EUROPEAN JOBS AND SKILLS
A COMPREHENSIVE REVIEW 2015

REPORT

Catherine Colebrook, Giselle Cory, Tony Dolphin, Patrick Doyle, Diana Fox Carney, Izzy Hatfield, Clare McNeil, Graham Pontin and Alfie Stirling

November 2015
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Institute for Public Policy Research
ABOUT THE PROGRAMME

The JPMorgan Chase New Skills at Work programme aims to identify strategies and support solutions that help improve labour market infrastructure and develop the skilled workforce globally. The initiative brings together leading policymakers, academics, business leaders, educators, training providers and nonprofits with the goal of connecting labour market policy with practice, supply with demand and employers with the workforce – all to strengthen the global economy.
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ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK’s leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR’s dedicated thinktank for the North of England, operating out of offices in Newcastle and Manchester.

The purpose of our work is to assist all those who want to create a society where every citizen lives a decent and fulfilled life, in reciprocal relationships with the people they care about. We believe that a society of this sort cannot be legislated for or guaranteed by the state. And it certainly won’t be achieved by markets alone. It requires people to act together and take responsibility for themselves and each other.

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FOREWORD

The structures of European economies and the types of jobs that they support are changing. There has been an EU-wide shift in the labour market away from low-skilled jobs and towards high-skilled ones, but this shift has proceeded at a slower pace than the shift in the qualifications of the workers that are available to employers. At the same time, young people are finding it increasingly hard to get a foothold in the labour market, and the proportion of the workforce employed on full-time, permanent contracts has shrunk.

Some of the changes are cyclical – the result of recession followed by a stuttering recovery. The rise in temporary work, for example, might be expected to recede when European economies are again growing strongly enough to bring unemployment down towards pre-recession levels. Other changes, however, are the result of major structural forces operating in the global economy: globalisation, demographic change, and the rapid pace of technological innovation. These forces are likely to continue to cause dislocation and disruption in European labour markets for the foreseeable future. As a result, there will be a fundamental shift in the types of jobs that are available for workers and in the skills demanded by employers across Europe.

At the end of 2014 there were over 24 million people unemployed in the EU28 countries – one in 10 of the workforce. This represents a tragic waste of human potential. Understanding the likely changes in the European labour market over the next decade is essential if policymakers and firms are to set Europe onto a path towards permanently lower unemployment through the creation of many more well-paid jobs.

IPPR and JPMorgan Chase Foundation have formed a partnership to bring together and mobilise the best policymakers, business leaders, academics and civil society organisations from across Europe to develop new solutions for the workforce.
challenges of the future. The New Skills at Work programme is analysing what can be done to overcome unemployment, ranging from macro strategies for boosting job-creation, expanding labour market participation and developing a skilled workforce for the future, through to specific innovations that improve the skills of the workforce to meet local employers’ needs. This report, which examines trends in employment and skills developments across the Europe, is the latest publication from this research programme.

Nick Pearce, director, IPPR
Europe continues to face the significant challenges of tackling unemployment, underemployment and inactivity. The southern European economies in particular are still combating the effects of the sovereign debt crisis – high levels of joblessness and insecure or temporary work. Across the rest of the continent, advances in automation and increasing exposure to global competition act as more long-term headwinds blowing skill supply and demand out of alignment.

For Mediterranean Europe, these same headwinds also threaten to consolidate some of the medium-term effects of recession into more permanent features of the economy – a prospect that would be deeply alarming. Policymakers need to respond by minimising the long-term erosion of skills as a result of recession, and investing to reshape and re-skill the labour force for the jobs of the future. Young people need to be supported in their transitions from education to work with better careers advice, more integrated work experience opportunities and greater employer involvement in the education system. Existing workers also need greater support to continually upgrade their skills, with stronger incentives for employers to invest in their workforces.

In this report we examine trends in employment and skills development across the EU28, and in Europe’s five biggest economies: Germany, the UK, France, Spain and Italy. We make a high-level assessment of the effectiveness of policies that have so far been implemented to boost employment and skills, and identify the key labour market weaknesses that firms and policymakers should seek to address.
Our main findings in relation to five key challenges

Tackling the unemployment rate

• Average unemployment in the EU fell during the mid-2000s, from just over 9 per cent in 2002 to just over 7 per cent in 2008, but it then rose to above 10 per cent during the eurozone sovereign debt crisis.

• The trend in unemployment varied significantly by country. Unemployment trebled in Spain between 2007 and 2014, while in Germany the unemployment rate fell in every year between 2005 and 2014, other than one slight rise in 2009.

Fighting youth unemployment

• Average unemployment among 15–24-year-olds in the EU has exceeded one-in-five of the labour force every year since 2009.

• In Spain and Italy, the youth unemployment rate had, by 2014, risen to 53 and 43 per cent respectively, while in Germany it has fallen to below 8 per cent.

Boosting the activity rate

• The activity rate (that is, the proportion of the adult population that is either in or seeking work) has risen across the EU, and within each of our selected countries, since the early-to-mid-2000s.

• This rise has been particularly dramatic in Spain, where the activity rate rose by more than 9 percentage points between 2000 and 2014.

• The rate is highest in Germany and the UK, where it stands at nearly 78 and nearly 77 per cent respectively.

Strengthening education outcomes

• The proportion of the working-age population whose highest qualification is at the upper-secondary-level has remained relatively stable across the EU, but in 2014 ranged from less than 24 per cent in Spain to more than 57 per cent in Germany.

1 These findings focus on the five biggest EU economies – Germany, the UK, France, Spain and Italy – which are examined in depth in chapters 3–7 of this report.

2 This includes those whose highest qualification is post-secondary and non-tertiary.
In three of our five selected countries – Italy, France and Spain – it increased steadily between 2008 and 2013; in the UK it fell slightly, from 44 to 43 per cent, while in Germany it remained stable at 57 per cent.

**Growing productivity**

- Economic productivity has risen in the majority of countries over the past seven years (with the exception of 2009), and the EU average has now more or less returned to its pre-2008 trend. In Italy and the UK, however, productivity growth has stalled since 2010.

**Increasing vocational education and training opportunities**

- Vocational enrolment as a proportion of all upper-secondary enrolment stood at around 50 per cent across the EU in 2013.
- Among our five selected countries, this proportion is highest in Italy, at over 59 per cent, and lowest in Spain, at a little over one-in-three (34 per cent).

In table A.1 we identify the key labour market and skills challenges facing each EU country. Portugal, Italy and Spain most frequently perform poorly on these indicators, while seven countries, including Germany, Denmark and the Netherlands, do not perform poorly against any indicators.
### Table A.1

**European scorecard: Summary of key labour market and skills challenges across EU28 countries***

<table>
<thead>
<tr>
<th>Country</th>
<th>High unemployment rate</th>
<th>High long-term unemployment rate</th>
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<th>High rate of inactivity</th>
<th>High rate of involuntary part-time working</th>
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<th>Qualification of workers</th>
<th>Low rate of participation in lifelong learning</th>
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*Note: The countries identified against each indicator are those that fall within the top quarter of the EU countries for each indicator. In most cases, this means that seven out of the 28 countries are highlighted against each indicator, but in the case of skills mismatches (**) there is data for only 16 countries, so only four are identified.
Employment and skills policy priorities for Europe’s five largest economies

In our analysis of the trends in employment and skills development in Europe’s five largest economies, we conclude that the policy priorities of each country should be as follows.

**Germany**

German policymakers need to do more to assist and support the transition to full-time work, and to ensure that as many workers as possible are able to benefit from the national minimum wage. In particular, tailored support needs to be delivered to migrants to make sure that they are able to access all parts of the jobs market, thereby preventing their skills from being underutilised. Good-quality higher education also needs to be maintained to ensure that skills training keeps pace with the challenges and opportunities of high-tech innovations. Finally, the retention of skills and the expansion of opportunities for labour market participation need to be prioritised right across the life-cycle.

**UK**

In the UK, investment needs to be made in productivity-boosting measures in order to recover lost growth in output per hour, as well as in pay and living standards. In particular, more needs to be done to boost productivity in the low-skill service sectors, in order to ensure that the new higher minimum wage, to be implemented in spring 2016, is affordable for businesses. Inactivity also needs to be reduced by intervening with active labour market policies that are targeted at those currently furthest from the labour market, that invest in skills development and which involve employers in the training and retraining of the workforce. The government has intervened to promote private-sector engagement with apprenticeships, but more could be done to support the involvement of employers both in careers guidance in schools and in adult training, which has suffered large budget cuts in recent years.

**France**

The increasing segregation of the French labour market between secure and insecure work needs to be tackled: permanent contract law must be simplified, and measures to incentivise firms to expand opportunities for flexible working must be introduced. The private sector needs to be encouraged to take on a greater role in the delivery and
co-ordination of apprenticeship opportunities and training schemes, and these programmes need to be targeted at those social groups that are currently furthest from securing work. Existing reforms to vocational education and training also need to be properly funded to prevent quality control issues from arising.

Spain
Spain must consider introducing a suite of new active labour market policies, co-ordinated between central government, regions and employers, to tackle long-term unemployment – particularly among ex-construction workers, who risk seeing their skills become redundant. New programmes are needed to involve the private sector in the skills development of young people, and in making vocational training (and trainers) relevant to the real jobs of the future. Further measures also need to be taken to reduce segmentation between permanent and temporary work, such as by reducing discrepancies in regulatory enforcement, and improving opportunities for flexible working.

Italy
Italy must continue to improve labour market flexibility, particularly within permanent work, without further entrenching its two-tier labour market structure; it should take complimentary measures to reduce the scale of temporary work. It must also improve skills development and give it a regional focus, tailoring integrated private and public training programmes to the needs of specific geographies and sectors, and increase female participation in the labour force through in-work flexibility and high quality, affordable childcare provision. All of the above and more needs to be set out in a five-year policy roadmap, in order to give businesses and employees confidence regarding the pace, scale and timing of reforms.
Countries across the European Union need to reduce unemployment, underemployment and inactivity.\textsuperscript{3} In 2014, 27.7 per cent of the EU28 working-age population was economically inactive,\textsuperscript{4} 10.4 per cent of the labour force was unemployed, and 5.8 per cent was underemployed.\textsuperscript{5}

The drivers of labour market underperformance are both structural and cyclical. Cyclical unemployment and underemployment are particular problems in southern European countries that are still struggling to recover from the financial crisis and recession. Structural unemployment and inactivity, caused by a mismatch between skills supply and demand, are more long-standing problems which affect much of Europe. Globalisation, rapid technological progress and other economic developments are all leading to changes in the skills that employers require, and consequently, unemployment that begins as a cyclical phenomenon can become structural if skills are allowed to erode over time, or to become redundant.

There are three key ways in which countries need to develop their workforces in order to reduce structural unemployment and inactivity.

1. **Young people need to be supported as they seek to make the transition from education to employment.**

   Education systems that are inefficient, careers advice that is not good enough, insufficient opportunities for work experience, and employers who are not engaged with education and training systems as much as they could

\textsuperscript{3} All the data quoted in this chapter is sourced from Eurostat’s Labour Force Survey database (Eurostat 2015) unless stated otherwise.

\textsuperscript{4} That is, neither in work nor actively seeking work.

\textsuperscript{5} To be underemployed is to be unable to work for as many hours as one would like, or unable to find a job that fully utilises one’s skills and abilities.
be mean that younger workers often lack the skills that employers demand. As a result, youth unemployment rates are relatively high, yet firms still cannot find the new workers they need.

2. **Existing workers need to be able to upgrade their skills.** Europe’s employers are not investing sufficiently in their human capital, which reduces the potential for employees to advance at work and means that firms are less able to boost their productivity levels.

3. **Workers with redundant skills need access to retraining opportunities.** Long-term unemployment is high (at 5.2 per cent in 2014) in part because of the high numbers of workers who do not have the skills that employers are looking for. A lack of retraining and reskilling opportunities means that workers are unable to fulfil their potential, while at the same time too few people have the skills that new industries require.

This failure to ensure that workers’ skills keep pace with economic change represents a lost opportunity for those workers, and means that their living standards are lower than they might potentially have been. It increases inequality and reduces social mobility, because certain groups become trapped in unemployment or in a pattern of cycling in and out of low-paid jobs. It also constitutes a lost opportunity for employers, and for the European economy, as it means that economic growth and productivity are lower than they could be.

Within Europe, however, there are examples of countries that have overcome these challenges and developed a highly skilled workforce with low levels of economic inactivity. Germany, for instance, has very low unemployment rates across all age cohorts (although even here there are concerns about the prospects of those with the lowest qualifications, and the recent growth in low-paid jobs). Government policy can take at least some of the credit for Germany’s strong performance in recent years: a vocational education stream that creates a seamless transition between education and work, policies to boost female participation in the labour market, and the creation of more flexible employment terms to reduce the risks around employing those furthest from the labour market, have all acted to boost participation and
progression. Although differing economic structures and institutions make it impossible to copy the German model wholesale to other countries, southern European countries should seek to learn from the experience of Germany, Sweden and others as they look to rebuild their own labour markets and reduce structural unemployment and inactivity within them.

In this report, which is a follow-up to the analysis of the European labour market that we published in 2014 (Dolphin et al 2014), we examine trends in employment and skills development across the EU28 and in the five biggest European economies: Germany, the UK, France, Spain and Italy. We make high-level assessments of how effective the policy implemented to date has been in terms of boosting employment and skills, and identify the key labour market weaknesses that firms and policymakers should seek to address.

References


2. OVERVIEW
EUROPE’S LABOUR MARKET CHALLENGES

2.1 Labour market trends
2.1.1 Background
The immediate effect of the financial crisis in 2007–2008 was to cause Europe’s economy to go into recession.\(^6\) Real GDP in the EU28 fell by 4.4 per cent in 2009, and the subsequent recovery has been a faltering one, with output falling again (by 0.5 per cent) in 2012 and expanding at only a moderate pace in 2010, 2011, 2013 and 2014 (Eurostat 2015b). Consequently, real GDP was just 0.4 per cent higher by 2014 than it was in 2008.

As a result, employment has fallen and unemployment has increased. Over 10 per cent of the EU28 workforce was unemployed in 2014, compared to 7 per cent in 2008. In Spain and Greece, unemployment was at 25 and 27 per cent respectively in 2014. Long-term unemployment (of more than 12 months) in the EU28 has doubled from 2.6 per cent of the labour force to 5.2 per cent over this period, and youth unemployment (among those aged 20–24) has gone up from 13.9 to 20.9 per cent. In Spain and Greece, half of all young people in this age group were unemployed in 2014.

2.1.2 Employment, unemployment and inactivity rates
The employment rate across the EU28 – the proportion of the working-age\(^7\) population that is in work – dropped from 65.7 per cent in 2008 to 64.1 per cent in 2010. Because the European economy initially struggled to recover from recession, the employment rate remained at this lower level

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6 All of the data quoted in this chapter is sourced from Eurostat’s Labour Force Survey database (Eurostat 2015a) unless stated otherwise.
7 That is, aged between 15 and 64 years old.
for the next three years, before recovering to 64.8 per cent in 2014.

Figure 2.1
The employment rate as a percentage of the working-age population in the EU28, 2002–2014

Source: Eurostat 2015a

Across Europe as a whole, and in every individual country except Romania, women have done better than men in recent years, though they are still much less likely to be in work. While the employment rate of men in the EU fell from 72.6 per cent in 2008 to 70.1 per cent in 2014, the rate for women increased from 58.9 per cent to 59.5 per cent. This is in part because manufacturing and construction – two industries that remain male-dominated – have fared worse than service industries over the last seven years.

Outcomes have varied considerably across EU member states in the wake of the financial crisis. In 11 of the EU28 countries, the employment rate was higher in 2014 than it was in 2008: this was true of Germany (where it increased from 70.1 to 73.8 per cent) and the UK (where it increased from 71.5 to 71.9 per cent), among others. On the other hand, those countries that have experienced the deepest recessions and have implemented the most severe austerity measures have seen large falls in their employment.
rates: the biggest declines in employment rates since 2008 have occurred in Portugal (5.4 percentage points), Ireland (5.7 percentage points), Spain (8.5 percentage points), Cyprus (8.8 percentage points) and Greece (12.0 percentage points).

This range of experience over the last six years has contributed to a widening in the divergence of outcomes across the countries of the EU: in 2014, European employment rates varied from 49.4 per cent in Greece to 74.9 per cent in Sweden (see figure 2.2). This disparity is not, however, simply the result of developments over the past six years – there are deeper, structural factors underlying it too. Even in 2008, employment rates in Europe varied from 55.5 per cent in Malta to 77.9 per cent in Denmark.

**Figure 2.2**

Employment rates as a percentage of the working-age population in EU28 countries, 2014

There are, therefore, two aspects to the task of increasing employment rates in Europe. First, the fall in employment rates since 2008 has to be fully reversed. The biggest challenges in this respect are faced by the countries hardest hit by recession and by austerity measures – mainly those of southern Europe.
Fiscal imbalances will continue to limit the capacity for spending on labour market policies in those countries that have the greatest need for them, and so they must be addressed. Second, if we are to restore the trajectory of the employment rate to the upward trend that it was following prior to the financial crisis, it will also be necessary to tackle the structural factors that are holding the employment rate down in countries where it is relatively low.

Another way of looking at this second aspect of the problem is through inactivity rates – the proportion of the working-age population that is not in, or actively looking for, work. Increasing the employment rate across Europe as a whole requires the disparities between inactivity rates across Europe to be narrowed: there will have to be disproportionate falls in inactivity rates in countries like Italy. This will not be easy to achieve.

**Figure 2.3**
Inactivity rates as a percentage of the working-age population in EU28 countries, 2014

Inactivity is not just a challenge for European policymakers. In the box below we contrast the EU labour market with that of the US.
Comparing the US and EU labour markets
The US and EU labour markets have fared very differently in the wake of the 2007–2008 financial crisis. Having climbed steadily since late 2010, the US employment rate stood at 72.5 per cent in the second quarter of 2015; this compares with a rate of 65.5 per cent across Europe. US unemployment, having risen sharply in 2009, has now fallen back, while Europe’s unemployment rate has remained stubbornly high (see figure 2.4).

Figure 2.4
Unemployment rates (%) in the US and the EU28, 2002–2014

The two regions’ contrasting experiences are largely a product of their broader economic performance since the financial crisis. Although both the US and EU went into recession at around the same time in 2009, the US economy has recovered much more quickly: by 2013 real GDP was 6 per cent higher than in 2008, while in the EU28 it was 1 per cent lower (OECD 2015b).

However, the US faces the longer-term challenge of declining participation in the labour market. Population aging is often put forward as a cause of this (see for example OECD 2014a), but when looked at by age cohort the data shows that participation has fallen over the past 10 years across all age groups except the over-55s (see figure 2.5). This contrasts with the upward trend in participation seen in Europe (see figure 2.6), and is a trend that statisticians in the US expect will continue (BLS 2013).
Figure 2.5
Labour market participation in the US by age group, January 2005–October 2015 (January 2005 = 100)

Source: BLS 2015

Figure 2.6
Labour market participation rates (%) in the US and EU28, 2002–2014

Source: Eurostat 2015c and OECD 2015a
When economic growth is weak for an extended period of time there is a risk that long-term unemployment increases and that, eventually, some of the long-term unemployed drop out of the labour market altogether, thereby pushing up inactivity rates. This has not happened in Europe in recent years: the aggregate inactivity rate in the EU28 countries has fallen in every year since at least 2003.\(^8\) Between 2008 and 2014, despite all of the economic problems that the EU experienced, the inactivity rate declined in 22 of its 28 countries over this period. This reflects a number of factors: an increased focus on active labour market policies in many countries; social changes that mean that young women are more likely to want to work than those of the generation that is reaching retirement age; and, in countries badly hit by the financial crisis, both partners in families seeking work when previously only one did.

Statisticians define the working-age population as everyone aged between 15 and 64 years old, so there will always be people who are classified as inactive because, for example, they are in full-time education, are mothers who have just had children, or are too ill to work. The scope for countries such as Sweden, the Netherlands and Denmark (which have the lowest inactivity rates in Europe) to push their inactivity rates lower is, therefore, limited. In these countries, efforts should be concentrated on those groups with the lowest employment rates (typically young people, mothers with young children, people with disabilities, some ethnic groups, and people with no or only low-level qualifications) and on regions in which low-value-added manufacturing used to predominate. This may require a broad policy response – for example, improving quality childcare to favour mothers’ participation in the labour market.

Higher activity rates are only really beneficial if they lead to higher employment rather than higher unemployment, and this is the biggest challenge facing policymakers. In aggregate, unemployment in the EU28 countries increased from 7.1 per cent in 2008 to 11.0 per cent in 2013, before falling back a little to 10.4 per cent in 2014. Yet this latter figure still represented more than 24 million people who were

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\(^8\) Eurostat data is only available from 2002.
looking for, but unable to find, work. Based on our previous analysis of data for 2013 (Dolphin et al 2014), and assuming that the fall in unemployment in 2014 was wholly cyclical in nature, we estimate that around 30 per cent of unemployment in the EU28 is the consequence of the cyclical weakness of the European economy since 2008, while the remaining 70 per cent reflects structural problems that pre-date the financial crisis, and which will not go away even when the EU economy returns to ‘normal’. Others take a more pessimistic view. The OECD, for example, has said that structural unemployment in the euro area (they do not provide an estimate for the EU as a whole) was 9.6 per cent in 2014, and that, because total unemployment was 11.6 per cent on their harmonised measure, this suggests that cyclical unemployment was 2.0 per cent (OECD 2015c).

**Figure 2.7**
The unemployment rate as a percentage of the labour force in the EU28, 2002–2014

![Unemployment rate in the EU28, 2002–2014](source: Eurostat 2015a)

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10 That is, the OECD believes that 83 per cent of unemployment is structural.
As we might expect, levels of structural unemployment vary considerably across countries. According to the OECD, in five of the 20 EU countries for which it makes estimates, actual unemployment is already below structural unemployment (that is, there is no cyclical unemployment at all);\(^{11}\) in a further six, actual unemployment is less than 1 percentage point above structural unemployment (meaning that there is a relatively small degree of cyclical unemployment); and in the remaining nine, actual unemployment is between 1.0 and 9.6 percentage points greater than structural unemployment (ibid). Structural unemployment rates also vary widely, from 4.5 per cent in Austria to 18.5 per cent in Spain. This is the result of a range of historical factors, including the quality of education and training and its adaptability to structural change; the efficiency and flexibility of the labour market in matching people to job vacancies; and the long-term performance of the economy.

**Figure 2.8**

Unemployment rates as a percentage of the labour force in EU28 countries, 2014

Source: Eurostat 2015a

\(^{11}\) Those five countries are Hungary, Estonia, Germany, the Czech Republic and the UK.
2.1.3 Underemployment
Inactivity and unemployment do not tell the whole story when it comes to Europe’s failure to fully utilise the skills of its population: underemployment is also important. There are two main elements to underemployment: people not working as many hours as they would like to, and people working in jobs that do not fully utilise their skills.

The bulk of underemployment in terms of hours worked is the result of people working part-time when they would rather be working full time. In 2014, over 12 million people – 5.8 per cent of those in employment – across the EU described themselves as working part-time involuntarily (see figure 2.9). This represented an increase of over 2.5 million compared to 2008. Unsurprisingly, some of the highest ratios of involuntary part-time working are found in those countries that have suffered the worst recessions since the financial crisis, particularly Spain and Italy. Weak demand may lead some firms to reduce the hours that are available to some workers.

Figure 2.9
Involuntary part-time working as a percentage of total employment in EU28 countries, 2014

Source: Eurostat 2015a
Prior to the crisis, the highest underemployment ratios were found in Sweden, France, Germany and Italy – countries which, with the exception of Italy, are usually found nearer the top of the employment rate league table than the bottom. This suggests that underemployment in terms of hours worked in these countries reflects structural factors in their labour markets. Regulations and tax regimes may create an incentive for part-time working from the employers’ perspectives if, for example, part-time workers do not reach the threshold at which social security contributions commence. The growth of poor-paying ‘mini jobs’ in Germany is an example of this phenomenon (see chapter 3). Furthermore, individuals may not seek full-time employment if working more hours involves a very high effective tax rate because of the pace at which benefits are withdrawn, leaving them little option but to accept a lower income. High childcare costs can act in the same way.

Figure 2.10
Proportion (%) of all workers who are overqualified, by education level, in EU28 countries, 2014

Source: Eurostat 2015a, and authors’ calculations
A simple way to measure the other element of underemployment – the underutilisation of skills and qualifications – is to compare workers’ occupations with their highest levels of education. In figure 2.10, people with at least some tertiary education are categorised as overqualified if they are working in a medium or low-skilled occupation, while those with an upper-secondary or post-secondary non-tertiary-level education (including equivalent vocational training) are categorised as overqualified if they are working in a low-skilled occupation (see the two boxed-out sections below for more on the categorisation of education levels and occupations). Using this definition, across all EU28 countries 22 per cent of workers who have a tertiary level education are overqualified for the work they are doing, and 19 per cent of workers with upper-secondary or post-secondary non-tertiary-level educations are also overqualified. This amounts to 35 million people in total, equivalent to almost one-in-six of all people in employment.

Categorising education levels
In this report, the following categories of education level are used. These are taken from UNESCO’s International Standard Classification of Education (ISCED) 2011.

- **Tertiary education**: Short-cycle tertiary education (level 5), bachelor’s or equivalent level (level 6), master’s or equivalent level (level 7), and doctoral or equivalent level (level 8).
- **Upper-secondary and post-secondary non-tertiary education**: Upper-secondary education (level 3) and post-secondary non-tertiary education (level 4).
- **Less than primary, primary, and lower-secondary education**: Early childhood education (level 0), primary education (level 1) and lower secondary education (level 2).

12 Others means of measuring this include using surveys that ask people to self-report overqualification (see for example OECD 2013a). This method may better account for differences in skills requirements for the same occupations across countries, but it suffers from the problem of reflecting only employees’ perceptions, rather than those of their employers.
Defining occupations by skill level

Occupations can be categorised by skill level in different ways. Here we have chosen to use the following categorisations.

- **High-skilled**: Managers, professionals and technicians and associate professionals.
- **Medium-skilled**: Clerical support workers, service and sales workers, skilled agricultural, forestry and fishery workers, and craft and related trades workers.
- **Low-skilled**: Plant and machine operators and assemblers, and elementary occupations.

On this basis, in 2014, 40.6 per cent of jobs in the EU28 were high-skilled, 42.7 per cent were medium-skilled, and 16.7 per cent were low-skilled (Eurostat 2015a and authors’ calculations).

This brief survey of recent trends in labour markets across Europe demonstrates that there are many people who are inactive but who could be in the workforce; there are many people who are unemployed who also could be in work; there are many people working part-time who could be working full-time; and there are many people working in jobs that do not make full use of their skills and qualifications. Although most countries could be doing better, these problems are not evenly spread across Europe. Inactivity, unemployment and underemployment are far worse in those countries that have suffered the deepest recessions in recent years and have implemented the most severe austerity packages, including Greece, Ireland, Italy, Portugal and Spain. However, the underlying causes of these problems can be traced back to before the financial crisis, which merely made a bad situation even worse.

**2.2 Trends in qualifications and skills**

Data on the latent skills of the European labour force (as opposed to the skills that they are actually using in their jobs) is not available. However, broad trends in skills development are likely to be similar to trends in qualifications held. The European workforce is becoming better qualified at a rapid pace. Between 2002 and 2014, the share of those in work in the EU28 countries who had only a lower-level education decreased from 28 to 18 per cent; the proportion with a tertiary education increased from 23 to 33 per cent over the
same period. This reflects the different levels of educational attainment of those young people who are entering the workforce and of those older people who are leaving it. Young people today are far more likely to have higher-level qualifications than was the case 40 years ago.

Figure 2.11
Share in EU28 employment (%) by level of education, 2002–2014

This move towards a more highly-qualified workforce between 2002 and 2014 is one that is repeated, to a varying degree, in every EU28 country. The countries in which the trend towards a more highly qualified workforce is strongest include Ireland, Luxembourg and Portugal. In the case of Portugal, this reflects a degree of catch-up because it has one of the least qualified workforces in Europe (along with Italy, Malta and Romania), but Ireland and Luxembourg are among the countries with the most highly qualified workforces. The trend is weakest in Denmark,

13 The semi-exception to this is Denmark, where between 2002 and 2014 there was a small increase in the proportion of the workforce with lower-level qualifications.
Estonia and Germany. Of these, only Estonia has a relatively highly qualified workforce in terms of the share that has a tertiary education, but Denmark and Germany have very strong vocational education systems at the post-secondary, non-tertiary level.

There has also been an EU-wide shift in the labour market away from low-skilled jobs and towards high-skilled ones, but this has proceeded at a slower pace than the shift in the qualifications of workers that are available to employers. Between 2008 and 2014, the share of high-skilled jobs in the EU28 labour market increased from 38.6 to 40.6 per cent, the share of mid-skilled jobs fell marginally from 42.9 to 42.7 per cent, and the share of low-skilled jobs fell from 18.5 to 16.7 per cent.

**Table 2.1**
Breakdown of EU28 employment by occupation and skill level (% of total employed), 2008 and 2014 (and percentage-point change)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High-skilled</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td>8.3%</td>
<td>6.0%</td>
<td>-2.4</td>
</tr>
<tr>
<td>Professionals</td>
<td>13.9%</td>
<td>18.7%</td>
<td>+4.8</td>
</tr>
<tr>
<td>Technicians &amp; associate professionals</td>
<td>16.4%</td>
<td>15.9%</td>
<td>-0.4</td>
</tr>
<tr>
<td><strong>Medium-skilled</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerical support workers</td>
<td>10.8%</td>
<td>9.8%</td>
<td>-0.9</td>
</tr>
<tr>
<td>Service &amp; sales workers</td>
<td>13.8%</td>
<td>17.0%</td>
<td>+3.3</td>
</tr>
<tr>
<td>Skilled agricultural, forestry &amp; fishery workers</td>
<td>4.4%</td>
<td>4.0%</td>
<td>-0.4</td>
</tr>
<tr>
<td>Craft &amp; related trades workers</td>
<td>14.0%</td>
<td>11.8%</td>
<td>-2.1</td>
</tr>
<tr>
<td><strong>Low-skilled</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; machine operators &amp; assemblers</td>
<td>8.6%</td>
<td>7.4%</td>
<td>-1.2</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>9.8%</td>
<td>9.3%</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Source: Eurostat 2015a and authors’ calculations

There were also some interesting shifts within categories. Among high-skilled jobs, the share of professionals increased sharply between 2008 and 2014, while that of managers shrank. Furthermore, within the medium-skilled group, the share of service and sales workers increased sharply, while

14 No earlier data is available.
those of clerical support workers and craft and related trades workers shrank. These patterns were, for the most part, replicated across the whole of Europe.

Figure 2.12
Talent mismatch (score out of 10), in 16 selected EU countries

Source: Hays and Oxford Economics 2015

If the overall picture is one in which the demand for skills appears to have increased more slowly than the supply of them, this should not be taken to mean that employers’ demand for high-skilled workers is being fully met. In some industries in some countries, employers would be able to provide more highly skilled jobs if the right workers were available. Hays and Oxford Economics produce an annual Global Skills Index, one component of which attempts to measure ‘talent mismatch’ – the gap between the skills that businesses are looking for, and the skills available in the labour market (Hays and Oxford Economics 2015). In several European countries (their analysis covers only 16 of the 28 EU countries), this indicator was, in 2015, at or close to the maximum reading of 10, which suggests that businesses are facing very serious problems in terms of matching available
candidates with unfilled jobs. While it is no surprise to find the UK in this group (since its employment growth has been strong and its unemployment is close to its pre-crisis rate), the fact that skills mismatches are severe in Spain, Portugal and Ireland, despite their high rates of unemployment, indicates the need for major structural change and retraining in the labour force. On the other hand, there is only limited evidence of skills shortages in Germany, Austria and the Netherlands, despite their relatively low rates of unemployment, which suggests that the education systems and labour markets in these countries are very efficient at matching labour supply and demand.

2.3 Future labour market trends

When making predictions about the future of the European labour market, most forecasters rely upon a combination of demographic developments, which can be predicted with a relatively high degree of certainty; the extrapolation into the future of recent trends; and their own judgement. Their forecasts have employment levels in the EU28 reaching new highs over the next decade, and recent shifts in the sectoral and occupational breakdown of the labour force being extended further.

Forecasts made by the European Centre for the Development of Vocational Training (Cedefop) are typical in this respect (2015a). They show employment in the EU28 increasing steadily over the next decade, reaching 235 million in 2025, but with very divergent growth within different sectors and occupations. As far as sectors are concerned, Cedefop expects growth in employment to be concentrated in business and other services, distribution and transport, and education, health and social services. Manufacturing and agriculture are expected to see job losses overall (ibid). These are all continuations of recent trends, and they reflect:

- the relatively rapid rate of productivity growth, on average, in manufacturing and agriculture, which reduces demand for workers relative to other sectors
- the pressures of globalisation, which have quickened the long-established trend for jobs in advanced economies to shift into the service sector

15 For more details on how this indicator is calculated see Hays and Oxford Economics 2015.
• the tendency for nations to spend proportionately more in areas like education and health as they become wealthier.

Reflecting this sectoral shift, Cedefop argues that there will be more jobs that require high-level qualifications in 2025 than there are now, with the number of jobs requiring medium- and low-level qualifications shrinking (ibid). However, newly-created jobs account for only about one in 10 job opportunities. The vast majority of job opportunities arise because people leave one job to go to another one, or because they retire. This ‘replacement demand’ more closely reflects the existing composition of the workforce, and is therefore skewed towards jobs that require medium-level skills. As a result, Cedefop’s projections suggest that, taking replacement and expansion demand together, around 45 per cent of job opportunities between now and 2025 will be for jobs that require high-level qualifications, around 40 per cent will require medium-level qualifications, and just 15 per cent low-level qualifications.

Table 2.2
Forecast distribution (%) of total job opportunities by occupation in the EU28, 2013–2025

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Share of opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High-skilled</strong></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td>9%</td>
</tr>
<tr>
<td>Professionals</td>
<td>24%</td>
</tr>
<tr>
<td>Technicians &amp; associate professionals</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Medium-skilled</strong></td>
<td></td>
</tr>
<tr>
<td>Clerical support workers</td>
<td>9%</td>
</tr>
<tr>
<td>Service &amp; sales workers</td>
<td>16%</td>
</tr>
<tr>
<td>Skilled agricultural, forestry &amp; fishery workers</td>
<td>6%</td>
</tr>
<tr>
<td>Craft &amp; related trades workers</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Low-skilled</strong></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; machine operators &amp; assemblers</td>
<td>4%</td>
</tr>
<tr>
<td>Elementary occupations</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Cedefop (2015a: 3)

This is also reflected in Cedefop’s projections of the distribution of job opportunities by occupation: almost half of forecast job opportunities between 2013 and 2025 are for high-skilled
occupations, just over one-third for medium-skilled occupations, and only one in six for elementary occupations (ibid).

Within these broad trends there are numerous variations at the national level. For example, several countries, including Ireland and Poland, are expected to experience a small increase in manufacturing jobs; business and other services are not expected to be the main source of jobs growth in a handful of countries, including Spain and the Netherlands; and (demonstrating that Cedefop’s projections are not based on the extrapolation of trends in the last few years alone) countries whose construction industries have slumped in recent years are expected to see jobs growth in that sector over the next decade, while the reverse is true for those countries where construction has proved more resilient (ibid).

The projected increase in the proportion of jobs that require higher qualifications is expected to be accompanied by an increase in the share of the workforce that has attained qualifications equivalent to a first degree or higher. Young people entering the workforce over the next 10 years are far more likely to have a higher-level qualification than the generation that will be retiring during this period. Cedefop projects a 7 percentage-point increase, from 31 to 38 per cent, in the share of the workforce with higher-level qualifications between 2013 and 2025, offset by a fall in the share with lower-level qualifications from 22 to 14 per cent (while the share with medium-level qualifications will change little). Only in Germany, where the strength of the vocational education system makes it an attractive alternative to higher education,16 and in Finland and the UK where the proportion of graduates not working in high-skilled occupations is already high (20 and 25 per cent respectively), is the share with higher-level qualifications not forecast to increase (ibid).

Meanwhile, almost half (48 per cent) of young people entering the workforce will have medium-level qualifications in 2025 – little changed from the current proportion (ibid). The good news for this group is that, if the projected shift in demand for jobs materialises, they are less likely to be working in low-skilled occupations and so not using all of their skills.

16 Although the latest evidence from Germany suggests a decrease in the intake of vocational education and training students.
Overall, therefore, an expected increase in the demand for skills (more jobs requiring higher-level skills) is expected, as is an increase in the supply of skills (more people with higher-level qualifications). However, it is important to remember that these are only projections. There is a risk, for example, that evidence of the underutilisation of skills will discourage young people from seeking higher-level qualifications in future. Europe needs simultaneously to create more high-productivity, well-paid jobs, and to ensure that its workforce has the skills that employers will be demanding. It needs to become better at developing the skills of all young people so that they can make a successful transition from education to work; it needs to be better at upgrading the skills of existing workers, so that they can progress in their jobs; and it needs to be better at retraining people whose skills are no longer in demand, so that they can acquire the skills that are needed by new industries.

2.4 Developing the workforce’s skills

2.4.1 Education and training for young people

When it comes to developing the skills of the European workforce, policymakers’ first task is to ensure that the skills of entry-level workers – that is, young people – meet employers’ needs. At the moment, this is not always the case, as is clear from the high level of youth unemployment in the EU28.

Youth unemployment has been one of the biggest economic problems facing Europe for many years. The rate of unemployment for those aged 20–24 has been around two-and-a-quarter times greater than the rate for those aged 25–64 since at least 2002. This ratio fluctuated very little in the period immediately prior to the financial crisis, when the economy was strong and unemployment rates fell; during the crisis and subsequent recession, when unemployment rose steadily; and in more recent years, when unemployment has started to edge lower. In the first quarter of 2015, the EU28 unemployment rate for those aged 20–24 was 20.3 per cent, compared to 9.1 per cent for those aged 25–64.17

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17 For those aged 15–19, the rate was 25.7 per cent. However, this includes students who are looking for part-time work. It is also high because young people who are looking for work at this age have few qualifications, and there is a strong relationship between qualifications and the likelihood of being in work. We prefer to focus on the rate for 20–24-year-olds, which is less affected by these problems.
Europe’s relatively high rate of youth unemployment is a sign that for many of its young people, the transition from education to work is not a smooth one. This is down to a number of interrelated factors. Economists at the OECD have looked at the relationship between skills and employment outcomes. They found that educational attainment, information-processing skills (such as literacy and numeracy), generic skills (such as team-working and problem-solving) and job-specific skills all affect both the likelihood of a person aged 16–29 being in work and, if they are in work, the level of their wages (OECD 2014b: 212).

**Figure 2.13**
EU28 unemployment rate (%), by age group, 2002–2014

Level of educational attainment appears to be particularly important in this regard. Across the whole of Europe, there is a very clear relationship between the qualifications young people have and their chances of being unemployed. Although having a tertiary education further lowers a person’s chances of being unemployed, the biggest difference is between those with an upper-secondary or post-secondary, non-tertiary education on the one hand, and those with only a lower-secondary (or less) education on the other.
Table 2.3
EU28 youth (aged 20–24) unemployment rates (%), by level of education, Q1 2015

<table>
<thead>
<tr>
<th>Level of education</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>All ISCED 2011 levels</td>
<td>20.3%</td>
</tr>
<tr>
<td>Tertiary education (levels 5–8)</td>
<td>14.9%</td>
</tr>
<tr>
<td>Upper secondary and post-secondary non-tertiary education (levels 3 &amp; 4)</td>
<td>18.2%</td>
</tr>
<tr>
<td>Less-than-primary, primary and lower secondary education (levels 0–2)</td>
<td>33.0%</td>
</tr>
</tbody>
</table>

Source: Eurostat 2015a

The highest rates of youth unemployment are generally found in those countries that have suffered the worst economic problems since the financial crisis. Croatia, Cyprus, Greece, Italy, Portugal and Spain all have rates of youth unemployment that are above 30 per cent. This is largely a cyclical problem.

There is, perhaps, more to be learned from the countries that have the lowest rates of youth unemployment relative to ‘adult’ unemployment. These fall into two groups: three smaller countries (Latvia, Lithuania and Malta), and four larger ones (Austria, Denmark, Germany and the Netherlands). Although these countries have relatively low youth unemployment rates in part because their economies have fared less badly than others in recent years, their long-term track record in this respect is also very good. What distinguishes them from other countries in western Europe is that they all have strong dual vocational education systems – that is, systems that combine vocational education in a college with on-the-job training in a workplace, and in which employers play a major role. Both of these factors make employers more willing to take on apprentices and other young workers and trainees. Skills mismatches are also minimised because the education system and employers successfully match young people’s skills to those being demanded in the labour market.
Case study: The Dutch vocational education and training system

Vocational education and training in the Netherlands is driven by employers, primarily through sector bodies known as ‘knowledge centres’. These centres, which are funded by the government, play an important role in the design of qualifications and the nature of work experience and on-the-job training. As a result, they ensure that young people develop the skills that employers need – although their funding has recently been cut, which will reduce the scope of the services they offer (Cedefop 2015b). Although there is close collaboration between government, employers, employees and training providers to ensure that everyone’s interests are taken into account, the culture is one in which employers, rather than the state, accept responsibility for the provision of skills. This is illustrated by the numerous voluntary sectoral training levies that now exist.

Other advantages of the Dutch system are the ease with which students are able to progress from lower-level to higher-level training; its ability to take account of national and regional skills needs; the way in which qualifications are designed, particularly at lower levels, so as not to be narrowly focused on particular occupations; and the requirement that everyone receives work experience and on-the-job training with an accredited employer. The result is that young people see vocational education and training as an attractive route into the labour market.

Source: Casey 2013

2.4.2 Lifelong learning for the existing workforce

As well as developing the skills of those entering the labour market, European policymakers need to ensure that the existing workforce has more and better in-work training and lifelong learning if firms’ skills needs are to be met. This will allow workers to progress (and earn higher wages), and allow firms to boost productivity and profits. At a time when there is anecdotal evidence of skills shortages in some parts of the European labour market – particularly for professionals in the ICT industries and engineers and technicians in manufacturing – in-work training and learning can also help to fulfil new demands for skilled labour.

Rates of occupational progression vary widely across European countries. Using data for the years 2004–2011, Thompson and Hatfield (2015) measured the proportion of
continuously employed workers who moved into a higher-skilled occupation (using pay rates as a proxy) in 19 EU countries (data limitations prevented a wider coverage). They found that progression rates thus calculated varied from less than 5 per cent in Italy, Luxembourg and Cyprus to more than 20 per cent in Estonia and Belgium. Generally, men were found to be more likely to progress than women, because women with young children are more likely than men in the same situation to take a career break, to move to a new job that offers more flexible working, or to work part-time. Older workers were also found to be less likely to progress than the average.

**Figure 2.14**
Rates of occupational progression (%) in EU countries for which data is available, 2004–2011

Adult education and training are the keys to improving progression. Rates of participation in education and training for those aged 25–64 vary widely across Europe: in 2014, the ranged from more than 25 per cent in Scandinavian countries to fewer than 5 per cent in a number of eastern European countries. The average rate for the EU28 in 2014 was 10.7 per cent, up from 7.1 per cent in 2002 (and 9.3 per cent in 2008). This suggests
that many European countries are using education and training to respond to the growing challenge of keeping the workforce’s skills relevant to firms’ needs. The UK stands out as one country in which this trend does not hold true – here, participation fell from 21.3 per cent in 2002 to 15.8 per cent in 2014 (Eurostat 2015d).

However, workers who already have a high level of skills are far more likely than workers with medium- or lower-level skills to be engaging in education or training. In 2014, across the whole of the EU28, the participation rate in education and training among those aged 25–64 who had a tertiary education was 18.8 per cent. This compares to 8.8 per cent for those with an upper-secondary or post-secondary, non-tertiary education, and just 4.4 per cent for those with only a lower secondary education or less (ibid). This pattern is replicated in every EU28 country, irrespective of whether a country’s overall participation rate is low or high. European countries appear to be doing a rather better job of keeping the skills of the highly skilled relevant than they are of improving the skills of those further down the skills distribution – despite the evidence that skills deficiencies are a barrier to progression in the workplace (OECD 2015d).

**Figure 2.15**

Participation rate (%) in education and training among 25–64-year-olds in EU28 countries, 2014

Source: Eurostat 2015d
Case study: Adult vocational education in Denmark
The Danish adult vocational education system offers short training programmes which last up to six weeks, and are designed to help people improve their skills in line with shifting demands from employers and put them in a position to make progress in their workplace, as well as to reduce the risk of skills mismatches. The programmes are aimed at both skilled and low-skilled workers who are in employment (there is a separate system for the unemployed). Training may take place in the classroom or at the workplace, or some combination of the two, and can involve the development of specific job-related skills, and/or more general competences such as numeracy or the use of technology.

These training programmes are partly financed by the government, but participants also have to pay a fee for most of them (though grants are available in some cases). The programmes are maintained and developed at national and local levels by the government, employers, employees and providers. Participants can earn certificates of participation and competence which can boost their prospects of progression.

Source: MCEGE (no date)

Table 2.4
Proportion of enterprises (% of total) in EU28 countries that have a training plan and/or budget, and share of total employment, by size of enterprise, 2010

<table>
<thead>
<tr>
<th>Size of firm</th>
<th>Percentage with training plan and/or budget</th>
<th>Share of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All*</td>
<td>35%</td>
<td>-</td>
</tr>
<tr>
<td>From 10 to 49 employees</td>
<td>30%</td>
<td>29%</td>
</tr>
<tr>
<td>From 50 to 249 employees</td>
<td>55%</td>
<td>24%</td>
</tr>
<tr>
<td>250 or more employees</td>
<td>81%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Source: Eurostat 2015d
*Note: Excludes enterprises employing fewer than 10 people.

Continuing education and training can take place outside the workplace, particularly if people are seeking to change career. However, the bulk of adult training is likely to be done on the job as people seek to progress within their existing workplace and firms seek to boost the productivity of their existing
workforce, or train people for new roles. Around four in every five large firms in Europe have a training plan and/or a training budget – but the same is true of less than one-in-three small firms (Eurostat 2015c) (see table 2.4).

2.4.3 Reskilling workers as skills become redundant

A third skills challenge for Europe is retraining and reskilling those workers and potential workers whose skills have become redundant, perhaps as a result of technological change or globalisation. If it is done well, this can help meet the skills needs of new industries as they develop. However, if it does not happen, there is a risk that people can be discouraged from seeking work, or become completely detached from the labour force, resulting in higher levels of structural unemployment and inactivity.

This is a particular problem in Greece, where nearly one-in-five of the labour force has now been out of work for more than a year; in Spain, where the ratio is one-in-seven (Eurostat 2015a); and in other eurozone countries that have been badly hit by the financial crisis and its repercussions. Not all of the long-term unemployed in these countries have skills that are redundant, and many will find work without retraining when their economies eventually recover. However, in order to bring about these recoveries, there is an urgent need for such countries to rebalance their economies – and their mix of employment – away from domestic, non-tradeable service sectors and towards tradeable goods and services. Active labour market policies, focussed on the acquisition of new skills by workers previously employed in non-tradeable sectors, will be necessary to smooth this transition.

At the other end of the scale, there are a number of countries where the long-term unemployment rate is very low, including the three Scandinavian countries in the EU and Austria, Germany and the UK. These countries have active labour market policies in place that are specifically designed to help and encourage the long-term unemployed back into work. In some cases such as the UK, the emphasis is very much on helping people to find work; in others, including Denmark, there is more emphasis on retraining alongside job-search.
Case study: Intreo – Ireland’s new back-to-work service

The Intreo service is being introduced on a phased basis in Department of Social Protection offices throughout Ireland. It brings together working-age benefits and employment support in one place, and is tasked with delivering the government’s commitment to keep long-term unemployment to a minimum and prevent disillusioned jobseekers from quitting the labour market altogether.

It operates a triage system for newly unemployed people entering the service, under which they are given a ‘probability of exit’ (PEX) rating. Those with a high PEX rating – that is, those with skills that are in demand in the labour market – are supported in their search for work. Those with a middling PEX rating are offered guidance about how to improve their chances of securing a job. And those with a low PEX rating – whose skills are not in demand – receive personal support and are expected to participate in work experience and undergo retraining. Intreo also works with employers to identify potential skills shortages, so that it can direct people to training programmes that are most likely to result in them finding employment.

By assigning people to different categories in this way, and by working with employers, Intreo can target its resources on those most likely to need support, and help ensure that employers’ skills demands are met.

Source: Department of Social Protection (no date) and OECD 2013b: 168

Europe-wide data on the implementation of labour market policies to support those who have been out of work for a long time, or who face some other challenge when it comes to finding work, is incomplete. However, using the latest available data, which covers all the largest countries of the EU, we estimate that around one-in-four people looking for work in Europe are participating in some form of labour market policy activation measures, with around one-in-10 participating in training (Eurostat 2015d). Rates vary widely, but table 2.5 shows those of some of the countries with the highest rates of participation in training. For the most part, these are countries with relatively low rates of unemployment, which perhaps makes it easier for them to devote resources to training. However, they are also countries in which vocational training is held in high regard, which may mean
that employers are more willing to help provide training opportunities, and are more likely to look favourably on the qualifications gained by those who participate.

**Figure 2.16**
The long-term* unemployment rate as a percentage of the labour force in EU28 countries, 2014

![Bar chart showing the long-term unemployment rate as a percentage of the labour force in EU28 countries, 2014.](chart)

*Source: Eurostat 2015a
*Note: More than 12 months

**Table 2.5**
Participants in training per 100 people looking for work, 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Participants in training per 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>24.0</td>
</tr>
<tr>
<td>Austria</td>
<td>17.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>15.1</td>
</tr>
<tr>
<td>Finland</td>
<td>14.9</td>
</tr>
<tr>
<td>Belgium</td>
<td>14.7</td>
</tr>
<tr>
<td>France*</td>
<td>14.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>13.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>11.7</td>
</tr>
</tbody>
</table>

*Source: Eurostat 2015e
*Note: Data for France pertains to 2012.
2.5 Conclusion

Unemployment in 25 of the EU28 countries was higher in 2014 than it was in 2008 (the three exceptions to this were Germany, Hungary and Malta). This reflects cyclical pressures resulting from the 2009 recession and the subsequent sluggish economic recovery, and implies that a priority for almost all countries in Europe is to tackle cyclical unemployment. This is a particular problem in southern Europe (Greece, Spain, Cyprus, Portugal and Italy), and for Croatia and Slovakia. In these seven countries, overall unemployment ranged between 13 and 27 per cent in 2014, and long-term unemployment (of more than 12 months’ duration) between 8 and 20 per cent.

With such high proportions of the labour force out of work for so long, there is a risk that people will begin to drop out of the labour market altogether, unless unemployment starts to fall. However, even if and when this does happen, the need for these countries to rebalance their economies towards tradeable goods and services means that structural unemployment will remain high unless many of those who have been out of work for a long time are retrained and reskilled.

Youth unemployment rates (for those aged 20–24) are also highest in the seven countries named above, ranging from 27 per cent in Slovakia to 50 per cent in Greece and Spain. However, the majority of European countries have youth unemployment rates that are more than twice the rate for older (25–64-year-old) workers. Only in Germany, Malta and Austria is youth unemployment below 10 per cent. Elsewhere, more could be done to improve young people’s transitions from education to work, and to ensure that young people entering the labour market have the skills that employers are looking for.

Underemployment is another concern. This is not just a problem in countries with high unemployment rates: the proportion of those in work who are working part-time involuntarily is high in Ireland, France, Sweden and the Netherlands. These countries should ensure that this is not the result of unintended incentives created, for example, by the tax and social security system. The proportion of workers who are overqualified for their current job is high in Estonia, Bulgaria, Ireland, Latvia and Lithuania: in these countries there is a need for a structural shift in the economy in favour of higher-skilled jobs. While it is widely forecast that this
shift will take place, in some countries it may not happen on a scale that is sufficient to deal with the problem of overqualification.

Inactivity rates (the proportion of the working age population that is neither in work nor looking for a job) vary widely across Europe. In some countries, including Romania, Malta, Hungary, Belgium and Poland, the problem of high inactivity appears to be long-standing, pre-dating the financial crisis and recession. Reducing the inactivity rate in these countries would be particularly beneficial to certain groups: women with young children, those with no or few skills, and those with disabilities.

Lifelong learning can help ensure employers’ skills needs are met. Participation in education and training among those aged 25–64 is lowest in eastern European countries: Romania, Bulgaria, Croatia, Slovakia, Hungary, Poland, Lithuania and Latvia. Efforts to increase the training of adult workers in these countries are likely to bear fruit in terms of reducing skills mismatches.

References


3. GERMANY

Key labour market developments
- The German employment rate reached 73.7 per cent in 2015 – a post-reunification high.
- Employment has been underpinned by growth in part-time jobs. The proportion of part-time workers in the workforce was 28.2 per cent in Q2 2015 – the third highest rate in the EU.
- A national minimum wage of €8.50 was introduced in January 2015.
- In spite of recent high levels of inward migration, over the long term Germany faces the challenges of an ageing and contracting population. Satisfying demand for new entrants into the labour market is a long-term challenge.

3.1 The current labour market
In many respects, post-2008 Germany is the model European economy. Its current employment rate of 73.7 per cent is the highest figure since reunification, and lags behind only that of Sweden (Eurostat 2015). It has a low youth unemployment rate that is well below the European average, and its vocational training and apprenticeship systems are the envy of the world.

Germany is one of a few countries in Europe that have strong systems of social partnership between employers’ associations and trade unions. Collective bargaining agreements, which cover 59 per cent of the workforce, deal with a range of workplace issues, including wage agreements, working time and training.

Unemployment in Germany has more than halved over the past decade, falling from 5.0 million in 2005 to 1.9 million in 2015 (ibid). The controversial Hartz labour market reforms of 2003–2005 have been a key driver of this transformation, as a result of which Germany’s reputation has changed from ‘the sick man of Europe’ to economic success story (Dustmann et al 2014).
These reforms combined a reduction in long-term unemployment benefit with an increase in wage subsidies and a more efficient job-matching process. Germany increased the flexibility of its labour market and removed out-of-work incentives, as well as combining the long-term unemployment benefit and welfare benefit into one streamlined subsistence payment.

One result of the Hartz reforms has been a rise in the number of part-time and temporary jobs. As of 2011, 17.6 per cent of employees in Germany worked in temporary jobs and ‘mini jobs’, which provide limited employment of up to 12 hours per week with a maximum earning capacity of €450 per month (OECD 2014b). The increased uptake of part-time positions is also linked to the *Elterngeld* and *Elterngeld Plus* child benefit reforms (see below).

Taken together, these developments have increased both job flexibility and the participation of women – particularly mothers – in the labour market. As a result, a larger proportion of those working part-time have chosen to do so: involuntary part-time work has decreased as a percentage of all part-time working by almost 10 percentage points over the past 10 years (Eurostat 2015) (see figure 3.1).

**Figure 3.1**

Involuntary part-time employment as percentage of total part-time employment in Germany, 2006–2014

Source: Eurostat 2015
However, mini-jobs are not without their critics. They are characterised by low in-work training opportunities, low wage-mobility, and a heightened chance of remaining locked into ‘marginal’ employment. They have also placed downward pressure on wages (Lehndorff 2015).

Supply and demand within the German labour market is shifting. The population is both aging and contracting, which means that there are fewer new entrants into the labour market, and that the span of working life is increasing. Migration offers one means of increasing the number of working-age people, but issues of integration and transferability of skills require thoughtful solutions.

Policy priorities for the German labour market

- Increase the quality of employment by tackling barriers to full-time work.
- Ensure that as many workers as possible are able to benefit from the national minimum wage.
- Invest in higher education to ensure efficient uptake of future job opportunities.
- Ensure that migrants are helped to access the jobs market.
- Support the retention of skills, and labour market participation, over the entire life-cycle – even in phases in which private obligations, such as caring responsibilities, are at their highest.

3.2 Temporary and part-time employment

Germany’s high employment rate (73.6 per cent for Q2 2015) is, as mentioned above, partly a result of how prevalent part-time working has become: it currently accounts for 28.2 per cent of the workforce (Eurostat 2015). These jobs are concentrated in the retail, hospitality services, and health and social care sectors, and are disproportionally held by women (47 per cent of employed women work part-time). Overall, almost a quarter of the German population is either without a full-time contract or in a temporary job (Eposito 2014).
Figure 3.2
Percentage of employed population in Germany, and in the EU28, engaged in part-time work, 2003–2014

Source: Eurostat 2015

Relatedly, the proportion of people in Germany who are exposed to the risk of in-work poverty\(^\text{18}\) – almost 10 per cent of the working population – overtook the European average for the first time in 2014, as figure 3.3 demonstrates.

A focus on assisting people who would like to work full-time would help reduce Germany’s in-work ‘at risk of poverty’ rate. Although the proportion of part-time work classed as involuntary has fallen, it remains the case that many workers would choose to work full time if they had access to the support they need – such as assistance with childcare – in order to do so. The provision of such support would be particularly beneficial to women – especially single mothers – and to immigrants, who are more likely to be in part-time or low-paid, poor-quality jobs.

In January 2015 a national minimum wage (NMW) of €8.50 was introduced as a means of addressing in-work poverty. Early indications are that the NMW has been effective in increasing real wages (although low inflation has also helped in this regard).

\(^\text{18}\) This refers to the proportion of the working population that has a disposable income that is less than or equal to 60 per cent of the national median equivalised disposable income.
without reducing employment. Furthermore, the introduction of the NMW, and the associated reduction in non-wage labour costs, may have contributed to a shift from mini-jobs into more standard employment: the Deutsche Bundesbank estimates that 60,000 new employment contracts in low-wage sectors were created in the first half of 2015 as a direct result of the NMW legislation (Deutsche Bundesbank 2015).

Figure 3.3
In-work ‘at-risk-of-poverty’ rate* in Germany and the EU27, 2005–2014

Source: Eurostat 2015
*Note: This rate refers to the proportion of the working population that has a disposable income that is less than or equal to 60 per cent of the national median equivalised disposable income.

3.3 Long-term unemployment
Germany has had considerable success in reducing long-term unemployment in recent years, partly as a result of the Hartz reforms, and partly due to the country’s strong export-led growth and the resultant high demand for labour. At around 2 per cent, Germany’s current long-term unemployment rate is much lower than the EU average of 5 per cent (see figure 3.4), and as a percentage of total unemployment it declined from 67 per cent in 2006 to 43 per cent in the first quarter of 2015 – again below the EU average of 48 per cent (Eurostat 2015) (see figure 3.5).
Figure 3.4
Long-term unemployment rate in Germany and the EU28, 2002–2014

Source: Eurostat 2015

Figure 3.5
Long-term unemployment as a percentage of total unemployment in Germany and the EU28, 2006–2015

Source: Eurostat 2015
Certain groups are especially at risk of being long-term unemployed, particularly older workers and those with a lower level of education or training. About half of unemployed people over the age of 55, and of unemployed people without vocational training, have been unemployed for at least 12 months (Spermann 2015). The German economy emphasises the importance of high-skill jobs and innovation. Consequently, there are very limited employment opportunities for people with low levels of qualification. These groups need more focused support than a simple realignment of incentives between welfare and work – the provision of continuing vocational education for those not in work should be made a particular priority.

3.4 Youth unemployment
Germany has one of the lowest youth unemployment rates in Europe, standing at 7.0 per cent in the second quarter of 2015 (Eurostat 2015). At present, only 330,000 15–24-year-olds are unemployed in Germany, and youth unemployment is not a great deal higher than unemployment rates in other age categories (Statistisches Bundesamt 2015). Youth unemployment is relatively low across the country, with most states having a rate of less than 10 per cent. However, there is some regional variation: the rate is slightly higher in eastern states (Eurostat 2015).

Much of Germany’s success in this area can be explained by the embedded nature of vocational training. The dual integration of work- and school-based learning prepares apprentices to make a successful transition to full-time employment: 48 per cent of students in upper-secondary education are enrolled in a vocational class, and 55 per cent of 25–64-year-olds possess a vocational qualification (ibid). The apprenticeships system is highly successful in getting young people into work, and contributes to the low youth unemployment rate. Participation in vocational education in Germany has fallen in recent years: between 2002 and 2012, the proportion of male upper-secondary pupils enrolled in vocational career streams declined from 68 to 56 per cent, while for female pupils this proportion declined from 57 to 40 per cent (Eurostat 2015). This can be partly explained by increasing participation in upper-secondary and tertiary education (ibid).
However, for those who do not make it onto apprenticeship schemes, the vocational education route holds less promise. Germany has a government-regulated transition system that is designed to help students in need of extra support make the transition from school to vocational training, and ultimately to the labour market. However, these schemes provide no actual qualifications, and may actually produce negative outcomes for the students enrolled. In particular, employers may view those who have passed through transitional schemes as being less capable. The effect can be that students enrolled in transitional courses find it difficult to gain vocational qualifications, and therefore to subsequently gain employment (Kohlrausch 2012).

3.5 Women and the labour market
The ability to exert autonomy over working schedules is a crucial part of establishing a work–life balance (Silim and Stirling 2014). Just over 2 million women in Germany are maternal breadwinners, accounting for 27 per cent of mothers in working households, while the OECD has calculated that the overall rate of maternal employment in the country stood at 70.1 per cent in 2013 (OECD 2015). Employment rates among mothers fall as the number of children they have rises: for example, women with three or more children are 25 per cent less likely to be in employment than women with only one child (ibid). Around half of maternal breadwinners in Germany are single parents (Cory and Stirling 2015), and women are the predominant providers of care – a fact that is reflected in their high representation in part-time positions.

In November 2015 the government introduced a package of reforms to childcare benefits, seeking to challenge traditional gender roles within the household by encouraging both mothers and fathers to combine work and childcare through part-time work arrangements. The Elterngeld Plus package, which can be chosen instead of the basic Elterngeld, provides earnings-linked benefits (with a replacement rate of at least 65 per cent of net pay, and up to 100 per cent for low-earners, with the unemployed also covered) to both parents (see boxed text below).

19 This figure includes all women with at least one child under the age of 14.
Elterngeld Plus
On 1 January 2015, changes were made to parental leave entitlements in Germany that applied to parents of children born after 1 July 2015. The Elterngeld Plus package is intended to compensate for loss of income following the birth of a child, and builds upon the existing Elterngeld legislation. In particular, Elterngeld Plus encourages parental leave to be shared between two partners.

Eligibility for it depends upon several factors. First, both parents must live in the same household as the child. However, an exception can be made for another close relative, such as a grandparent, who can be substituted for one of the parents if he or she is sick or dies. Secondly, in order to qualify, claimants must not work more than 30 hours per week. Parents are entitled to claim regardless of whether they are unemployed, self-employed, a student or apprentice.

The parental allowance for families is set at two-thirds of family income (after taxes and social insurance contributions are deducted), but limits are set at a maximum of €1,800 and a minimum of €300. Unemployed people receive this minimum support of €300.

The main effect of Elterngeld Plus is to provide parents with greater flexibility. If a parent decides to reduce her or his working week to 15 hours or fewer, their benefit is halved (to a maximum of €900 and a minimum of €150), but their period of entitlement is doubled from 12 to 24 months.

As with basic Elterngeld, both parents can take 36 months of unpaid leave from their jobs. Of these, 24 months (rather than 12 months as was previously the case) can be taken between the child’s third and eighth birthdays. If parents both decide to work between 25 and 30 hours per week simultaneously, they receive a ‘partnership bonus’ of four additional months of parental allowance.

The Elterngeld Plus policy builds on a number of other previous reforms introduced over the past decade which have sought to increase access to and the availability of childcare. The daycare enrolment rate for under-3s has gradually risen over the past decade, and is approaching the EU28 average (Eurostat 2015; see figure 3.6).

In order to increase this enrolment rate further, Germany would need to take action to improve the relatively low levels of enrolment among low-income and migrant households.
Figure 3.6
Percentage of under-3s enrolled in daycare centres in Germany, Spain, France, Italy and the UK, and the EU28 average,* 2005–2013

Source: Eurostat 2015
*Note: EU28 data is available for 2010–2013 only.

3.6 Migrant employment

Migrant groups in Germany have higher unemployment rates than non-migrant groups: in 2012, the employment rate of non-EU migrants was 58 per cent, compared to a non-migrant employment rate of 80 per cent (Stirling 2015). Migrants are generally more likely to find their skills ‘underutilised’ by employers, and less likely to be enrolled in training. In 2012, only 29 per cent of applicants with a migrant background successfully enrolled in in-work education and training, compared to 44 per cent of non-migrant applicants (BIBB 2014).

The German government’s commitment to accept 800,000 refugees this year, and to take in 500,000 annually in subsequent years, will transform the country’s labour market. Current legislation allows asylum-seekers access to the labour market after three months. However, long application procedures mean that it can take longer, and employers tend to be reluctant to offer employment before an asylum
application is resolved. In the current context of large-scale asylum provision, it is imperative that more of these labour market barriers are removed.

3.7 Productivity and future skills requirements
The German economy is characterised by high productivity rates. As figure 3.7 illustrates, German GDP per capita has remained consistently ahead of the EU average over the past decade, and a recent study found productivity in Germany to be 23 per cent higher than in the UK (Dolphin and Hatfield 2015).

![Figure 3.7](image)

GDP per capita (€) in Germany and the EU28, 2003–2014

Germany invests considerable funds in research and development: at 2.9 per cent of GDP in 2013, investment is well above the EU average (2 per cent); this investment, in turn, supports productivity. For example, the transformative role of digital technology in driving economic growth and employment opportunities has been formally recognised by the federal government in its Digital Agenda, published in 2014 (FMEAE 2014). State support for digitisation projects, such as expanding the high-speed broadband network, smart services and ‘big data’, influences the development
of manufacturing and service industries, reforms value chains and supports the growth of new technology businesses.

Nevertheless, some forecasters predict a less-than-certain decade ahead. The workforce is expected to further polarise into low- and high-skills categories. Most employment openings over this period are expected to arise as a consequence of older workers retiring, and are likely to be at the upper end of the skills spectrum (Cedefop 2015). Continuing education to re-skill workers will be vital to ensure that the current workforce is equipped with the skills that the workforce will require.

Indeed, demand for high-skilled workers will make investment in university provision increasingly important, yet this is one area in which German investment has fallen in recent years. Between 2008 and 2011, Germany increased national spending on education at the primary, secondary, and post-secondary non-tertiary levels by 12 per cent. However, this was not matched at the tertiary level, where spending per enrolled student fell by 3 per cent. This means that Germany’s total expenditure on educational institutions is, at 5.1 per cent of GDP, lower than the OECD average of 6.1 per cent (OECD 2014a). Although there is only limited evidence of a skills shortage in Germany, the labour market is particularly tight for certain professions that require a university degree, including information technology and mechanical and electrical engineering. A survey conducted by the German Chambers of Commerce and Industry in 2013 found that a third of surveyed businesses believed that skills shortages placed their businesses at risk (Deutscher Industrie- und Handelskammertag 2013). Higher and targeted investment in universities is therefore required to ensure that Germany has the skills that are required for the future at its disposal.

3.8 Conclusion

Germany’s ability to chart a course out of the financial crisis has been the envy of Europe. This achievement has been built on high levels of vocational training and flexibility within the labour market. Looking ahead, Germany will need to ensure that it continues to create jobs for low-skilled workers, particularly given the large intake of migrants planned for the next few years. In-work poverty and job insecurity are issues the government should turn to now that unemployment has
fallen back. At the other end of the skills spectrum, Germany should ensure that investment in university-level education is supported in order to avoid future skills shortages.

References


4. THE UK

Key labour market developments

- The employment rate recovered to its pre-recession level in 2014, and increased further in 2015.
- Employment growth has been supported by a rise in the number of self-employed workers (who now make up 14 per cent of the workforce).
- Part-time working has also increased, and now accounts for 25 per cent of the workforce.
- The unemployment rate has fallen and is approaching its pre-crisis level.
- Real wages have declined over the past five years, but the latest data shows that earnings rose by 2.5 per cent between September 2014 and August 2015.
- Productivity in terms of output per hour worked is still below its pre-recession level.
- There is increasing concern about work having become more precarious due to the growing prevalence of zero-hours contracts, self-employment and temporary employment.

4.1 The current labour market

The UK employment rate was 73.6 per cent for the months June–August 2015 – its highest rate on record. This is the culmination of several years of strong employment growth, and meant that the UK surpassed its pre-crisis employment rate in 2014, while Europe as a whole (the EU28) is not forecast to do so until 2020 (Cedefop 2015). The UK government hopes to see the employment rate rise even further, and is aiming to preside over the creation of 2 million further jobs over the course of the current parliament (HM Treasury and Osborne 2015).

Living standards can be crudely measured by GDP per capita. This figure can be increased by further improvements in the employment rate, or by increasing the productivity of existing
workers. This presents the UK with two key labour market challenges: how to get the best out of the current workforce in order to increase productivity and pay, and how to increase employment levels – particularly among those groups that are currently underrepresented in the labour market.

The UK has the fifth-highest employment rate in the EU28, but is outperformed in this regard by other northern European economies: Sweden, Germany, the Netherlands and Denmark. While much of the cyclical unemployment caused by the global financial crisis has been eroded in the years since, there remain structural barriers in the UK labour market that are keeping the employment rates of some groups – including women, young people and those experiencing work-limiting disabilities and health conditions – lower than they could be.

Figure 4.1
Output per hour, actual and trend,* in the UK, Q1 1971–Q1 2015 (2011=100)

Source: authors’ calculations based on ONS 2015a
*Note: Trend line pertains to output per hour between 1971 and 2007.

High employment levels and a relatively low rate of unemployment in the UK have been accompanied by disappointing productivity performance. Because productivity growth determines rises in living standards in the long run, this weakness is a growing
concern for politicians and policymakers. As figure 4.1 illustrates, UK productivity (or output per hour worked) is roughly 17 per cent lower than it would have been had the pre-crisis trend in productivity growth continued (authors’ calculations based on ONS 2015a). Falling real wages have allowed employers to retain and recruit staff despite relatively weak output growth: the result has been relatively poor investment in the skills of existing workforce, and in the technology and infrastructure needed for them to produce more.

The latest labour market data for the UK suggests that the unemployment rate may be stabilising (ONS 2015b). The most recent figures show that the unemployment rate has fallen to 5.5 per cent, after hovering around the 5.7–5.8 per cent mark since late 2014. At the same time, the employment rate has risen more slowly since it broached 73 per cent in June–August 2014 than it did before that point. It is too early to say so confidently, but these figures may indicate that the labour market is beginning to tighten (ibid).

Average weekly earnings (excluding bonuses) increased by 2.5 per cent in the year to August 2015 – a considerably larger increase than in other recent years (ibid). The stabilisation of the employment rate, combined with this increase in wages, may suggest that employers are finding it harder to attract the staff they need, and are therefore willing to pay higher wages to recruit individuals with the requisite skills and experience. This could prompt employers to make efforts to boost their productivity in order to cover these increased wage costs. If they don’t succeed in doing so, however, they may seek to pass costs on in the form of higher prices, leading to a rise in inflation. The UK’s path to a high-productivity, high-pay economy will be best paved by developing a highly skilled workforce and ensuring effective skills utilisation in order to raise output.

**Policy priorities for the UK labour market**

- Invest in measures to boost productivity growth.
- Ensure that this translates into increases in pay and living standards.
- Secure further increases in the employment rate by reducing inactivity.
• Put high-quality vocational routes into work in place for young people.
• Invest in workforce skills development.
• Support low-wage sectors to meet the costs of minimum wage increases (the minimum wage will be increased to £9 an hour by 2020 for over-25s).

4.2 The labour market over the next decade
Like many other countries, the UK has experienced rapid growth in both high-skill and low-skill jobs over the past few decades, to the point that there is concern about the erosion of mid-skilled jobs. However, the latest skills forecasts suggest that over the next decade, eight times as many job opportunities will arise due to replacement demand (that is, those created because a worker is exiting the workforce) as from expansion demand (newly created jobs) (Cedefop 2015). Most of these jobs will require mid-level qualifications, while a significant number will need high-level qualifications.

By 2025 more than 80 per cent of the UK labour force is expected to possess such mid- to high-level qualifications (ibid). There is, however, concern regarding how suitable many of these qualifications are for the labour market. Wolf (2015) has identified a large increase in the output of generalist bachelor degrees and low-level vocational qualifications in post-19 education between 1995 and 2014 (although the numbers dipped along with the size of the 18–20-year-old population between 2012 and 2014). Very few students are gaining higher technician qualifications, an imbalance that is set to worsen (ibid). Ensuring that the supply of skills matches labour demand will be crucial to raising productivity and reducing overqualification.

4.3 Investing in young people
Youth (18–24) unemployment in the UK has fallen to 13.3 per cent from its considerably higher peak of 20.2 per cent in August–October 2011 (ONS 2015b). Figure 4.2 illustrates the unemployment rates of different age groups within different EU countries. In comparison with Spain, Italy and France, the UK has relatively low levels of youth unemployment. However, if we
look at the adult-to-youth unemployment ratio, we can see that the position of young people in the labour market relative to 25–64-year-olds has been getting steadily worse since the 1990s, demonstrating the fact that increasing youth unemployment is a structural problem which pre-dates the recession.

**Figure 4.2**
Unemployment rate by age group in selected EU countries, and EU28 average, Q1 2015

![Unemployment rate by age group in selected EU countries, and EU28 average, Q1 2015](source)

Policy attention has become increasingly focussed on education that includes a work-based component that helps young people who are pursuing a non-academic transition from school to work. Apprenticeships are the key route to vocational qualifications in the UK, offering young people a chance to learn and work in parallel. There was a substantial increase in the number of apprenticeship starts during the past parliament (2009/10–2014/15), but the majority of these went to over-25s – often those already working at the firm offering the apprenticeship (BIS 2015a). Establishing distinctions between apprenticeships for under-19s, under-25s and over-25s would help to provide a high-quality alternative to the more common academic route from school to work.
If vocational education is to be as effective as possible in terms of developing the skills of young people and supporting productivity growth, care must be taken to avoid perpetuating the current gender bias within it. Apprenticeships are one of the most gender-segregated forms of education and training in the UK (Fuller and Unwin 2013). While women now account for more than half of all apprenticeship starts (BIS 2015b), they are poorly represented in the ‘traditional’ apprenticeship sectors such as manufacturing (Fuller and Unwin 2013). The underrepresentation of women in the workforce – particularly in high-productivity, high-pay roles – represents an enormous waste of economic potential. Supporting young women into the full range of apprenticeships across occupations can help to address this imbalance, while also helping to fill roles that require high-level technical qualifications.

Government policy has focussed on the quality of apprenticeships as well as on boosting their quantity. In order to address the issue of quality, the government has introduced an apprenticeship levy to encourage larger firms to take on more apprentices and increase their contribution to staff training (HM Treasury and Osborne 2015). Groups of employers, known as ‘trailblazers’, have been working to design apprenticeship standards in order to improve the overall quality of apprenticeship provision (BIS 2015c). There are currently many lower-level apprenticeships, and too few advanced and higher-level qualifications.

4.4 Increasing labour market participation

Figure 4.3 illustrates the gap between the employment rates of the overall British population and different groups within it.

Those with work-limiting disabilities and health conditions continue to face considerable barriers to employment. During the past parliament, policy initiatives to address this problem appear to have had little effect. More intensive and distinct support is required. Policies to promote flexible working arrangements would also benefit this group.

Skills are a key factor in determining employment opportunities. There is 29-percentage-point difference between the employment rates of highly-qualified individuals and those with low-level qualifications (Eurostat 2015a). At the same time, more than four-
and-a-half million employed people have no more than low-level qualifications, which suggests that there is scope to develop the skills not only of unemployed and economically inactive people, but also of those in employment.

Figure 4.3
Proportion of 16–64-year-olds who are in employment (as a proportion of all 16–64-year-olds) in different demographic groups, Great Britain, Q1 2015

Source: DWP 2015 and Eurostat 2015a
*Note: ‘Low-skilled workers’ are defined as those with lower-secondary-level qualifications or below; this accounts for just over 15 per cent of the UK workforce.

4.5 Fulfilling workforce potential
The UK ranks sixth in the EU28 for adult rates of participation and training: when surveyed, 15.8 per cent of 25–64-year-olds said that they had participated in training over the four weeks prior to participating in the survey. However, funding for adult skills has been cut, which has contributed to a four-percentage-point decline in the rate of participation in education and training between 2008 and 2014. As figure 4.4 illustrates, the majority of EU28 countries increased participation over this period, while the UK saw the largest fall (Eurostat 2015b).
Several groups are particularly affected by cuts to adult skills budgets, including adults with low-level qualifications, older or redundant workers looking to retrain, and the self-employed.

Women, and in particular mothers, face many barriers to career progression. As figure 7.2 illustrates, men in the UK were more than two percentage points more likely than women to progress up the occupational ladder between 2004 and 2011 (Eurostat 2013a and 2013b). Women remain the predominant providers of care in UK society, and combining caring responsibilities with work is made especially challenging by the lack of flexible working options offered by employers. The Timewise Flexible Jobs Index reports that only 6.2 per cent of job advertisements offer flexible working options such as reduced hours, choice over the time of the working day, or choice regarding the location of work (Timewise 2015).
Designing jobs with integral flexibility across the spectrum of occupations will give women more opportunities to progress, thereby increasing their ability to earn higher pay and utilising their skills to the fullest extent. Affordable childcare provision can also help to reduce gender inequalities in occupational and earnings progression by ensuring that childcare responsibilities do not prevent women from continuing to work (Silim and Stirling 2014).

4.6 Conclusion
Reviving the UK’s stagnant productivity and steering its economy towards a higher pay, higher productivity model will require a combination of efforts, including investment (in skills and human capital, among other areas) from government and employers. Increasing participation in the labour market and creating flexible jobs with a range of opportunities to progress will allow underrepresented groups – including young people, mothers, older workers and disabled people – access to a better range of high-quality roles. This will not only bring important personal rewards, but will help to increase the diversity of those working in senior positions, allowing skills to be utilised more effectively and productively.

References


Key labour market developments
• The employment rate continues to flatline, having remained between 63 and 65 per cent since 2009.
• Unemployment has been rising steadily for a decade.
• One-in-four 16–24-year-olds who are classed as ‘economically active’ are unemployed.
• Employment protection legislation in France continues to be among the strongest in Europe, but is being circumvented through ‘flexibility at the margins’.
• The number of short-term contracts among newly-created jobs is rising.
• Productivity remains relatively high, and has risen since 2008.

5.1 The current labour market
The French labour market has yet to get back into gear. The employment rate – 63.3 per cent in the first quarter of 2015 – has remained broadly flat for much of the period since 2007, and unemployment is at an eight-year high of 10.9 per cent (Eurostat 2015). The proportion of the unemployed that have been out of work for at least 12 months has fallen since its peak in mid-2014, yet this figure still stands at more than two-in-five (43 per cent) (ibid). Meanwhile, the youth unemployment rate, currently at 25.5 per cent, has been creeping steadily upwards since 2008 (ibid).

Recent government interventions have sought to address structural unemployment with legislative reform and subsidised short-term contracts. The result (both direct and indirect) of many of these interventions has been to increase the propensity for less secure forms of work. This greater ‘flexibility at the margins’ has led to concerns that the French labour market may be drifting towards further segmentation and duality, similar to that which has occurred in Italy and Spain (OECD 2015a).
Many of these reforms have also brought the government and employers into conflict with labour unions. Despite the fact that less than 8 per cent of employees are unionised, 90 per cent of French workers are covered by collective wage agreements (OECD 2015a), due to legislation that gives certain unions rights to representation irrespective of membership. Although perhaps better than they have been in the past, relations between employers and unions in France are reportedly worse than in many other EU countries (Schwab 2014).

Although employment growth has been disappointing, productivity growth (in terms of GDP output per hour) has remained strong in France relative to the EU average, and indeed has grown steadily for more than a decade. Productivity in technology-intensive sectors such as information and communication, and science and professional support services, is particularly high compared to other EU countries. Gross value added per hour in such sectors is 8 per cent higher than in Germany, and 49 per cent higher than in the UK (Dolphin and Hatfield 2015).
Nonetheless, France’s highly skilled workforce also faces problems in terms of skills-matching: overqualification is common, particularly among the under-30s. This may improve in future, as job-creation driven by expansion demand will, by 2025, mostly require high-level qualifications, although there will still be a significant amount of replacement-demand-driven opportunities in middle-to-lower-skill employment too (Cedefop 2015).

The supply of labour is also evolving. The proportion of the workforce with a high-level qualification is expected to be 46 per cent by 2025, 10 percentage points higher than in 2013 (ibid). However, despite the fact that jobs growth is predominantly generated by sectors with higher concentrations of secure employment, government policy responses tend to rely upon temporary employment, thereby possibly deepening the division between temporary and permanent work in an increasingly two-speed labour market.

**Figure 5.2**
GDP per hour worked (€) in EU countries,* and EU28 average, in 2007 and 2013

Source: OECD 2015a
*Note: Croatia, Luxemburg and Malta are not included because of missing data.
The challenge for French policymakers, then, is to act to reduce structural unemployment, particularly youth unemployment. Any new interventions will also need to avoid increased segmentation in the labour market. Increased rates of insecure temporary work tend to weight job-creation towards low-skilled employment, which in turn is likely to subdue pay and exacerbate overqualification.

Policy priorities for the French labour market

- Simplify contract law to reduce uncertainty and incentivise firms to accommodate in-work flexibility.
- Increase the number of private sector apprenticeships and trainee schemes.
- Ensure that the 2014 reforms to vocational education and training (VET) schemes are properly funded, and do not have an adverse impact on quality control.
- Ensure that access to expanded apprenticeship opportunities is properly targeted.

5.2 Labour market structure and employee–union relations

French contract legislation is highly complex. In 2011, the average duration of legal procedures relating to employee–labour disputes was 11 months (Fraisse et al 2011). Employment protections for permanent contracts are also strong, with France scoring highly on the OECD’s employment protection legislation index relative to otherwise comparable countries (OECD 2014; see figure 5.3).

Strong nominal employment protections have had mixed and contradictory effects. Of all layoffs over the last 10 years, less than half were due to economic reasons (a proportion that continues to fall), which suggests that employers are increasingly circumventing regulation to avoid the complexity of dismissal requirements (Le Barbanchon and Malherbert 2013). A lack of flexibility for mutual adjustment to hours and location within permanent contracts has increasingly pushed employers towards atypical contract types such as fixed-term employment, which offer much less security for workers. These types of contracts have been shown to suppress wages and job satisfaction, even after controlling for other observable
employer traits (ibid). Furthermore, given that periods of employment on these types of arrangements are necessarily short term, and tend to be used by employers to meet seasonal variations in demand, they increase churn in and out of work, and lock in higher levels of structural unemployment.

**Figure 5.3**
Protection of permanent workers against individual dismissal in selected EU countries, and OECD unweighted average,* 2013

![Bar chart](image)

Source: OECD 2014a
* Note: Scores are given in terms of the OECD’s employment protection indicator. ‘0’ indicates the fewest restrictions, ‘6’ indicates the most.

The French government has recently responded to these issues with a number of initiatives rolled-out concurrently with high-profile conferences in an attempt to ease negotiations (Carnegy 2014). Legislative reform in 2013 made it easier for employers to lay off staff in the event of proven economic difficulty, and also gave firms greater scope to opt out of collective agreements and suspend contracts temporarily (OECD 2015b). The introduction of a financial indemnity, payable by employers to employees if and when his or her temporary contract fails to translate into a permanent one, was also intended to incentivise employers to take on more permanent staff. Most recently, the 2015 ‘Macron law’ set
out five major reforms to regulation in different areas of the economy, including the simplification of redundancy rules (OECD 2015c).

**Figure 5.4**
Temporary contracts as a proportion of all employment in France, and EU28 average, Q4 2006–Q1 2015

![Graph showing temporary contracts as a proportion of all employment in France and EU28 average, Q4 2006–Q1 2015.](image)

Source: Eurostat 2015

It is too soon to assess the impact of the Macron measures, but similarly there is as yet little evidence that earlier reforms have increased the propensity of firms to hire on a full-time basis. In fact, full-time contracts accounted for just 16 per cent of all new jobs in 2013, down from 23 per cent in 2009 (OECD 2015b). This is indicative of an increasingly segmented labour market that offers too few transitions from flexible temporary work to permanent and more secure employment. Much more needs to be done to simplify existing legislation and procedures in a way that retains the current spirit of the law while reducing costs and uncertainty. Greater in-work flexibility needs to be incentivised in order to reduce the tendency for firms to circumvent nominally protective employment legislation by hiring with atypical contracts.
5.3 Reducing youth unemployment
Labour market segmentation – between permanent, secure work on the one hand and temporary, flexible contracts on the other – is felt particularly acutely by the young people of France. Half of young people in work are on a temporary contract – over three times the rate among the population as a whole (Dolphin 2014). Of those young people on temporary contracts, well over a third (38.5 per cent) would prefer permanent employment (ibid). Although the proportion of economically active young people (aged 15–24) without a job has is not as high in France as in those countries hit hardest by the sovereign debt crisis such as Italy and Spain, the French rate consistently comes in above the EU average, and rose by 4.8 percentage points between 2007 and 2015 (Eurostat 2015).

Figure 5.5
Proportion of 15–24-year-olds without work, as a proportion of all economically active 15–24-year-olds, in selected EU countries, and EU28 average, Q1 2007 and Q1 2015

Source: Eurostat 2015

Given that atypical contract types are more often issued in lower skill, seasonal work – particularly in the service and hospitality sectors – the prevalence of this form of work among young people has also led to a rise in overqualification and the mismatching of skills (Erhel et al 2014). Young people with high
academic attainment but low technical or work-ready skills are relatively likely to be underemployed (Dolphin 2014). This may be partly explained by gender discrimination in the labour market: despite making up a higher proportion of baccalaureate-holders, and filling a higher number of university places, young women in France are more likely to either be without employment, or else be in work that is below their implied skill level (Lefresne 2012).

One of the French government’s main interventions on youth unemployment has been to subsidise the employment of young people. The ‘emergency plan for young people’ and the more targeted ‘job support contract’ incentivises firms (especially smaller firms) to recruit young people into short-term positions through rebates on their social security contributions (Lefresne 2012). However, these interventions may also have had the unintended consequence of accentuating the problems of a segmented labour market for young people, by normalising temporary work that may never become full-time employment. This is particularly problematic in the public sector, where cuts to regional authorities’ budgets have caused them to rely increasingly heavily on subsidised temporary work.

More recently, the state has intervened with two new contract types, known as the ‘generation contract’ and ‘contract for the future’. The generation contract provides a five-year job for employees under the age of 30, and obligates employers to assign these young workers a mentor (over the age of 55) from within their the existing workforce (OECD 2014b). However, take-up in 2013 and 2014 has been weak, and the majority of contracts have lasted for less than a year.

The ‘contract for the future’ has been more of a success. It is aimed at giving a temporary first-time job to young people, especially those without a baccalaureate, and in December 2014 over 150,000 16–25-year-olds – 40 per cent of whom had no qualification at all – received work through the initiative. However, smaller firms without substantial human resources support are effectively excluded from the scheme due to its complexity.

These schemes that are specifically targeted at disadvantaged young people have also had the unintended consequence of exacerbating pre-existing stigmatisation. Studies have shown that while they may help reduce unemployment in the short term,
they do not improve medium and longer term progression. Those that have taken part in such schemes and contracts often decline to mention their participation in them in subsequent job applications, as they fear that it will stigmatise them in the eyes of prospective employers (Lefresne 2012). A key priority for French policymakers must therefore be to support and incentivise the private sector itself to take on greater responsibilities for trainee schemes and apprenticeships.

5.4 Tackling inactivity among the low-skilled
The proportion of young people not in employment, education or training (NEET) in France fell to 10.7 per cent in 2014, its lowest rate since 2008. Among those who remained furthest from the labour market, however, were those who had dropped out of school early. Among unemployed French nationals, early school-leavers were more likely to be men. However, for foreign nationals the opposite was true: in 2014, 12 per cent of unemployed women with non-French citizenship had dropped out of school early, compared with just 4 per cent of unemployed women who were French nationals (Eurostat 2015).

Figure 5.6
Proportion of early school-leavers among the unemployed in France, by gender and citizenship, 2014

Source: Eurostat 2015
Vocational education and training (VET) represents a key policy tool with which to bring marginalised groups closer to the labour market, particularly if it is centred around lifelong learning. In France, there are two main vocational education streams: the *certificate d’aptitude professionnelle* (certificate of vocational aptitude), and the recently reformed *baccalauréat professionnel* (vocational baccalaureate). However, vocational training has historically been undertaken by students with weaker academic attainment, and so has been stigmatised for that reason. In many European countries, VET is seen as a less attractive learning option because of poor progression prospects after an initial successful job outcome (Cedefop 2014). The intention behind the new vocational baccalaureate was to combat this problem, but take-up remains weak (Dolphin 2014).

As in many EU countries outside northern Europe and the Nordic block, in France apprenticeships are not used as a means of assisting marginalised groups into work to the extent that they could be. Students on apprenticeship programmes that combine real experience of work with class-based study have better employment prospects than those on school-based vocational routes. Nonetheless, two-thirds of vocational students remain in the latter pathway (OECD 2015b). French policymakers are aware of these issues and have initiated reforms to improve skills funding and regional co-ordination. In 2014, measures were set out to increase the number of apprenticeships funded by the training levy; to introduce a new personal training account to help facilitate self-initiative from workers to develop their skills; and to simplify financing mechanisms to give regional authorities greater control over policy in this area, in conjunction with stakeholders in the private sector (ibid).

It is too early to judge the effectiveness of these reforms, but the nature of their implementation will be key. Mechanisms for quality control, and the capacity to conduct regular reviews, will be essential. More will also need to be done to ensure that new apprenticeship opportunities are accessible to the most deprived communities in which social disadvantage is keenest and educational attainment lowest. Intensive and tailored support has proven highly effective in the past, albeit on a small scale. ‘Second chance’ schools in France took in young people who had left education with no formal qualifications, and 61 per cent
of their graduates went directly into employment or further studies (Froy and Pyne 2011). To ensure that existing reforms can be effective at scale, policymakers will need to expand the provision of high quality and individualised guidance schemes and councillors, to ensure that apprenticeship opportunities are available to those that need them most.

5.5 Conclusion
The French labour market has suffered from various structural deficiencies for decades. Employer–union relations remain weak and fractious, and in an increasingly segmented labour market those in disadvantaged groups are more likely to cycle in and out of insecure work than to transition into more productive and secure permanent employment in greater numbers. While a number of recent reforms have been put in place to tackle labour market dualism and improve traineeships, progress towards improving in-work flexibility (from the perspective of both employers and employees) – as well as properly targeting new skills development programmes – will be key to getting the French jobs market onto a more sustainable footing.

References


6. SPAIN

Key labour market developments

- The employment rate continues to recover from its low point in 2013.
- The youth unemployment rate has begun to fall back from its post-crisis peak, but remains among the worst in Europe.
- Long-term unemployment remains persistently high.
- The labour market remains heavily segmented between temporary and permanent work, with the share of temporary contracts among new jobs showing little sign of declining.
- Productivity has increased significantly since 2008, partly as a consequence of job losses.

6.1 The current labour market

The second quarter of 2015 saw the Spanish employment rate rise by 1.4 percentage points – its largest increase since the 1990s (Eurostat 2015). With the exception of the first quarter of 2015, the employment rate has now risen in every quarter since the beginning of 2014, which indicates that the Spanish economy may be continuing to make a tentative recovery (ibid). However, Spain’s employment rate, at 57.8 per cent, remains low, while its unemployment rate, at 22.5 per cent, is one of the highest in the EU (ibid). Its youth unemployment rate (49.2 per cent), and the long-term unemployment rate (52.5 per cent of all unemployment), are both particularly worrying (Eurostat 2015). Meanwhile, deep structural issues remain in the form of a two-track jobs market, sectoral imbalances and the misalignment of skills.

Spain’s high levels of unemployment are underpinned by both structural and cyclical factors. The early-2000s housing bubble led to rapid expansion of jobs in the construction and real estate sectors, followed by a disproportionate contraction after the financial crisis which exacerbated the collapse in the
Spanish jobs market relative to other EU countries and caused a high level of cyclical unemployment. Irrespective of this boom and bust, however, the Spanish labour market is highly segmented between permanent and temporary work, leading to a high degree of churn in and out of temporary contracts. This has contributed to structurally high unemployment, and pre-dates the 2007–2008 financial crisis (Dolado et al 2013).

**Figure 6.1**
Unemployment and long-term unemployment (left) and employment (right), as proportions of the economically active population of selected countries, and the EU28 average, Q2 2015

![Unemployment and employment chart](image_url)

Source: Eurostat 2015

The ability to shed workers on temporary contracts quickly has supported productivity in Spain, relative to comparable EU countries, since the financial crisis (see figure 6.3). However, Spain was starting from a low base, meaning that recent productivity growth has done nothing more than bring it into line with the EU average; it continues to lag behind countries such as France and Germany.
Figure 6.2
Employment, unemployment and long-term unemployment as proportions of the economically active population in Spain, Q4 2006–Q2 2015

Source: Eurostat 2015

Figure 6.3
Growth in GDP per hour worked, selected EU countries and EU28 average, 2006–2014 (2006=100)

Source: OECD 2015
The challenge for the Spanish labour market is, therefore, to recover the jobs it has lost since the recession, while addressing the segmentation between temporary and permanent work and rebalancing the economy towards sectors with high growth and productivity. Particularly vital to these ends will be both active labour market policy to support those furthest from the labour market back into work, reskilling this target group for high-growth industries, and offering incentives to firms and unions to create greater flexibility within permanent contracts.

**Policy priorities for the Spanish labour market**
- Strengthen active labour market interventions targeted at the most excluded groups.
- Tackle the segmentation of the labour market between permanent and temporary work.
- Improve the co-ordination of vocational training between geographies and between the private and public sectors.
- Increase employer flexibility with regards to the hours and location of their permanent employees.

### 6.2 Labour market structure

The structure and composition of the labour market in Spain are critical to explaining the employment trends noted above. Effective employment protections and extensive collective bargaining agreements between employers and unions for those on permanent contracts contrast starkly with a temporary jobs market in which compliance with employment regulations is low. This has meant that firms have come to rely on fixed-term contracts for cheap, flexible labour to a far greater degree than in most other countries in Europe.

Before the financial crisis, almost a third (32 per cent) of employment was temporary. Since this group bore the brunt of job losses during the crisis, this level has now fallen back to just under a quarter (24 per cent). Yet even this is 10 percentage points higher than the EU average, which remained largely constant over the same period (Eurostat 2015).
As a consequence of this dualism, unemployment in Spain is structurally high compared to other European countries. Periods without work between temporary contracts are a reality for a significant proportion of the workforce, which contributes to higher levels of unemployment at any given point in time (Dolado et al 2013). This is one reason why Spanish unemployment has not fallen below 8 per cent in almost three decades.

One of the key challenges facing the government has therefore been to strike a balance between reducing the gulf between the employment protections afforded to permanent and to temporary contracts (so that structural unemployment is reduced and permanent contracts act as a buffer to reduce job losses during any future recessions) without undermining the use of temporary contracts as a route back into the labour market for those furthest from work. More targeted regulation of temporary work is also needed to prevent the misuse of insecure contracts as a substitute for permanent employment opportunities.
The government’s response has been to reduce protections for new permanent jobs. Measures introduced in May 2010 limited severance pay for almost all new hires (Eurofound 2011); further statutory change in 2012 expanded the possible grounds for legitimate dismissal to include a firm’s historical or projected loss in revenue (Corujo 2013), reduced average severance pay and consequently reduced the negotiating leverage of permanent employees (Kranz 2015). However, more recent court rulings have sought to ensure that the actions of firms are proportionate to the economic challenges that they face.

The success of these reforms is likely to have been modest at best. The share of temporary contracts within all newly issued contracts does not appear to have declined (Myant and Horwitz 2015). Furthermore, it was hoped that the reforms would allow firms to negotiate greater internal flexibility, in terms of hours and location for new and existing permanent positions, as a substitute for the external flexibility of the temporary jobs market. In the construction sector, at least, this does not appear to have been the case: firms are apparently employing fewer people for longer hours, rather than reducing the hours of existing employees (ibid).

To build upon these interventions, the Spanish government needs to do more to universalise the cost of redundancies across temporary and permanent contracts. Furthermore, policymakers need to generate better incentives for firms to increase internal flexibility within permanent work, in negotiation with existing employees.

### 6.3 Tackling long-term unemployment

A further priority for Spanish policymakers must be to reintegrate the long-term unemployed into the labour market. Comparatively high levels of long-term unemployment in Spain are a relatively recent phenomenon. The depth of the recession that followed the 2007–2008 financial crisis, and the lack of alternative employment opportunities for relatively unqualified construction workers, saw the proportion of long term unemployment (relative to all unemployed people) more than double, rising from 17.3 per cent in the third quarter of 2008 to 53.4 per cent in the third quarter of 2014 (see figure 6.5).
Much more needs to be done in terms of active labour market policy to support these people back into meaningful employment. The recovery in jobs growth thus far can be attributed to people who are re-entering the workforce after having been unemployed for only a few weeks or months. By contrast, those who have been unemployed for more than 12 months, or even more than 24 months, remain largely excluded from the recovery (Eurostat 2015). Among the long-term unemployed are a disproportionate number of people with low levels of qualification, ex-construction industry workers (with too few transferrable skills), and older workers (ibid). Current indications are that this group will need additional support, such as training and reskilling, if they are to re-enter the labour market at scale.

Recent interventions have not made significant progress towards delivering this much-needed support. The ‘preparation plan’, established in 2011, was designed to assist those who had been unemployed for at least 12 of the previous 18 months. However, the programme has suffered from underfunding, which has undermined the quality of jobs...
training on offer (CitapreviaIenem 2013). More broadly, there have been shortcomings in both the co-ordination between regional and state-level interventions, and the co-ordination within each region’s active labour market policies. It is likely that a new suite of active labour policies will be needed, with resources made available for more tailored support for those furthest from the labour market, if Spain is to see substantive jobs growth among groups other than the young and those who have only been out of work for a short period of time.

6.4 Reducing youth unemployment
Almost half (49.2 per cent) of all those in Spain who are between the ages of 15 and 24 and are economically active are without a job. This represents an improvement from the recent peak in youth unemployment during the first half of 2013, when the rate stood at almost 57 per cent (Eurostat 2015). Nonetheless, Spain continues to endure exceptionally high levels of unemployment among the under-25s, well above the EU average and second only to that of Greece (ibid). However, it should be noted that Spain’s ratio of youth-to-adult unemployment is broadly comparable to the European average, and that it is therefore symptomatic of a domestic labour market that is underperforming for all cohorts.

The explanation for this is partly cyclical. During the employment boom of the mid-2000s, there was a greater temptation for young people to leave education at 16 and enter work without advanced qualifications. The subsequent crash tended to have the greatest impact on those industries with a disproportionately young workforce, such as low-wage services, construction and manufacturing. The collapse in employment left hundreds of thousands of young people without jobs and without qualifications to fall back upon. Consequently, the numbers of people not in education, employment or training (NEET) rose to well above 18 per cent, leaving a generation of young people without short- or medium-term job prospects (Eurostat 2015).

Policymakers have responded by making a number of interventions. Legislation was passed in 2012 to strengthen collaboration between colleges and firms, increasing company
involvement in the running of training schemes, while keeping them under the supervision of education authorities (ELLN 2012). In addition to this, in 2013 the Spanish government announced a raft of new active labour market interventions encouraging firms of different sizes to take on young people in return for rebates on their social security contributions. The recent fall in youth unemployment in Spain has roughly coincided with the implementation of these measures, but it is difficult to be certain of the extent to which the two are in fact linked. Export growth has had a significant role to play in the recovery in jobs creation, which makes it difficult to determine the scale of any deadweight costs or displacement effects that these interventions may have had (EEO 2013).

Figure 6.6
Unemployment rate among 15–24-year olds in selected European countries, and EU28 average, Q4 2006–Q1 2015

Throughout this period, however, and in addition to the segmentation problems discussed above, the underlying structural problems to do with transitions from education to work have remained. Vocational education and training (VET) in Spain tends to suffer from a lack of integration with the labour market, and insufficient co-ordination with (and within) industry (Ryan 2011). Inadequate provision for even
elementary academic skills in numeracy and literacy, in addition to a lack of requirements for VET teachers to have worked in the subject area that they teach (a problem that is more pronounced in new teachers, and which is therefore likely to get worse) tends to reduce the effectiveness of some VAT programmes at preparing students for the labour market (Field et al 2012). Perhaps more importantly, students often do not spend even close to the allotted maximum of 25 per cent of their study time on workplace training, partly because the system allows them to score previous employment against this requirement (Lopez-Mayan 2010). More must be done to better co-ordinate training and employment schemes with industry, in order to boost employment levels and improve skills-matching across the Spanish labour market.

Figure 6.7
Unemployment rate among 15–24-year olds in EU28 countries, and EU28 average, Q1 2015

6.5 Conclusion
Spain has the tripartite challenge of a heavily segmented labour market, high youth unemployment and high long-term unemployment. Across all these indicators, the Spanish labour market is among the worst-performing in the EU. The challenge,
therefore, is to create new jobs to replace those lost since the recession, while addressing the problem of duality in the labour market and reskilling both old and young for the industries of the future – all at a time when government resource for such programmes is scarce. In particular, more resources need to be made available for long-term unemployment support; training and colleges need to co-ordinate more closely with firms; and new incentives for both firms and unions to facilitate greater flexibility within permanent contracts are needed.

References


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7. ITALY

Key labour market developments

- The employment rate in Italy (56.3 per cent) was well below the EU28 average (65.5 per cent) in the second quarter of 2015.
- The unemployment rate has been above the European average since the end of 2012.
- The national numbers mask large regional imbalances: unemployment in the north is 8.1 per cent, but in the south it is 19.5 per cent.
- Occupational progression within Italy is poor compared to other EU markets.
- Italy is currently in the process of several major labour market reforms, but there is concern that these will not address long-term structural issues.

7.1 The current labour market

Italy’s employment rate is currently 56.3 per cent – almost 10 percentage points below the EU28 average of 65.5 per cent (OECD 2015a). In the first quarter of 2015, unemployment in Italy was, at 12.3 per cent, more than double that of the EU’s best performers (which include the UK, at 5.5 per cent, and Germany at 4.8 per cent). Youth (under-25s) unemployment is particularly concerning at 41.9 per cent, compared to an EU28 average of 21.0 per cent.

Historically, Italy has always had a lower-than-average employment rate and relatively high inactivity rate. In addition, structural unemployment accounts for as much as 9.0 percentage points of all unemployment (ibid). However, prior to the onset of the financial crisis and the subsequent recession, the situation had been improving, with employment rising to a peak of 58.6 per cent in 2007 and 2008. Though
employment rates have recovered somewhat in more recent years, Italy remains far behind much of Europe.

Italy's low employment rate is due in part to a combination of the relatively high prevalence of informal working, low overall female participation in labour markets, particularly in the south, and rigid labour market regulations. For example, prior to recent reforms a person could not be re-employed by the same organisation for between 60 and 90 days after the expiry of their contract, depending upon the terms of that contract (this has now been reduced to between 10 and 20 days).

The Italian labour market is characterised by a split between those who have long-term, nationally negotiated contracts and those on short-term fixed contracts. Significant labour market reforms have taken place since 1993, many of which have focused on bridging the divide between these polarised workforces. The latest set of reforms focused on four key areas:

- rationalising employment protection
- expanding active labour market policy
- making social protection more effective
- boosting female labour force participation.

Broader reforms – such as revisions to unemployment benefits, simplifying administration and improving access to education and employment services – are also in process. The OECD estimates that the most recent reforms will boost GDP by 0.6 per cent over five years, and by 1.2 per cent over 10 years, largely due to increased employment (OECD 2015b).

Policy priorities for the Italian labour market

- Continue to improve labour market flexibility and break down the two-tier structure of the labour market.
- Focus on skills development, with policy tailored to regional needs.
- Increase female participation in the labour market.
- Set out a five-year policy roadmap in order to provide businesses and employees with confidence regarding the pace, scale and timing of reforms.
7.2 Labour market structure

Italy’s labour market is characterised by inflexibility, polarity and a high degree of regional variation. Reforms introduced in 1993 put in place a collective bargaining structure whereby national-level negotiations set the terms and conditions of employment and basic minimum wages. Further regional-level negotiation would then take place, although the resulting terms had to be at least as favourable to employees as those set at national level. Employment terms vary considerably between those who are covered by collective bargaining and those who are not. Conditions are typically worse, and contracts more often short-term, for the 40 per cent of Italian workers who are not covered by collective bargaining arrangements. These workers also face more barriers to claiming employment insurance than those covered by collective bargaining schemes (Schindler 2009).

Figure 7.1

Employment rates by sex and region in Italy, subdivided by region,* 2010 and 2014

Source: Eurostat 2015
*Note: NUTS-2 geographies, grouped within their five respective NUTS-1 geographies (North West, North East, Central, South and Islands).
One of the defining characteristics of Italy’s labour market is the stark contrast between the north and south of the country. Figure 7.1 illustrates the male and female employment rates in each region, grouped according to geographical location. Though there is significant regional variation in the rates of both men and women, the rate of female employment is considerably more variable: 57 per cent in the north east and north west, but just 30 per cent in the south.

### 7.3 Occupational progression

Occupational progression is another issue with which the Italian labour market struggles. Figure 7.2 shows that Italy’s rates of occupational progression are low compared to other EU countries. However, in contrast to most other European countries, female progression rates in Italy are marginally higher than those of males.

**Figure 7.2**

Rates of occupational progression (%)* by gender in EU countries for which data is available,** 2004–2011

Source: authors’ calculations based on Eurostat 2013a and 2013b

*Note: Shows the proportion of workers employed in waves one and four of each cohort of the EU-SILC (from 2004–2007 to 2008–2011) who moved up the occupational distribution (27 occupational categories ranked by median hourly pay).

**Note: The countries shown are those for which the EU-SILC dataset has usable occupational data.
Italy’s poor performance in this regard is likely to be a consequence of its rigid labour market, its relatively low state investment in education and training, underinvestment in skills development by businesses, and negotiated wage settlements. The latter can limit the diversity and breadth of opportunities available to individuals, as they are unable to negotiate individual settlements based on their own skills and expertise (IMF 2011).

7.4 Tackling youth unemployment
Youth unemployment in Italy is high and continues to grow, having risen from 27.9 per cent in 2010 to 42.7 per cent in 2014. Again, we see significant regional variation, with unemployment for 15–24-year-olds varying from 30.8 per cent in the North to 54 per cent in the south.

Table 7.1
Average unemployment rate (%) among youths (aged 15–24) and the total population (aged 20–64) in north, central and south Italy, 2014

<table>
<thead>
<tr>
<th></th>
<th>From 20 to 64 years</th>
<th>From 15 to 24 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>8.1%</td>
<td>30.8%</td>
</tr>
<tr>
<td>Central</td>
<td>12.0%</td>
<td>43.1%</td>
</tr>
<tr>
<td>South</td>
<td>19.5%</td>
<td>54.0%</td>
</tr>
</tbody>
</table>

Source: Eurostat 2015

7.5 Education and skills training
The Italian labour force has lower levels of education than its European peers. A third of the labour force (33 per cent) has not completed secondary education, compared to a fifth across Europe as a whole (OECD 2014). Furthermore, only one in five (20 per cent) have a tertiary-level qualification – a significantly lower rate than the European average (28 per cent). Moreover, achievement in maths, reading and science were, in 2012, all below the OECD average, though scores have improved significantly in recent years (ibid).

Italy’s graduates experience low employment rates which, at 45 per cent, are comparable to those of under-25s as a whole, and are much lower than the European average of 76 per cent (IMF 2011). Indeed, the low levels of tertiary
education mentioned above may be explained in part by poor returns to education. The premium for tertiary education can be suppressed by the nationally negotiated wage settlement, which effectively sets wages regardless of education level (ibid).

Vocational training for 14–19-year-olds in Italy is mainly provided through a school-based system, and through technical and professional institutes. Completion rates are poor – in 2012, only 68 per cent of pupils in vocational training agencies and 46 per cent of pupils in vocational training schools completed their training – and this training itself tends to be poor and not fit for purpose (Berlingieri et al 2014).

Legislative measures to address these educational problems have recently been taken. In July 2015 Italy’s parliament approved a set of school reforms that link teachers’ pay to merit rather than seniority, give schools greater independence, and devolve responsibility to a more local level (Segreti 2015). As part of the €3 billion package of reforms – which sparked fierce resistance from unions – 100,000 temporary teaching positions were made permanent.

### 7.6 Labour market reform

Italy is currently undertaking a number of reforms of its labour market, mainly as part of the Jobs Act (February 2015). These include reforms to increase labour market flexibility, and to improve employment services and unemployment benefits (G20 2014). Co-ordination between regional employment agencies is being enhanced through the establishment of a new National Employment Agency; legislative changes will mean that employers will be able to terminate contracts and offer temporary contracts more easily; and several measures are being introduced to boost female participation in the labour market (OECD 2015b).

Beyond these reforms, two measures were recently introduced to address Italy’s high rates of youth unemployment. First, between 2013 and mid-2015, companies hiring a young worker who was previously unemployed or did not have higher qualifications were able to access subsidies worth up to one third of their pay for a period of between 12 and 18 months, up to a maximum of €650 per month (Sanz 2013). Second, the government has established a new type of apprenticeship. These apprenticeships,
which have a minimum term of six months, are designed to strengthen progression routes of from apprentices to permanent staff for young people. Employers are only eligible for subsidies if the number of permanent apprentices hired into full time employment in their company during the previous three years meets a threshold of 50 per cent.\textsuperscript{20} At the same time, the ratio of apprentices allowed within a (skilled) workforce of a given size has been raised from 1:1 to 3:2 for companies with more than 10 employees\textsuperscript{21} (ELLN 2012). This measure is intended to enable companies to expand the size of their apprenticeship programmes.

The value of Italy’s recent labour market reforms is difficult to assess, and no large-scale evaluations have yet taken place. However, headline economic and labour market indicators show little improvement – and indeed some decline – since 2010. Critics have argued that the reforms will not generate economic or employment growth, are weakened by their exclusion of the public sector, and are overambitious (see for example Capussela and Intini 2014 and Politi 2014). What is needed now is a clear 5–10-year policy roadmap that provides businesses and employees with certainty regarding the pace, scale and timing of future reforms.

References


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\textsuperscript{20} It is planned that this threshold will fall to 30 per cent once the reform has been in place for three years.

\textsuperscript{21} For companies with fewer than 10 employees, the ratio remains 1:1.


