrial flexibility over the past years. However, the government's approval of these less regulated contracts has created incentives for employers to use them with increasing frequency. This has potentially severe consequences for the social welfare system, in particular, and social justice, more generally. Furthermore, opportunities for advancement within this low wage labor market are few. Yet, while temporary work had expanded significantly between 2003 and 2008, its growth has come to a standstill since then. Since 2010, the number of temporary workers has slightly decreased, a period when total employment increased by a further 1.5 million (Sachverständigenrat, 2014; Bundesagentur für Arbeit, 2014).

After a lengthy debate, a nationwide minimum wage was adopted by the Grand Coalition in 2014 to take effect the following year. The level, which is going to be reviewed after five years by a commission comprising employer and labor representatives, was set to €8.50. Sector specific minimum wages remain untouched, so long as they exceed the national minimum wage. There are some exceptions for employees under 18 years of age, seasonal workers, apprentices, trainees without

vocational training and workers who have been unemployed for more than one year. In addition, minimum wage provisions do not apply during the first six months of employment. It is too early to formulate a general verdict on this policy change. Whereas some experts highlight the positive effects in terms of social justice, others warn of negative economic effects including soaring unemployment rates especially among low-skilled workers (Knape, Schön und Thum, 2014).

Citation:

Bundesagentur für Arbeit (2014): Der Arbeitsmarkt in Deutschland - Zeitarbeit - Aktuelle Entwicklungen, Juli 2014.

Schwab, Klaus (ed.) (2014): Global Competitiveness Report 2014-2015. World Economic Forum: Geneva.

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2014): Mehr Vertrauen in Marktprozesse, Jahresgutachten 14/15, Sachverständigenrat: Wiesbaden.

Minimum wage:

Gesetz zur Stärkung der Tarifautonomie (Tarifautonomiestärkungsgesetz) in: Bundesgesetzblatt 2014, Teil 1, Nr. 39, S. 1348ff.

[http://www.bgbl.de/banzxaver/bgbl/start.xav?startbk=Bundesanzeiger\\_BGBI&start=//\\*\[@attr\\_id=%2527bgbl114s1348.pdf%2527\]#\\_\\_bgbl\\_\\_%2F%2F\\*\[%40attr\\_id%3D%27bgbl114s1348.pdf%27\]\\_\\_1415633537256](http://www.bgbl.de/banzxaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBI&start=//*[@attr_id=%2527bgbl114s1348.pdf%2527]#__bgbl__%2F%2F*[%40attr_id%3D%27bgbl114s1348.pdf%27]__1415633537256)

Knabe, Andreas, Ronnie Schöb and Marcel Thum (2014): "Der flächendeckende Mindestlohn", Perspektiven der Wirtschaftspolitik 15(2), pp. 133-157

## Latvia

### Score 8

Unemployment rates have fallen from 20% in 2010 to 16.2% in 2011 and to 11.9% in 2013. The government is revising its active labor market policies to focus more on structural unemployment. For example, in 2012, the government reformed vocational training programs, extended the use of short-term vocational training programs and introduced mobility allowances.

Further reforms to labor market policy, as well as to social security and tax policy, followed in 2013. These reforms were influenced by the publication of a World Bank Study that investigated Latvians' labor market status and use of social security programs. These reforms are intended to introduce a more nuanced approach to identifying and responding to the needs of particular job seekers. However, with four different politicians holding the post of Education and Science Minister between April 2013 and December 2014, there has been a lack of consistent leadership.

Citation:

1. European Commission, Unemployment Statistics, Available at: [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=File:Unemployment\\_rate,\\_2001-2012\\_%28%25%29.png&filetimestamp=20130417141135](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Unemployment_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\\_note\\_2nd\\_pps\\_mission\\_en.pdf](http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/pdf/lv_efc_note_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 of youth unemployment. However, an EU-funded scheme to reduce youth unemployment, the Youth Guarantee Scheme, had only a 6% participation rate among young unemployed people between the ages of 18 to 24. The labor-market participation rate increased marginally, although the introduction of free child-care centers in 2014 along with fiscal incentives for their use is expected to encourage greater female participation in the workforce. Another variable accounting for Malta's low employment in comparison with other EU countries is the size of its informal economy, which is estimated at 25% of GDP. This results in many unregistered workers.

Moreover, while the rate of early school leavers actually decreased, Malta still has the EU's highest rate of early school leavers. Given these two factors, one can note a correlation between youth unemployment and a lack of basic skills. Economic restructuring has underscored this problem, creating a situation in which local youths fail to compete for jobs with other EU citizens. Both the current government and its predecessor have attempted to address this issue through the introduction of new vocational courses and colleges that offer instruction tailored to the needs of industrial job creators. Older workers are increasingly opting to stay in employment, and a Strategy for Active Aging has been adopted.

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

Times of Malta, Minister laments low response for Youth Guarantee Scheme, 11/08/2014.

Times of Malta, More retirees are still working, 31/07/2014.

Malta's female labor market participation rate on the EU agenda. Voice of the Workers 02/01/14

## Netherlands

### Score 8

In 2013 8.2% of the working population was unemployed, compared to 6.4% the previous year. For the fifth year in a row, the Dutch labor market is an employer's market. Yet, no other European country has improved its labor market position since the 1990s as well as the Netherlands has. Both in terms of net labor participation and (until very recently) unemployment, the Netherlands was a top performer 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; unemployment increased in spite of lower and somewhat harsher eligibility for unemployment benefits, and troubled businesses were 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 (independent workers without employees and 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:

CBS, De Nederlandse Economie, Den Haag, 2014

P. de Beer (2011), Nederland presteert uitstekend, in *Socialisme & Democratie*, 9 + 10, pp. 85-95

Regeerakkoord, XI. Arbeidsmarkt ([www.rijksoverheid.nl/regering/regeerakkoord/arbeidsmarkt](http://www.rijksoverheid.nl/regering/regeerakkoord/arbeidsmarkt))

Additional reference Sociaal Akkoord between trade unions and employers of April 2013:

[http://www.stvda.nl/~media/Files/Stvda/Convenanten\\_Verklaringen/2010\\_2019/2013/20130411-sociaal-akkoord.ashx](http://www.stvda.nl/~media/Files/Stvda/Convenanten_Verklaringen/2010_2019/2013/20130411-sociaal-akkoord.ashx)

Additional reference Zorgakkoord between government and (health) care parties (unions, employers, insurers):

<http://www.rijksoverheid.nl/documenten-en-publicaties/kamerstukken/2013/04/24/kamerbrief-over-resultaten-zorgoverleg.html>

## Australia

### Score 7

Throughout the period until late 2008, and again from mid-2009 on, Australia experienced declining unemployment and strong employment growth. However, beginning in May 2011, unemployment edged higher, the trend rate rising from 5% in May 2011 to 6.2% in October 2014.

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, passed in June 2013, made only relatively minor changes, primarily in relation to the right 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 May 2014 Budget contained measures to introduce a six-month waiting period for unemployment benefits for jobseekers aged under 35, but this accompanying legislation had not been passed by the Senate as of the end of the review period, and did not look likely to pass.

In recent years, a recurring theme of commentary on the Australian labor market 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, amid concerns of widespread misuse of the program by employers to obtain cheap labor, the federal government tightened the conditions under which 457 visas could be obtained, with the new regulations taking effect on 1 July 2013.

Minimum wages, which are set by an independent statutory authority, the Fair Work Commission, have arguably emerged as an increasing constraint on employment over the review period. The national minimum wage is relatively high by international standards, at around 55% of the median full-time wage, but probably more important is that there are a large number of industry- and occupation-specific minimum wages that can be much higher than the national minimum wage. Beginning July 2014, the minimum wage was raised to AUD 16.87 per hour. Real growth in minimum wages has not accelerated over the 2013 and 2014 period, but real wage growth in the broader economy has stagnated, suggesting the “bite” of minimum wages - the extent to which they negatively impact employment - has been increasing.

Citation:

Department of Immigration and Border Protection ‘Changes to the Subclass 457 program’: <http://www.immi.gov.au/skilled/changes-457-program.htm>

<http://www.smh.com.au/national/minimum-wage-up-3-per-cent-rise-of-1870-a-week-20140604-39is5.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.

Nonetheless, unemployment rates have risen significantly in Austria over the last 20 years. Both neoliberalism and globalization have been cited as decisive factors in this regard. Neoliberalism is cited in explaining job losses associated with privatization, a trend that could arguably be reversed if decision makers would act more decisively to secure a stable labor market with better opportunities for employment. Globalization, however, involves the decline of traditional state power as a result of increasingly open global markets and is therefore not subject to control by any single national government. The shifting of public resources in favor of older generations has also been made cited as a cause of rising youth-unemployment rates and declining international competitiveness for the highly skilled.

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.

Austrian labor policy suffers from the fact that most political actors and society at large are hesitant to adopt a transnational outlook with regard to the labor market. The free movement of goods and people within the EU Single Market is seen by too many as a threat rather than an opportunity, and there is no consistent policy approach to managing inflows of migration (whether legal or illegal) from outside the EU.

## Finland

### Score 7

A deep depression in the Finnish economy in the 1990s resulted in a rapid and dramatic increase in unemployment. This trend was further aggravated by the recent European economic crisis. The unemployment rate in July 2014 was 7.0%, an increase from 6.6% in July 2013. Comparatively, present achievements in stemming long-term unemployment, youth unemployment and low-skilled unemployment are not satisfactory. The high level of youth unemployment is a particular cause for concern. Pursuing active labor market policies, 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 into effect at the beginning of 2013. While Finland maintains a system of minimum wages and collective agreements, more attention, however, 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. Consequently, geography is an obstacle to labor mobility. Globalization has also become a threat to labor market strategies, as companies reduce their costs by moving production abroad. In many sectors, the amount of temporary work contracts is increasing. 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; <http://www.fiindikaattori.fi/fi/41>, Tilastokeskus/Työvoimatutkimus.

## Israel

Score 7

Israel's labor market has shown positive developments such as reduced unemployment and rising labor force participation rates in recent years. However, it suffers from a chronic problem of social groups opting out of the workforce. This situation is especially prevalent among Arab-Israeli women and ultra-orthodox Jewish males. Despite its increasingly technology-driven economy, Israel is predicted to struggle with supporting a growing segment of its aging and non-working population unless it expands and improves its education and job training infrastructure.

Israel labor policy focuses on incentivizing two income households and expanding job training services for low-skilled workers. Government actions include reforming the "potential of earning" evaluation scale that is used for purposes such as taxes and daycare subsidies; increasing funding for working mothers and for labor training programs; and introducing a negative tax for low paid workers. However, the OECD maintains that implementation is slow and underfunded. New landmark legislation aims to reduce the number of ultra-orthodox men exempted from military service. The Ministry of Economy intends to follow up this legislation with a substantial program of active measures directed at ultra-orthodox men to assist them in joining the labor force. The ramifications of this radical step remain to be seen.

The Israeli government largely supports a free market and its labor protection laws are seen by the OECD as reasonably flexible. Instead of the classic unions-employers negotiating, the government 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 while allowing employers more flexibility. In 2012, new legislation increased the number of labor inspectors and their powers. Following a general

strike, a new labor agreement was introduced to ameliorate working conditions for contract workers that are employed by government and municipal services.

After many years of increase in the number of foreign workers in Israel, especially in nursing, agriculture and construction, the Israeli government changed its policy toward diminishing foreign work and even abolishing it all together. This process is ongoing, but proceeding slowly due to pressures from industrial sectors; from 2011 to 2012 the government still had not reduced quotas as intended. In 2011, however, new agreements were reached with foreign countries such as Bulgaria and Thailand to limit foreign workers for a given business sector in order to improve the monitoring of labor laws and prevent cases of exploitation by recruiting agencies.

Citation:

Field, Simon and Kuczera, Małgorzata, "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](http://search.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=EDU/EDPC/VET(2012)10&docLanguage=En)

Natan, G., "Foreign workers in Israel: Main themes and current status", Knesset research and information center, 2.2.2009 (Hebrew).

Swartz, Eliezer and Biton, Ilan, "Description and analysis of employment policy in Israel," Knesset research institute 31.10.2010 (Hebrew)

"Labor Market: Bank of Israel yearly report 2012," Bank of Israel website (Hebrew)

"Labor Market", Bank of Israel website 2.4.2013:

<http://www.boi.org.il/he/NewsAndPublications/RegularPublications/Pages/doch2012/p5-h.aspx> (Hebrew).

"Economic Survey of Israel 2013", OECD, December 2013.

## Japan

### Score 7

In recent years, 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). While unemployment rates for 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 in many other countries, the Japanese labor market has witnessed a significant deterioration in the quality of jobs. Retiring well-paid baby boomers have, more often than not, been replaced by part-timers, contractors and other lower-wage workers. The incidence of non-regular employment has risen strongly; while only one-fifth of jobs were non-regular 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. Most economists argue that the conditions for paying and dismissing regular employees have to be liberalized to diminish the gap between both types of employment.

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.

The LDP-led government has promised sweeping reforms. The most recent measures announced in June 2014 have, however, again disappointed the business world. In particular, there was no progress on easing the rules for lay-offs and making them more transparent. With respect to overtime, the government pledged to end compulsory overtime allowances only for those earning more than \$100,000 per year, effectively only some 4% of workers. The effect on easing the strain for businesses seems quite insignificant, yet the Ministry of Labor seeks to prevent bolder liberalization.

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

Antoni Slodkowski, Abe's 'drill bit' hits resistance on Japan labor reform, Reuters, 23.06.2014, <http://www.reuters.com/article/2014/06/23/us-japan-growth-labour-insight-idUSKBN0EY18220140623>

## 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 28.4 % of the workforce is Luxembourg nationals, while more than 44.4% 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 7.2% in August 2014. However, in June 2014, over 377,000 people were employed in Luxembourg.

Job-creation measures have increased about 12% as compared to 2013. In September 2014, along with 18,000 unemployed people, more than 5,000 people took part in reintegration and training programs. Employment services offices have been strengthened and regional hubs have been established in recent years. Reintegration

grants are being reduced, and inspections should be strengthened next year.

After three decades of strong economic growth and modest GDP growth, the period under review saw even highly skilled workers in the rather stable financial sector 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 cross-border commuters and those who worked for temporary agencies. Luxembourg employment protections are significant for full-time employees. Within the cross-border labor market, commuters from within so-called Greater Region – which includes the adjacent regions of Belgium, Germany and France along with Luxembourg itself – 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 in which a formerly commuting worker is resident for the first three months' payments of unemployment benefits (which are handled by and paid according to the laws of the country in which the newly unemployed individual's is resident).

The government has enacted a plan to help boost youth employment (Plan d'action en faveur de l'emploi des jeunes), with a particular focus on young graduates having trouble finding work. 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 support and promote lifelong-learning programs, and the establishment of regional employment services, Luxembourg has lower youth unemployment rates (15.5% in August 2014) than do many other EU countries). Luxembourg has already implemented the European youth guarantee, which seeks to make a long-term impact on disadvantaged young people's access to the labor market. The labor-market participation rate among women, at 63.9%, remains below the EU average.

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 55 years old or older, however, is 40.5%, 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:

Wiss, J. (2014), Neue Betreuer und neue Aufgaben - Adem rüstet auf, in: L'essentiel Online, 14.10.2014, <http://www.lessentiel.lu/de/wirtschaft/story/Neue-Betreuer-und-neue-Aufgaben%20-Adem-ruestet-auf-10105266>  
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=de&pcode=tsdde100>  
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=de&pcode=tsdde410>  
[http://ec.europa.eu/europe2020/europe-2020-in-your-country/luxembourg/national-reform-programme/index\\_en.htm](http://ec.europa.eu/europe2020/europe-2020-in-your-country/luxembourg/national-reform-programme/index_en.htm)  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=tps00060&plugin=1>  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=de&pcode=tsdec460&plugin=1>  
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:166:0001:0123:en:PDF>  
<http://data.oecd.org/natincome/net-national-income.htm>  
[http://www.odc.public.lu/publications/pnr/2013\\_PNR\\_Luxembourg\\_2020\\_avril\\_2013.pdf](http://www.odc.public.lu/publications/pnr/2013_PNR_Luxembourg_2020_avril_2013.pdf)  
[http://www.odc.public.lu/publications/perspectives/PPE\\_027.pdf](http://www.odc.public.lu/publications/perspectives/PPE_027.pdf)



<http://www.statistiques.public.lu/fr/actualites/population/travail/2014/09/20140922/bulletinemploiaout2014.pdf>  
[http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=5237&IF\\_Language=fra&MainTheme=2&FldrName=3&RFPPath=91](http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=5237&IF_Language=fra&MainTheme=2&FldrName=3&RFPPath=91)  
[http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=7252&IF\\_Language=fra&MainTheme=2&FldrName=3&RFPPath=92](http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=7252&IF_Language=fra&MainTheme=2&FldrName=3&RFPPath=92)

## New Zealand

### Score 7

Although the National-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 (less than 6% in 2014 and expected to dropping further) has risen less than in most Organization for Economic Cooperation 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 has been the loss of highly skilled workers to Australia. The movement of New Zealanders to and from Australia, which has frequently exceeded 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 encouraged migration between the two countries, although there are clear signs that a downturn in the Australian labor market, especially in the mining industry, is not only stemming the outward flow, but causing many New Zealanders to return home. 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 11.0% and 11.4% respectively in the second quarter of 2014. The unemployment rate for young people (11.1% in the second quarter of 2014) has been decreasing since 2008. This is mainly due to the government's 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 June 2014) (quarterly reports).

OECD Employment Outlook 2014 (Paris: OECD 2014).

Department of Labour, 'Labour Market Factsheet' (<http://www.dol.govt.nz/publications/lmr/labour-market-factsheets.asp>), March 2013.

Quarterly Labour Market Report (Wellington: Ministry of Business, Innovation & Employment August 2014)

## South Korea

Score 7

Labor market policies have successfully kept the unemployment rate at about half the OECD average. The official jobless rate fell to 3.3% in Q3 2014 from 3.7% in Q2 and 4.0% in Q1. The youth unemployment rate stood at 9.1% in Q3 2014, a decrease from 10.2% in Q2 and 11.7% in Q1. This comparatively good performance can be attributed to the effects of the large fiscal stimulus package, a currency devaluation that increased the competitiveness of exports and corporatist arrangements that reduced wage restraints and increased 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” since the late 2000s because they cannot get regular jobs and their first irregular job or internship typically pays about 880,000 won (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 ineffectiveness of government policies that target this problem. Consequently, many unemployed individuals are discouraged from looking for jobs and eventually exit the labor market.

Park Geun-hye’s administration addressed the problem of low employment rate with a “roadmap to achieve an employment rate of 70% by 2017” announced in June 2013. It is likely to meet the 2014 target of 65.6% employment set by the roadmap. The youth employment rate (age 19-29), however, fell to 56.8% in September 2014, falling below the senior employment rate (age 60-64) of 57.2% for the first time. The ratio of irregular worker as a proportion of all workers declined from 32.6% to 32.4%. But total number of irregular workers increased to 6.08 million due to an increase in older workers paid by the hour (as of August 2014, Statistics Korea).

Citation:

OECD, Employment Outlook 2011, [http://www.oecd.org/document/46/0,3746,en\\_2649\\_33729\\_40401454\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/46/0,3746,en_2649_33729_40401454_1_1_1_1,00.html)

OECD, Employment Outlook 2014, <http://www.oecd.org/korea/EMO-KOR-EN.pdf>

Pres. Park’s dream of 70% employment still a long way off, The Hankyoreh, Jan. 16, 2014 [http://www.hani.co.kr/arti/english\\_edition/e\\_business/620022.html](http://www.hani.co.kr/arti/english_edition/e_business/620022.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. This situation poses a new type of policy challenge.

The current labor market statistics indicate that Sweden today does not differ in any significant way from comparable capitalist economies. If anything, unemployment among youth and immigrants is higher than in other comparable countries. This pattern raises questions about the efficiency of Sweden's labor market policies and the overall regulatory framework. The former, non-socialist government pursued a policy which incentivized unemployed to look for work by lower unemployment support. The new government (Social Democrats and Greens) is committed to increasing that support. Their policy stance marks a return to more government-sponsored employment as a means of helping the unemployed access the labor market. However, due to the stalemate in parliament in December 2014, it remains to be seen if the red-green government will be confirmed in the extraordinary election in March 2015.

Ongoing 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 younger age cohorts to 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 it exists in Germany. These examples may indicate that the old Swedish model of labor market policy is gradually moving toward 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 because 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 this 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 relatively high unemployment rates and the very 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 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 rose to its highest rate since the mid-1990s. But after labor-market flexibility was increased through deregulation and the lowering of secondary-wage costs, the unemployment rate fell significantly from 8.3% at the end of 2012 to 6.0% in October 2014, with the youth unemployment rate down to 16.0%. The UK labor market continues to attract substantial numbers of economic migrants.

There is a flip side to the strong employment figures in a period of significant economic adjustment, however. Real wages fell in the aftermath of the crisis in the United Kingdom, and have only recently started to increase again. There has been considerable controversy around so-called zero-hour contracts, under which an employee is not guaranteed specific paid work hours, as well as over the increasing use of unpaid internships for young people entering the labor market. In particular, these contracts are felt to discriminate against vulnerable workers, although as Brinkley (2013) argues, relatively few workers are subject to these contracts and some in fact choose them. Landlords tend not to accept zero-hour contracts as collateral, which puts further pressure on the affected workers and worsens their situation within the housing market. The sustainability of the government's reforms thus still needs to be proven.

Citation:

Brinkley, I. (2013) "Flexibility or insecurity? Exploring the rise of zero-hours contracts" London: The Work Foundation

## United States

Score 7

The United States continues to have one of the least regulated and least unionized labor markets in the OECD, with less than 7% of private-sector workers and 40% of public-sector workers holding union membership. Although barriers to unionization promote employment, the U.S. government otherwise plays a minimal role in promoting labor mobility and providing support for training and placement. However, as of 2014, an increasing number of states are playing an active role in preparing unemployed individuals for the job market. The central feature of the last

four 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. Several states (Maine, Alabama, Ohio, Arizona, and Wisconsin) have weakened the rights of public-employee unions to engage in collective bargaining. Notably, Michigan, long a bastion of union power, became the 24th state to pass a "right-to-work" law, prohibiting policies requiring union membership as a condition of employment.

Although federal policies have done little to address long-term unemployment, the improving labor market has cut the percentage unemployed to 6%, and the share of those unemployed for at least 27 weeks to under 2%. On the other hand, the number of individuals who have had to settle for part-time work remains historically high at 7%. 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.

## Belgium

### Score 6

The fact that overall unemployment did not increase as dramatically in Belgium as it did in many other European countries during the global economic crisis points to the successes of the Belgian social safety net. Economic inequality in Belgium is also less severe than in many other advanced economies. Yet, Belgium also repeatedly failed to substantially improve its labor market environment and substantial reforms for the medium term are still needed.

Labor market participation remains below target, mainly so for older workers. Popular opposition to measures imposing longer working lives is high. Nonetheless, the government did introduce some measures to reduce early retirement.

Wage formation is also a hurdle: it is customary in Belgium to have wages increasing with tenure, which makes older workers sometimes noncompetitive. Imposing lower wages and additional years of work to those who already have a long career behind them is far from obvious. When such measures are taken together with more generous treatment for firms, they also appear unjust.

Labor taxation and social security contributions are very high, which is another hurdle, mainly so for middle- to high-income workers. The lack of a comprehensive tax reform, together with strong wage rigidity, means that labor costs adjusted for productivity gains tended to increase faster than in neighbouring countries.

Access to unemployment benefits are being tightened, but this is happening during a

period of sluggish investment. Some measures to improve vocational training have been taken. Reducing the extent of social safety net coverage, however, risks increasing economic inequalities.

## 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. The unemployment rate showed no significant change (remaining at or near 6.5%) during the period under review. That said, between 70% and 80% of salary earners work in low-wage sectors or do not even earn minimum wage, despite being 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 strong labor unions such as Central Unitaria de Trabajadores (CUT) and Comisiones Obreras (CCOO), labor-market policy has shown a limited focus on wage levels, but not on the quality of labor. There is a clear lack of opportunities for continuing education and skill enhancement. Despite diminishing productivity, comparatively high wages have been established, including wage increase beyond the rate of inflation.

As of the time of writing, Michelle Bachelet's new government was preparing a labor reform with the aim of changing a number of laws originally passed under Pinochet, and more broadly of addressing inequality. Labor Minister Javiera Blanco has engaged stakeholders in unions and the private sector in conversation, seeking consensus. The Labor Agenda legislative package was originally intended to be introduced in Congress in October 2014, but was subsequently pushed back to the end of December 2014. The package seeks to modernize collective bargaining and strengthen union activity, among other goals.

Citation:

See news on labor reform, for instance:

<http://www.mch.cl/2014/12/19/reforma-laboral-ejecutivo-se-abre-revisar-normas-sobre-despido/>

<http://www.miningpress.cl/nota/275874/cuando-enviara-el-gobierno-la-reforma-laboral-al-congreso>

## Czech Republic

**Score 6** Since 2014, the Czech Republic has experienced a moderate but steady decline in unemployment. However, long-term unemployment has remained high, the number of job vacancies has grown slowly and regional differences remain. There is no indication that labor market regulations or the country's unemployment benefit system have had any impact on labor flexibility, with regard to the increased availability of potential employees. In areas of high unemployment, there is no shortage of job-seekers for multinational companies. In areas of lower unemployment, such as those regions close to the capital Prague, labor shortages have been easily overcome by hiring workers from other parts of the country or from abroad through employment agencies. Active labor market policies have been in place and have been gradually reformed, but have failed to balance national accountability and local flexibility (OECD 2014).

Citation:

OECD, 2014: *Employment and Skills Strategies in the Czech Republic*. OECD Review on Local Job Creation. Paris.

## Estonia

**Score 6** The labor-market reforms carried out shortly before the economic downturn in 2009 have demonstrated their first positive results. As least on the basis of labor-market indicators such as general employment and unemployment rates, youth unemployment, and the ratio of low-skilled unemployed persons, the situation has recovered to pre-recession levels. Unemployment among low-skilled workers, the main target of recent labor-market policy measures, has decreased by nearly two times as compared to 2009 – 2012. However, youth unemployment has decreased to a lesser extent, and what gains have been achieved are associated primarily with the improving economic situation. In 2014, counseling centers (called *Rajaleidja*, or path-finder centers) were established to assist young people in making smart work and educational choices.

Minimum wage regulations are in force in Estonia, and the wage level is fixed annually according to a tripartite agreement. Collective-bargaining agreements are typically made at the level of enterprises or economic sectors. In 2013 – 2014, disagreements about pay levels led to tensions between labor-market partners in several instances, although strikes were never called (unlike in 2012).

The unemployment insurance fund (UIF) is in good financial shape, having accumulated significant reserves over last years. This has been possible due to the relatively high contribution rate (1% of an employer's payroll, and 2% of an employee's wages or salary), strict eligibility criteria and low level of actual benefits paid. The strategic aim behind this relatively tough policy was to accumulate

resources for an important and costly labor-market reform that aims to bring at least 10% of the country's disabled people into employment. In January 2014, 100,000 persons in Estonia were receiving disability pensions, and this population has become a heavy burden on the social-fund budget. Furthermore, Estonia is experiencing labor shortages in several fields; thus, expanding the workforce by reintegrating disabled workers is deemed an important goal. The disability employment reform is currently in its preparatory phase, with launch planned for January 2016. However, the situation surrounding this reform was tense as 2014 drew to a close. Organizations representing disabled people protested against the reform, saying that the process had been rushed, and that incentives to switch from social allowances to paid work were insufficient. In addition, it remained unclear how new jobs for disabled workers would be created, and how responsibility would be shared between employers and the public-welfare system.

## Iceland

### Score 6

Historically, labor market policy has successfully kept unemployment low. At the end of 2007, the unemployment rate was just below 1%. However, this changed following the bankruptcy of Iceland's the three biggest banks and the dramatic deterioration in the government's fiscal situation. In 2009, the unemployment rate rose to 8% and then to a record high 10% in 2010. In 2011, however, it fell to 7% and to 6% in 2012. A comparison of the average unemployment rate for the first quarter of 2012 (7.2%), 2013 (5.8%) and 2014 (5.7%) indicates that unemployment was decreasing until 2013, but has since plateaued. While these figures are high by national standards, they remain low compared to other European countries, such as Ireland or Spain. This outcome represented one of the biggest successes of the previous government 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. The new government has not achieved any further reduction in the unemployment rate.

Iceland's labor market legislation has essentially remained unchanged since 1938 with wage contracts negotiated by the leadership of labor unions and employers associations. Most wage contracts are due for renegotiation in early 2015. Labor union leaders have signaled that they will insist on wage increases greater than what, for example, Iceland's central bank considers appropriate to maintain control over inflation. Labor unions are demanding government action to curb perceived increases in inequality, including an increase in the ratio between executive and average worker remuneration. Successive governments failed to reform labor market legislation to prevent wage competition between different groups of workers, after inflation was successfully reduced in the 1990s.

Citation:

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



## Italy

Score 6

It has been widely accepted that Italy's existing labor market policies were inadequate to meet the challenges of the crisis. The policies introduced under the Monti government had not significantly improved the situation. In combating the effects of the crisis, the government has traditionally allocated resources for 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 a rise in unemployment during this period.

The difficult economic situation has further worsened one of the problematic features 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 significantly during the last two years, but the increase has been particularly dramatic among young people. The lack of significant unemployment benefits has made young people's economic position in society extremely precarious. 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 without expanding employment.

During 2014 (and with some delay with respect to the dramatic unemployment crisis), the current government has begun demonstrating its willingness to tackle this problem more resolutely. Starting with some more limited but immediate measures to make the hiring of youth easier, the government has launched a more systematic revision of the labor code aimed at encouraging firms to adopt more flexible but also stable and not precarious labor contracts. The law, which gives the government broad discretion in defining the specific norms (*legge delega*) in the months to come, is accompanied by fiscal measures that should make the hiring of new workers more convenient for firms. The scheduled labor market reforms, which will also introduce a general unemployment insurance, are ambitious and could lift Italy's labor market policy to meet average EU levels.

## 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, the low-skilled, and the long-term unemployed. In its 2014 report, the

European Commission found that devising active labor-market measures of sufficient scope and quality continues to be a challenge in Lithuania. The Commission recommended that Lithuania place stronger focus on active labor-market measures and give a higher priority to offering high-quality apprenticeships in order to reduce unemployment within particular target groups.

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. A further increase to €300 followed in October 2014. These decisions have not caused any perceptible spike in unemployment; indeed, unemployment rates stabilized at the beginning of 2013 after a series of improvements in the latter months of 2012. Relatively high rates of emigration to other EU member states have partially compensated for the country's inflexible hiring-and-firing rules and rigid labor code. The government has said it plans to reform the Labor Code, and has commissioned a new external study on the issues of labor-regulation reform and a possible reduction in labor taxes. However, if the two issues are connected in the public debate, it will make it more difficult to pass major reforms improving the regulatory environment.

Citation:

COMMISSION STAFF WORKING DOCUMENT on the assessment of the 2014 national reform program and convergence program for Lithuania: [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_lithuania\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_lithuania_en.pdf).

## Mexico

### Score 6

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, although many small companies inhabit a twilight world in which they have both lawful and extra-legal features.

In November 2012, Mexico enacted a new labor-reform bill intended to increase market flexibility and reduce hiring costs. Although eventually watered down with regard to union transparency, supporters of the law claim 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 the trade-union sector – who maintain a strong following and 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 those in other Latin American countries.

## Poland

Score 6

Despite Poland's favorable overall economic record, the country's labor-market performance has been poor. The unemployment rate still stood above 10% throughout the 2013 – 2014 period, and the employment rate remains one of the lowest in the European Union. At the same time, there are massive regional variations, both between and within regions (voivodships). Public expenditures on labor-market policy are relatively low, and labor-market policies have suffered from weak monitoring, insufficient coordination and a lack of skilled personnel for implementation. A March 2014 amendment to the Act on Employment Promotion and Labor Market Institutions focused on introducing a more individualized approach toward job seekers, and on improving career guidance and counselling. The envisaged strengthening of activation measures has progressed slowly.

Citation:

Boulhol, H. (2014), "Making the Labour Market Work Better in Poland," OECD Economics Department Working Paper No. 1124, Paris (<http://dx.doi.org/10.1787/5jz2pwf4wd41-en>)

## Turkey

Score 6

Turkey's population and work force are growing significantly. From 2011 to 2013, the country's population increased by an estimated 2 million, to approximately 76.7 million people. Likewise, the working-age population (those 15 years old and older) grew from 54 million in 2011 to 56 million in 2013, while the labor-force

participation rate rose from 47.4% in 2011 to 48.3% in 2013, and again to 51.3% in July 2014. A total of 23.3 million people were officially registered as employed in 2011, rising to 24.6 million in 2013 and 26.4 million people in July 2014.

Employment figures in various sectors indicate the dynamism of Turkey's economy and labor market as compared with past periods. Employment figures in the industrial and services sectors increased by a respective 61,000 and 721,000 individuals during the 2011 – 2012 period, and by a further 198,000 and 564,000 employees in 2012 – 2013. Agricultural employment fell by 111,000 in 2011 – 2012, and by a further 97,000 in 2012 – 2013.

The official number of unemployed increased from 2.2 million in 2012 to 2.4 million in 2013, and further to 2.9 billion by July 2014. The increase in unemployment shows that the number of new entrants to the labor force outnumbered the number of jobs created, reflecting demographic factors as well as the slowdown of the Turkish economy. The overall unemployment rate increased from 8.4% in 2012 to 9% in 2013. By July 2014, the unemployment rate stood at 9.8%. Unemployment rose in the non-agricultural sectors from 10.3% in 2012 to 10.9% in 2013, but had decreased to 9.8% by July 2014%. In line with improvements in the labor market, informal employment had decreased to 36.4% by July 2014 (from 43.6% in 2011).

A major challenge facing the government in the medium term is to create more and better jobs for Turkey's young and growing population, since many young people (from 15 to 24 years old) are neither working nor attending school. While the labor-force participation rate for young people was 44.1% in July 2014, the overall unemployment rate of young people stood at 18.2%.

Another major medium-term challenge for Turkey is to boost women's labor-force participation rate. Despite notable job-creation successes in recent years, almost half of Turkey's working-age population fails to enter the labor market, mostly due to women's low participation rates. This rate rose for women from 25.9% in 2012 to 30.8% in 2014; however, Turkey is ranked 125th out of 142 countries in the Global Gender Gap Report 2014 in terms of economic participation and opportunity.

In 2013, the official number of salary/wage earners in Turkey was 17.2 million. However, 2.5 million people were considered to be illegal, unregistered workers. Approximately 5 million employees earned the minimum wage. Adjusted to market conditions twice a year, this minimum was increased in 2014 by 5.3% to TRY 891 per month for a single worker without children. In a comparison with EU countries, Turkey ranges in the middle of the pack with regard to minimum-wage levels.

Turkey has ratified International Labor Organization (ILO) Convention No. 187 on the Promotional Framework for Occupational Safety and Health. In addition, Turkey has adopted all implementing regulations relating to its new framework law on health and safety at work, but the law is not yet fully applicable. After a number of fatal accidents in 2014 at construction sites and mine plants, including a fire and

collapse at the Soma mine in May 2014 that resulted in 301 dead workers, the government pushed to ratify ILO conventions No. 167 (Safety and Health in Construction) and No. 176 (Safety and Health in Mines). Moreover, it issued an omnibus bill in September 2014 along with action programs aimed at regulating contracting and improving working and safety conditions. However, corruption at the local level, a lack of inspections, and subcontracting to cheap providers are considered the main factors hindering Turkey's efforts in this field.

Citation:

'Ankara signs ILO code on construction, holds mining,' Today's Zaman (November 21, 2014)

European Commission, Turkey Progress Report, October 2014, [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20141008-turkey-progress-report\\_en.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-turkey-progress-report_en.pdf) (accessed 5 November 2014)

Gürsel, S. (2014) 'National Employment Strategy', Today's Zaman (June 2, 2014)

Ministry of Development (2014) 'Pre-Accession Economic Program 2014-2016', Ankara

Ministry of Development (2013) '2014 Annual Program', Ankara

Şimşek, M. (2014) 'How Turkey Should Escape the Middle Income Trap?' Wall Street Journal Turkey (October 1, 2014).

World Bank (2014) World Bank Group - Turkey Partnership: Country Program Snapshot, Washington D.C.: The World Bank (April).

'Too few women in Turkish workforce, Deputy PM Babacan says', Hürriyet Daily News (May 13, 2014)

World Economic Forum, Global Gender Gap Report 2013, <http://www.weforum.org/reports/global-gender-gap-report-2013> (accessed 5 November 2014)

'Wages in Turkey set with government orders despite objections', Hürriyet Daily News (December 1, 2014)

## Cyprus

### Score 5

Before the crisis, Cyprus' labor market was characterized by near-full employment (76.5%), with an unemployment rate of 3.7% in 2008. An oversized public sector with high salaries is in the process of being reformed. Services accounted for 79% of the labor market in 2014. The economic crisis led to a sharp increase in unemployment rates, from 4% in 2010 to 14.2% in March 2013. Following the agreement with the Troika, the jobless rate reached a peak of 17% in August 2013.

The regulatory framework protects labor rights, and includes provisions preventing unlawful dismissal from employment. 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. The crisis has made this situation less tenable. Automatic cost-of-living adjustments that protected incomes against inflation have been suspended since 2011 – 2012. Salaries have been cut, while in some cases, very low salaries, a lack of access to social insurance, and other relevant phenomena can be observed. The coexistence of large public and banking sectors offering generous benefits and considerable job security with a relatively small private sector offering comparatively minimal opportunities has led to labor-market distortions. These are today being addressed by reforms. Unions have a strong voice particularly within the public sector, but migrant labor from the EU and elsewhere is often exploited, widening the economic gap. The migrant workforce, made up mostly of EU

nationals, has kept growing mainly since 2007, reaching 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, including counselling services and more efficient mechanisms for job seekers, as well as subsidized employment programs. Unemployment rates were thus stabilized after August 2013, and brought down to 15.4% a year later. The 2014 year-long average was forecast at 16.2%. While remaining very high, the unemployment rate among young people also decreased, from over 40% to 37.2%, while the unemployment rate among women is three percentage points lower than that for men. Increases in short-term and part-time employment contributed to curbing the trend. However, long-term unemployment rose to over 6% in 2014, with an annual rate of growth of 35%. The expected return to overall economic growth in 2015 could improve prospects in the labor market.

Citation:

1. Labor force survey, Cyprus Statistical Service, September 2014,

[http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/75F22FCE3441C971C2257752003A\\_3990/\\$file/LAB-LFS-Q213\\_Q214-EN-260914.xls?OpenElement](http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/75F22FCE3441C971C2257752003A_3990/$file/LAB-LFS-Q213_Q214-EN-260914.xls?OpenElement)

2. On the impact of immigration on unemployment and labor force, <http://www.ucy.ac.cy/data/ecorece/FullTextChristofidesetal.pdf>

3. EU assessment of the reform programme, 2014,

[http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_cyprus\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_cyprus_en.pdf)

4. Unemployment in detail, October 2014, Cyprus Statistics Service, [http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/E50C4A739B49CBEBBC2257CD00035F6C3/\\$file/UNEMP-M-0914-EN-061014.xls?OpenElement](http://www.mof.gov.cy/mof/cystat/statistics.nsf/All/E50C4A739B49CBEBBC2257CD00035F6C3/$file/UNEMP-M-0914-EN-061014.xls?OpenElement)

## Ireland

Score 5

In the aftermath of the 2008 crisis, Ireland's unemployment rate soared from just over 4% to more than 14%, stabilizing in this region during the 2009 – 2013 period largely due to a resumption of emigration and withdrawals from the labor force.

However, in the second half of 2013 and throughout 2014, the labor-market situation improved steadily, and by the last quarter of that year the unemployment rate had fallen to 11%. Growth in employment has resumed, and the emigration rate is falling.

The bailout program established in agreement with the Troika placed considerable emphasis on structural labor-market reforms and activation measures such as reductions in the minimum wage, reforms within the unemployment-benefit system to increase incentives to move from unemployment to employment, reductions in poverty-welfare traps, and increased provision of training and education opportunities. There is evidence to suggest that these measures have been somewhat effective, but the continuing high level of long-term and youth unemployment points to the limited effectiveness of labor-market policies even as the economy improves.

## Citation:

A recent study shows that Irish training programs for the unemployed have been moderately effective.

“The Impact of Training Programme Type and Duration on the Employment Chances of the Unemployed in Ireland” by Seamus McGuinness, Philip J. O’Connell, Elish Kelly, *Economic and Social Review*, Vol. 45, No. 3 (Autumn 2014).

## Portugal

Score  
value\_6

According to Eurostat, unemployment decreased to 14.3% in May of 2014, from 14.6% in April. This was the lowest rate since December 2011. During the previous two years unemployment had steadily increased, reaching 17.8% in April 2013. As a result of the MoU with the troika and in line with the government’s austerity measures, new labor legislation was approved in May 2012 that considerably increased labor-market flexibility, while unemployment benefits were further cut. According the recent World Bank “Doing Business 2015: Going Beyond Efficiency. Comparing Business Regulations for Domestic Firms in 189 Economies” report, Portugal has made significant progress in terms of labor-market flexibility, achieving a 10th-place ranking in this area out of 189 countries analyzed.

However, this decrease in unemployment is to a significant extent the result of growing emigration from Portugal. The National Statistics Institute (Instituto Nacional de Estatística, INE) estimates that some 128,000 Portuguese emigrated from the country in 2013, either temporarily or permanently. According to the OECD, this is on par with the levels seen during the mass migration period of the 1960s and 1970s.

Moreover, as in other parts of the European Union, youth unemployment levels are much higher than overall unemployment, in the case of Portugal reaching 34.8% in May of 2014.

## Citation:

The World Bank, *Doing Business 2015: Going Beyond Efficiency* p. 162 and 212.  
OECD, *International Migration Outlook 2014*, p. 288.

## Slovenia

Score 5

As a result of the economic recession, unemployment rates in Slovenia rose from 2009 to 2013. In 2013, the employment rate among those aged 20 to 64 fell below the EU average for the first time. In 2014, the labor-market situation began to improve. In August 2014, the unemployment rate was 1.6 percentage points lower than a year previously. The drop in unemployment was caused largely by the economic recovery. While Slovenia has a tradition of labor-market policy that dates back to Yugoslav times, existing programs and policies have not proven very effective. In November 2013, the Bratušek government introduced a new program

for first-time job seekers. Financed primarily by the European Social Fund (ESF), this program provided subsidies to employers for hiring new labor-market entrants under the age of 30.

Citation:

Institute of Macro-Economic Analysis and Development (2014): Development Report 2014. Available at: [http://www.umar.gov.si/fileadmin/user\\_upload/publikacije/pr/2014/Apor\\_2014.pdf](http://www.umar.gov.si/fileadmin/user_upload/publikacije/pr/2014/Apor_2014.pdf), pp. 57-59

## France

### Score 4

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; similarly, the employment rate of workers over 55 years is one of the lowest in the OECD (45.6% in 2013 compared to OECD levels of 54.9% and an EU target of 50%); and (especially young) French citizens with immigrant backgrounds face tremendous difficulties integrating into the labor market.

The reasons for such failure are numerous and complex. 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: on the one side, a highly regulated and protected sector (part of which are the five million public employment positions, one of the highest figures in Europe), on the other, a sector characterized by precarity, limited job protection and insecurity. The rigidity of the former sector has triggered the development of the latter, hindering access to regular jobs for newcomers and compelling workers to jump one from contract to the next, each of which are of limited duration or represent interim employment.

The Sarkozy government tried to pursue a more "active" policy toward recipients of unemployment benefits, by creating a unified labor service agency 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. The effects of this agreement still have to materialize, and the number of stable contracts (*contrats à durée indéterminée*) has dramatically declined.



## Hungary

### Score 4

The centerpiece of labor-market policy under the Orbán government has been the new public-works program introduced in 2010. This program, which was temporarily expanded before the 2014 parliamentary elections, and drastically reduced afterward, has annually given about 200,000 unemployed people some prospect of employment. However, participants perform unskilled work under precarious conditions and for very modest remuneration, and few participants have succeeded in transitioning to a job within the regular labor market. The main beneficiaries of the program have been local mayors who are provided with access to cheap labor to perform communal work, build gutters, and so on. Implementation of the public-works program has become more arbitrary since the 2014 parliamentary elections. As a result, unemployed persons have suffered from increased uncertainty and lower incomes.

#### Citation:

Sorbe, Stéphane, 2014: Tackling Labor Mismatches and Promoting Mobility in Hungary. OECD, Economics Department Working Paper No. 1122, Paris.

Szikra, Dorottya, 2014: Democracy and welfare in hard times: The social policy of the Orbán Government in Hungary Between 2010 and 2014, *Journal of European Social Policy* 24(5): 486-500.

## Romania

### Score 4

Despite some progress with decentralizing wage bargaining, Romania has not experienced significant improvements with regard to labor-market policies since 2013. The majority of labor-market-policy spending, which was already low by European standards, went to paying for unemployment benefits. As a result, active labor-market policies remained inadequate for dealing with the persistently high levels of youth unemployment, which continue to hover around 24%.

Romania's unemployment rate rose from 4.9% in May 2013 to 5.8% in February 2014, but declined again to 5.1% in September 2014. While these levels are below the EU average, official unemployment statistics are not a very reliable gauge of Romania's employment situation, given the large number of Romanians working either abroad or in the informal economy. These trends are likely to continue in the coming years given that nine EU countries removed labor restrictions for Romanian citizens in 2014.

#### Citation:

EU Commission (2014) EU recommendations for Romania – 2011-2014 [http://ec.europa.eu/europe2020/pdf/csr2014/challenges2014\\_romania\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/challenges2014_romania_en.pdf) (Accessed 12/22/2014)

Economist Intelligence Unit (2014) Country data – Romania <https://eiu.bvdep.com> (Accessed 12/22/2014)

## Slovakia

**Score 4** Slovakia's unemployment rate of about 14% is among the highest in the European Union and OECD. Youth unemployment rates have also remained high, and long-term unemployment rates have increased. The Roma minority continues to be largely excluded from the labor market, and there are strong regional differences in unemployment rates. The Fico government has largely failed to make active labor-market policy more efficient. The new programs that have been adopted, such as a scheme providing support for hiring young graduates and public-works programs for the low-skilled and long-term unemployed, have shown only short-term effects, and have been thwarted by the negative labor-market effects of measures such as the increase in the minimum wage, the extension of collective-labor agreements and new restrictions on temporary employment.

### Citation:

Klein, Caroline, 2013: Investing Efficiently in Education and Active Labour Market Policies in Slovakia. OECD Economic Department, Working Paper No. 1017, Paris ([http://www.oecd-ilibrary.org/economics/investing-efficiently-in-education-and-active-labour-market-policies-in-slovakia\\_5k4c9kvmv3g4-en](http://www.oecd-ilibrary.org/economics/investing-efficiently-in-education-and-active-labour-market-policies-in-slovakia_5k4c9kvmv3g4-en))

Machlica, Gabriel, Branislav Žúdel, Slavomir Hídel, 2014: Unemployment in Slovakia. Institute for Financial Policy, Economic Analysis, Policy Paper No. 30, Bratislava ([http://www.finance.gov.sk/en/Components/CategoryDocuments/s\\_LoadDocument.aspx?categoryId=698&documentId=605](http://www.finance.gov.sk/en/Components/CategoryDocuments/s_LoadDocument.aspx?categoryId=698&documentId=605))

## Spain

**Score 4** Even if Spain still has one of the highest unemployment rates among OECD countries, Spanish labor market policies have shown some success during the period under review. The jobless rate reported by the Spanish Statistics Institute (INE) was 23.7% at the end of 2014, having fallen from an all-time high of 27% in the first quarter of 2013 (the rate averaged 16.3 % from 1976 until 2014).

High levels of structural unemployment affect primarily low-skilled workers, women and young people, and in particular those individuals living in southern regions. There is also a long-established pattern of severe mismatch between workers' qualifications and job availability, with many highly skilled employees not making adequate use of their expertise and capabilities. During the years of crisis, unemployment increased dramatically, from 2.1 million jobless workers in December 2007 to a peak of 6 million in February 2013. Beyond the fact that the previous real-estate bubble had popped, this painful dynamic created an intense debate on Spanish labor-market weaknesses: the inflexibility of employment regulations (particularly concerning layoffs), the rigidity of collective agreements and, above all, the existence of a dual labor market in which an enormous 35%-40% of the workforce serves under temporary contracts and has no job protection. This stands in direct contrast to those who are overprotected (60%-65%).

The Popular Party (Partido Popular, PP) government passed a reform (Royal Decree Law 3/2012) containing several measures such as prioritizing enterprise agreements over collective agreements with the aim of moderating wages; reinforcing temporary-job companies as employment agencies; fostering the use of training contracts and extending the age of eligibility for such programs to 30; introducing a new permanent contract with fiscal benefits for SMEs; creating bonuses for hiring groups hit particularly hard by the crisis, such as youth and older people; restricting the succession of temporary contracts and modifying part-time contracts; introducing the possibility of modifying the functions of employees, as well as their workday and salary.

Though still quite high, unemployment began to fall beginning in early 2013, when the Spanish economy entered recovery. By the end of 2014, the number of jobless workers had fallen to 5.4 million (or 4.5 million with reference to those registered as unemployed). A quarter of the new jobs were directly connected to a new contract modality introduced by the 2012 decree, but it is difficult to conclude that it has been the labor market reform (rather than the broad effect of the economic recovery) which has provided this new positive trend. If anything, the new regulation has had an impact by minimizing dismissal protections and decreasing salaries (as collective agreements have become more flexible) through a process of internal devaluation that reduces labor costs. As a result, the Spanish economy is now somewhat more competitive. And though it is creating jobs, this comes at the expense of job security and wages.

The Spanish labor market continues to languish under problems that public policies have been unable to solve. Perhaps the three most important ones are: a) lack of flexibility in the labor force (insufficient mobility, few part-time contracts), b) high numbers of undeclared work (which also means the actual unemployment is not so extreme) and, above all, c) the aforementioned dual labor market, which is an important source of inequality. Analysts also point to the several contract modalities, a flawed social dialogue and expensive compulsory social security contributions.

Finally, it has to be mentioned that public spending on labor policies now comprises a considerable share of GDP (around 4%). This is mainly as a consequence of unemployment benefits, although two million jobless workers, immigrants in particular, are not entitled and do not receive any benefits whatsoever. At the same time, public spending cuts have reduced active labor market policies programs to help the unemployed find work (e.g., training).

Citation:

Economically Active Population Survey (EAPS-EPA) 2014 third quarter. Spanish statistics institute INE. [www.ine.es/dyns/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176918&menu=ultiDatos&idp=1254735976595](http://www.ine.es/dyns/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176918&menu=ultiDatos&idp=1254735976595)

Labour Cost Index. Eurostat.

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=teilm100&plugin=1>  
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00076&plugin=1>

## Bulgaria

**Score 3** Bulgaria has experienced a sharp rise in unemployment in the period 2009 – 2012, followed by a moderate decrease in 2013 – 2014. Employment and unemployment structures 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 very often in an area different than what they studied. The Labor Code has not been reformed to reflect institutional and technological transformations in the modern economy, thus creating obstacles to the flexible reallocation of the labor force in times of crisis. Active labor-market policies have been limited, and have not been very successful.

## Croatia

**Score 3** Since the beginning of the economic crisis in 2009, some 150,000 jobs have been lost. The employment rate fell to just 57.3% in 2013 (among 20- to 64-year-olds), far below the Europe 2020 Strategy employment rate target of 75%. With few new jobs available, an increasing number of people are taking early retirement. For this and other reasons, the size of the active labor force declined by 1.3% between 2013 and 2014. Of particular concern in relation to the competitiveness of the economy is the low skill level of the labor force, indicated by the relatively small share of the labor force with a university degree (just 16%). Additionally, labor mobility is much lower than in some other European countries. According to one study, in mid-2013, only 3,300 out of 370,000 unemployed people were willing to work in another country, and only 6,300 were willing to work in another Croatian town. The unemployment rate has steadily increased in the past four years, reaching a new peak of 18.3 % (among 15- to 64-year-olds) in the second quarter of 2014. Those most affected by unemployment include youth up to 25 years of age, women above 45 and men above 50. The main reason for the increase in unemployment has been the fall in aggregate demand, but this has been exacerbated by skill mismatches and regional imbalances. Labor-market policies in Croatia have been insufficient to tackle the rapid increase in unemployment. Spending on active labor-market policies is relatively minimal. Despite high rates of long-term unemployment, relatively little is spent on retraining, lifelong learning and adult education. Only 2.4% of the adult population receives training, compared to an average of 9% in the European Union more generally. At the equivalent of €371.34 per month, the minimum wage in Croatia is not especially high – similar to that in Poland and Hungary, and about half the level of Slovenia, although double that in Bulgaria. However, high social contributions provide a disincentive to employers to take on new workers. A Labor Act passed in July 2014 introduced some changes in labor-market regulations. The new law covers flexible

working, working hours and the termination of employment contracts. First, the maximum duration of temporary employment contracts has been increased from one to three years. Second, the maximum working week has been increased from 48 hours to 50 hours in any one week. Third, the procedures for dismissing a worker have been eased somewhat. For example, a contract can be terminated on grounds of sickness after the provision of six months of notice, and employers are no longer required to provide retraining or a layoff-compensation program (in the case of collective dismissal). An employer can terminate an employee's work contract on job-related or personal grounds. Overall, these changes do introduce more flexibility into the labor market, but not as much as had been expected in some quarters.

## Greece

### Score 2

The crisis exposed some of the rigidities in the labor market and it has led to a transition that is difficult to manage politically and is painful in its social effects. The unemployment rate in 2013 (27%) and the youth unemployment rate (58% in the same year) were the worst among all countries surveyed by the SGI, while long-term unemployment was also very high.

Many small and very small enterprises have failed, while former entrepreneurs and dismissed workers find it difficult to find new jobs, as most of them do not possess advanced skills. Unemployed people in the middle- and old-age groups also find it difficult to re-integrate themselves into a job market which, beleaguered by recession, has shrunk continuously since 2008.

The pre-crisis division between insiders and outsiders has been modified in two respects. First, insiders of the public sector, such as "stagiaires" and employees hired on political patronage-driven fixed-term contracts, have been laid off. The ranks of the outsiders have grown also because of the spread of labor contracts which promote flexible labor relations. Businesses offer prospective employees only individual, tailor-made contracts and do not negotiate collective agreements with labor representatives. In the meantime, there has been a rise in part-time and short-term labor contracts over contracts of indefinite time. Thus, increasingly more employees receive a fraction of an already low minimum salary (€80 gross per month since 2012). Employers exploit the widespread fear of unemployment and call in workers to work unpredictable and long hours.

In sum, the labor market trends already apparent in previous years, namely the introduction of flexibility in labor relations and a staggering rate of unemployment, continued in 2013 – 2014.

This country report is part of the Sustainable Governance Indicators 2015 project.

© 2015 Bertelsmann Stiftung

Contact:

Bertelsmann Stiftung  
Carl-Bertelsmann-Straße 256  
33311 Gütersloh

Dr. Daniel Schraad-Tischler  
[daniel.schraad-tischler@bertelsmann-stiftung.de](mailto:daniel.schraad-tischler@bertelsmann-stiftung.de)

Dr. Christian Kroll  
[christian.kroll@bertelsmann-stiftung.de](mailto:christian.kroll@bertelsmann-stiftung.de)