

Labour Market Scenario in Europe

Key facts and best labour market policies

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Executive summary

- EU 2020 Employment targets
- Labour market performance indicators
- Best labour market policies – a review
 - Smooth regulatory environment
 - Decentralised wage bargaining
 - Flexicurity
 - Apprenticeship
 - EU Youth Guarantee
 - Foster entrepreneurship (start-up)
- Final comments

Introduction (1/2)

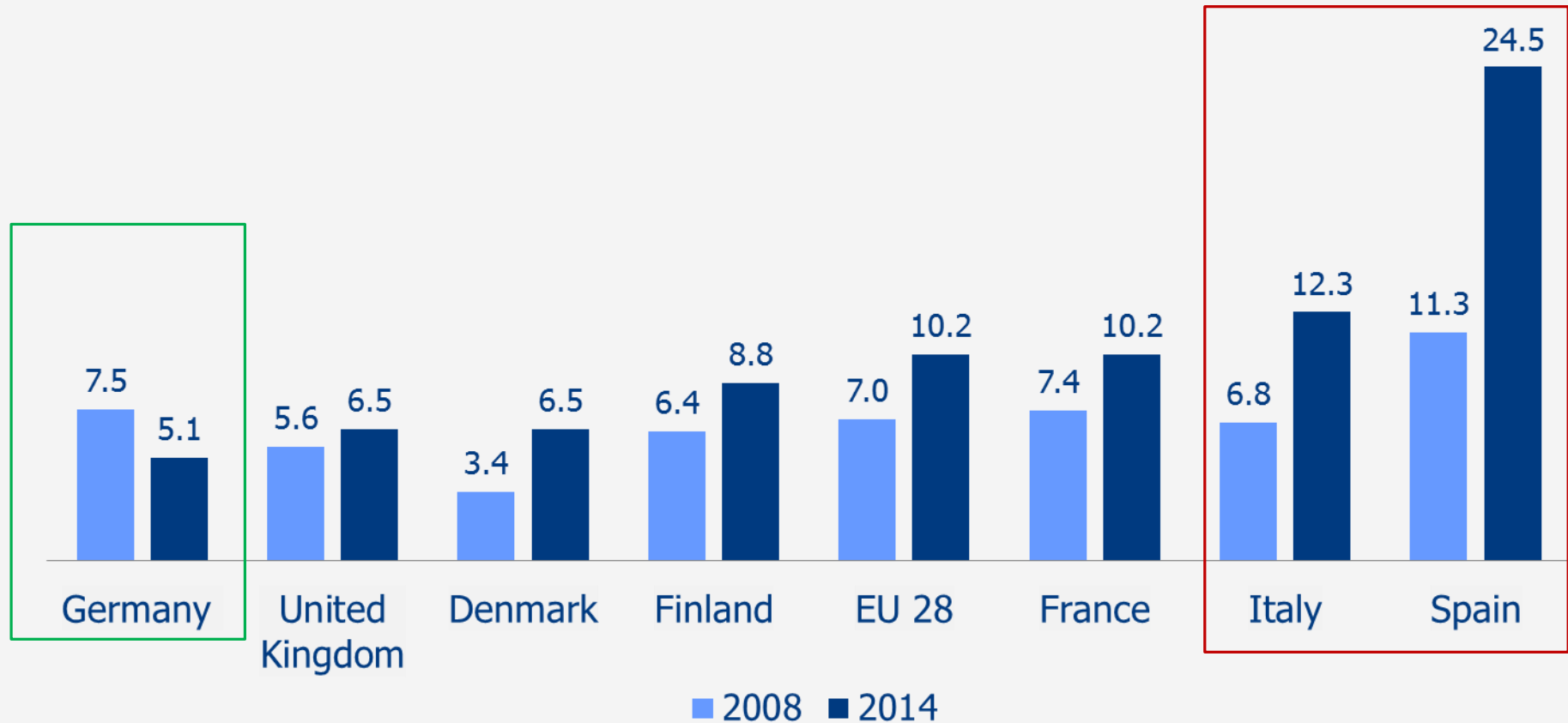
- The economic crisis produced **growing unemployment levels** in the European Union, which now requires bold action from policy makers to boost labour demand as well as to implement labour market structural reforms, as recently underscored by ECB President Mario Draghi*
- Since 2008 Europe has lost **5.6 million jobs**. **Germany** stands out as the only country where unemployment has decreased notwithstanding the fallout of the economic crisis (see next chart)
- The *European House – Ambrosetti* carried out a comparative study which identifies the best performers in the EU labour market and highlights some examples of the most effective **labour market policies** across **seven major European economies**: Germany, France, United Kingdom, Italy, Spain, Denmark and Finland**

(*) Remarks by Mario Draghi at the Annual Central Bank Symposium in Jackson Hole, 22 August 2014

(**) Germany, France, Italy, the UK and Spain are the five main EU economies, Denmark and Finland have been also included in this report because they stand at the top of The European House - Ambrosetti's Observatory on Europe Competitiveness Index, as well as in similar indexes on competitiveness

Introduction (2/2)

Unemployment rate (%) in 2008 and in 2014*



(*) Seasonally adjusted, June 2014

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Executive summary (1/4)

- The economic crisis produced **growing unemployment levels** in the European Union and widened the gap between best and worst performing countries
- The EU-28 has lost about **5.6 million jobs** since 2008
- While unemployment in **Germany has improved by 2.4 p.p.** since 2008, in the EU-28 it increased by 3 p.p.
- Among the worst performers, total **unemployment reached 25% in Spain and 12% in Italy**, with the highest rates among young people
- The EU set a target of 75% employment rate by 2020: it means creating more than **20 million** new jobs. This seems a particularly unrealistic target for Spain, Italy and France: they need to create 4.4, 2.5 and 2 mln new jobs respectively

Executive summary (2/4)

- Notwithstanding the crisis, employment rates in Germany, Finland and Denmark remained above 70% as a result of high level of labour force **employability** and effective **labour market organisation**
- The European House – Ambrosetti created an *Employability Index* showing that **Denmark's labour force is the most employable** (9.7/10), followed by **Germany** and **Finland**. Italy and Spain have very low employability, scoring at 2.2 and 2.9 respectively
- Labour market performance also depends on structural factors. The worst performing labour markets are those with **low labour productivity** and **rigid regulatory environments**

Executive summary (3/4)

- **Labour productivity has varied greatly** in Europe over the last 10 years: in Denmark it grew by 80% while in Italy it fell by 14%. Today one hour worked in Italy results in €32 of value added on average, compared to €53 in Denmark
- The analysis of the **most effective labour policies** in Europe provides indications to countries set to implement labour reforms
- The introduction of “**opening clauses**” **within collective contracts** and **flexicurity** contributed to keeping high employment levels in Germany and Denmark respectively
- Active labour policies such as Finland’s **Youth Guarantee** and Germany’s **apprenticeship** help to reduce youth unemployment and skills mismatch

Executive summary (4/4)

- **Rigid and unpredictable regulatory environments** are instead an obstacle to investments (FDIs in particular) and therefore to employment creation
- Finally, a more **business-friendly regulatory environment** would help to revive growth and employment. For example, by adopting the best regulatory standards and bringing vacation days within EU average, Italy would reduce business creation costs by € 944 mln per year and increase labour value added by € 1.1 bln per year

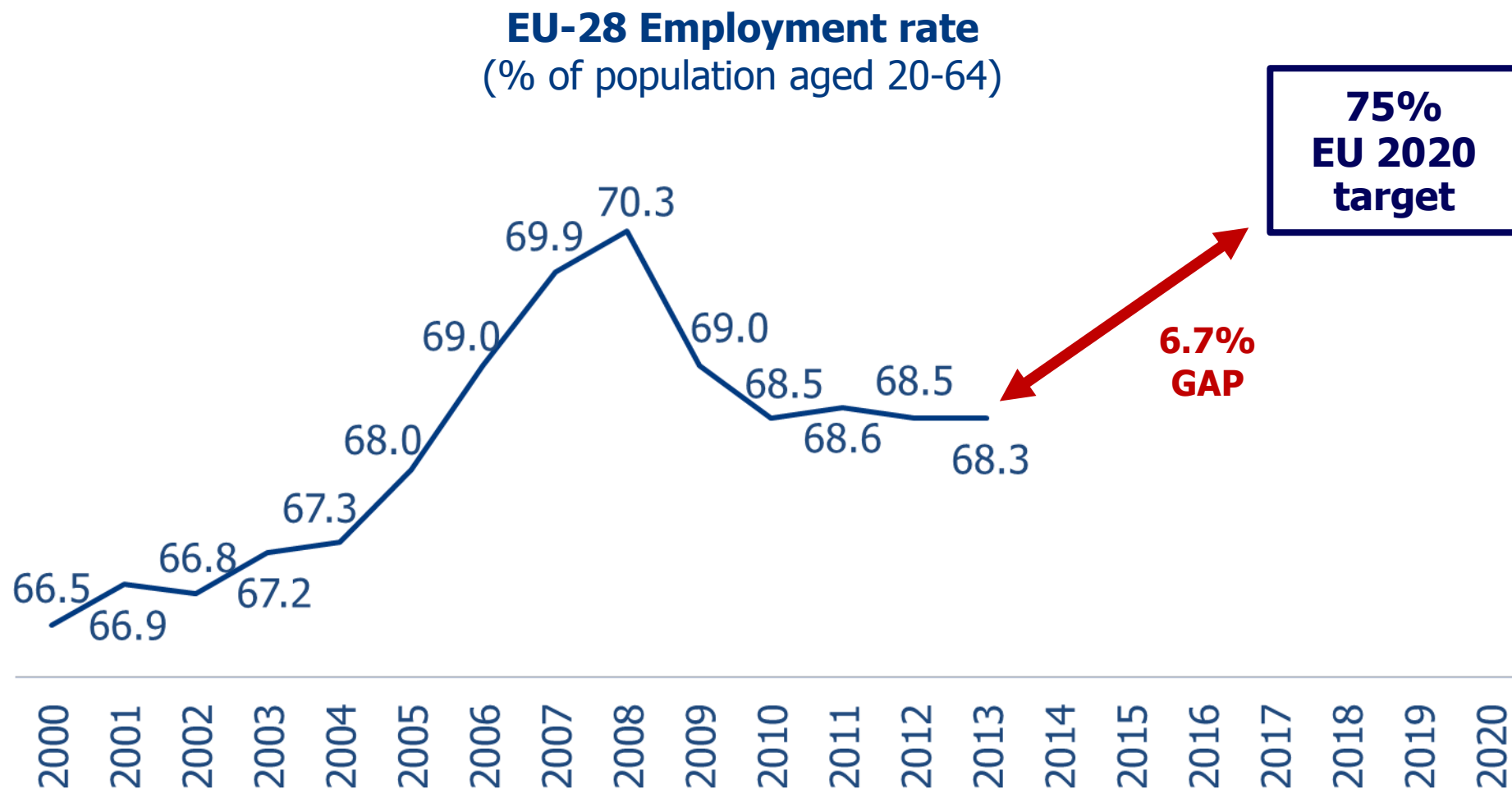
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The economic crisis had a negative effect on EU employment and made it more difficult to reach the EU 2020 Employment target



As a result, the EU is not progressing towards its Employment target

EU-28 Employment, the *Observatory on Europe Speedometer* (score)

Static

-5.1 0

SLOW
REGRESS

SLOW
PROGRESS

On track

Employment rate of population
aged between 20-64 (%)

2010
(Start)

2013
(Current)

2020
(Target)

68.5%

68.3%

75.0%

FAST
REGRESS

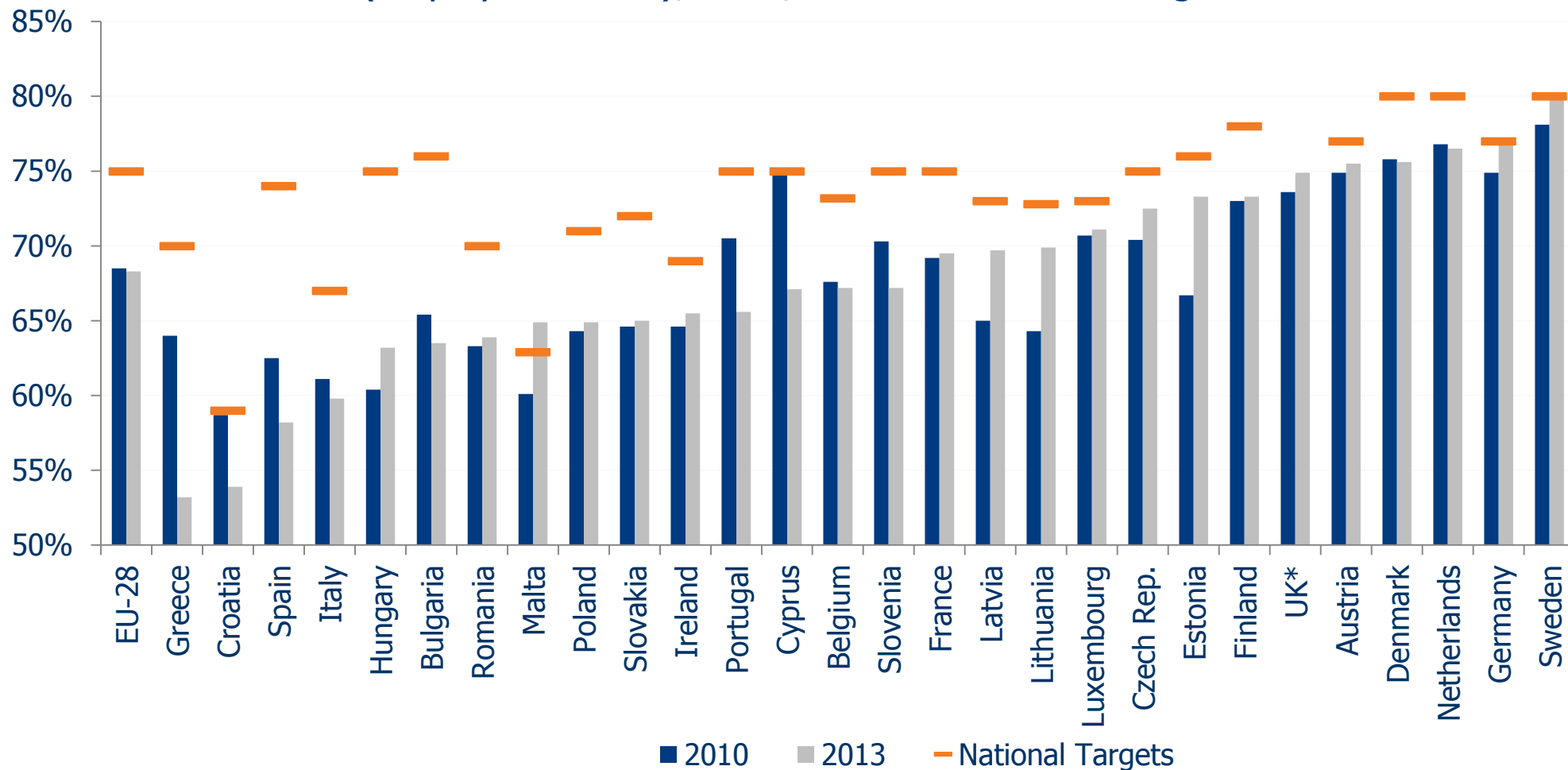
FAST
PROGRESS

- 100

100

Member States set their own national targets

EU-28 Employment, progress towards the target (Employment rate), 2010, 2013 and National targets



The EU committed to creating more than 20 millions of new jobs in 2014-2020 but only Germany has already achieved its target

Country	New jobs needed	% distance from employment target
Spain	+4.4 million	26.2
Italy	+2.5 million	12.0
France	+2.0 million	7.9
Denmark	+143 thousand	5.8
Finland	+150 thousand	6.4
Germany	On target	0
EU	+20.3 million	9.6

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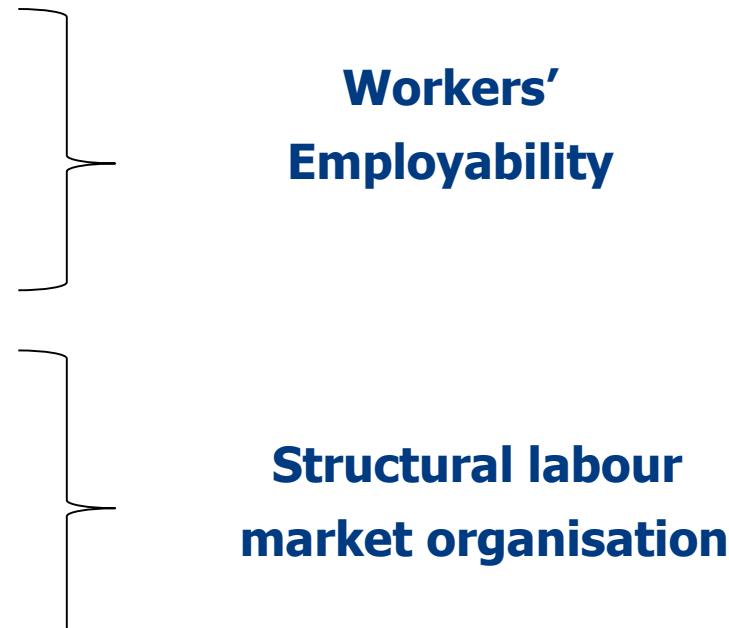
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Methodological approach – key indicators

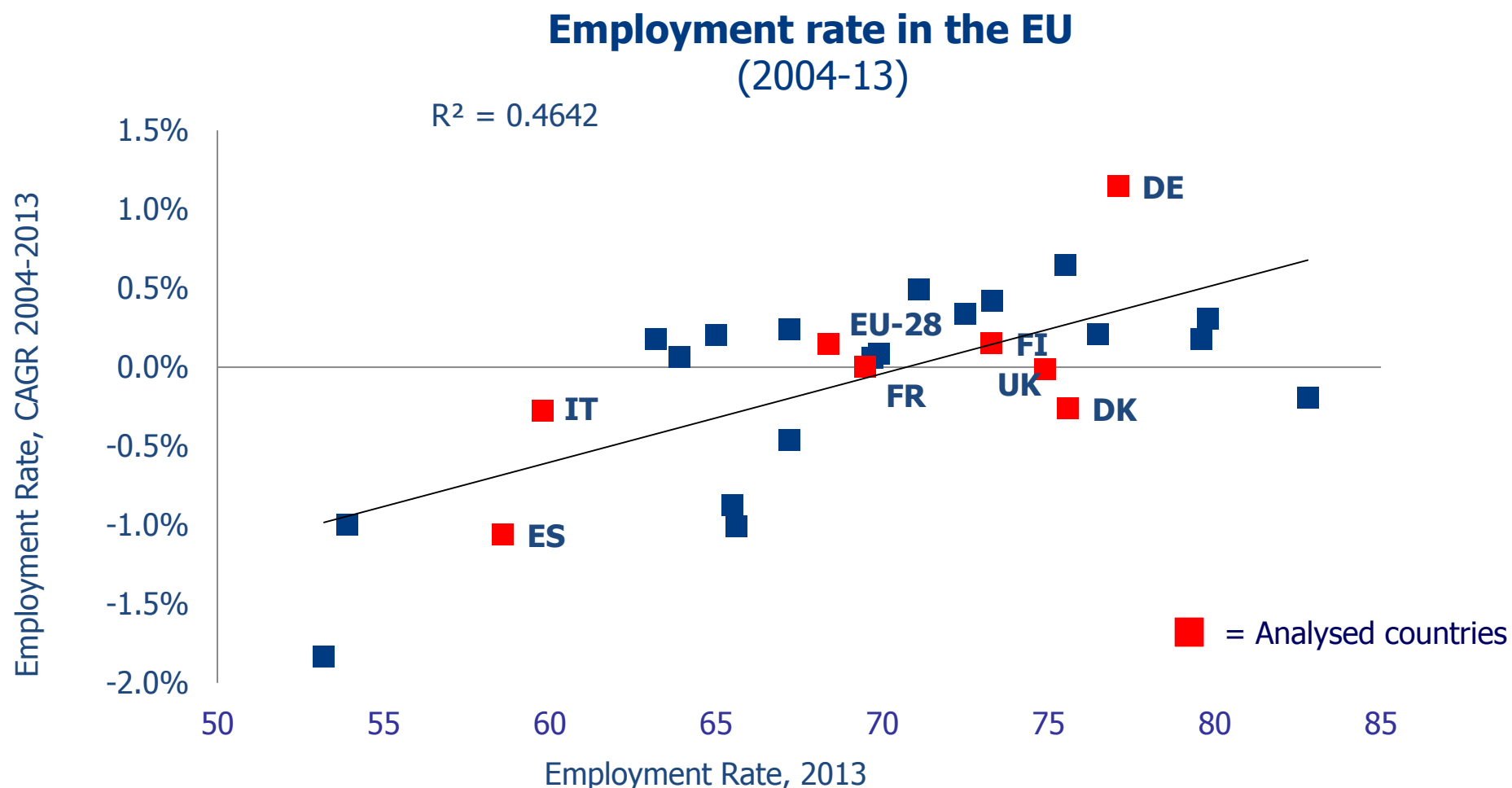
This study identifies 7 **key indicators*** that assess the level of employability of the labour force and the labour market organisation:

1. Employment rate
 2. School drop-out rates
 3. School-to-work transition
 4. Young People Not in Education, Employment or Training (NEETs)
 5. Labour productivity
 6. Strictness of permanent/temporary employment protection
 7. Business friendly regulatory environment
- 
- The diagram uses two large curly braces on the right side of the list to group the indicators. The first brace groups indicators 2, 3, and 4, pointing to the text 'Workers' Employability'. The second brace groups indicators 5, 6, and 7, pointing to the text 'Structural labour market organisation'.
- Workers' Employability**
- Structural labour market organisation**

(*) The indicators were selected after an extensive consultation with labour market experts and government officials in order to identify key characteristics of an efficient labour market and to meet the objective of the EU2020 Agenda

The crisis widened the already existing gap between countries with high and low employment rate

1

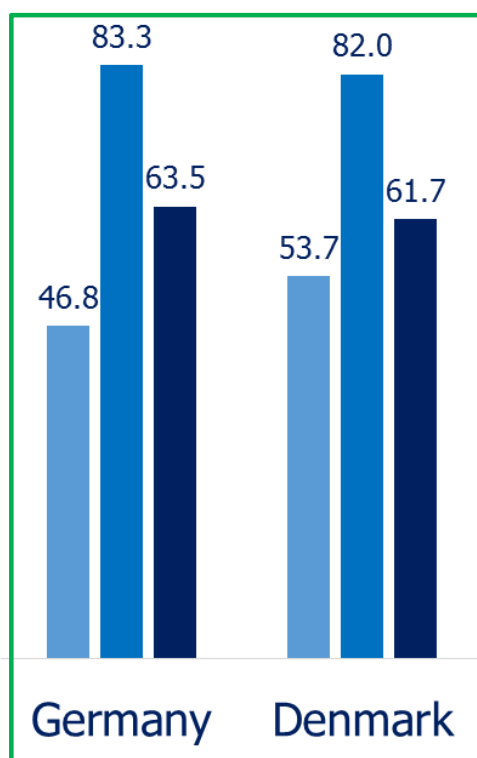


Participation to the workforce varies greatly among countries

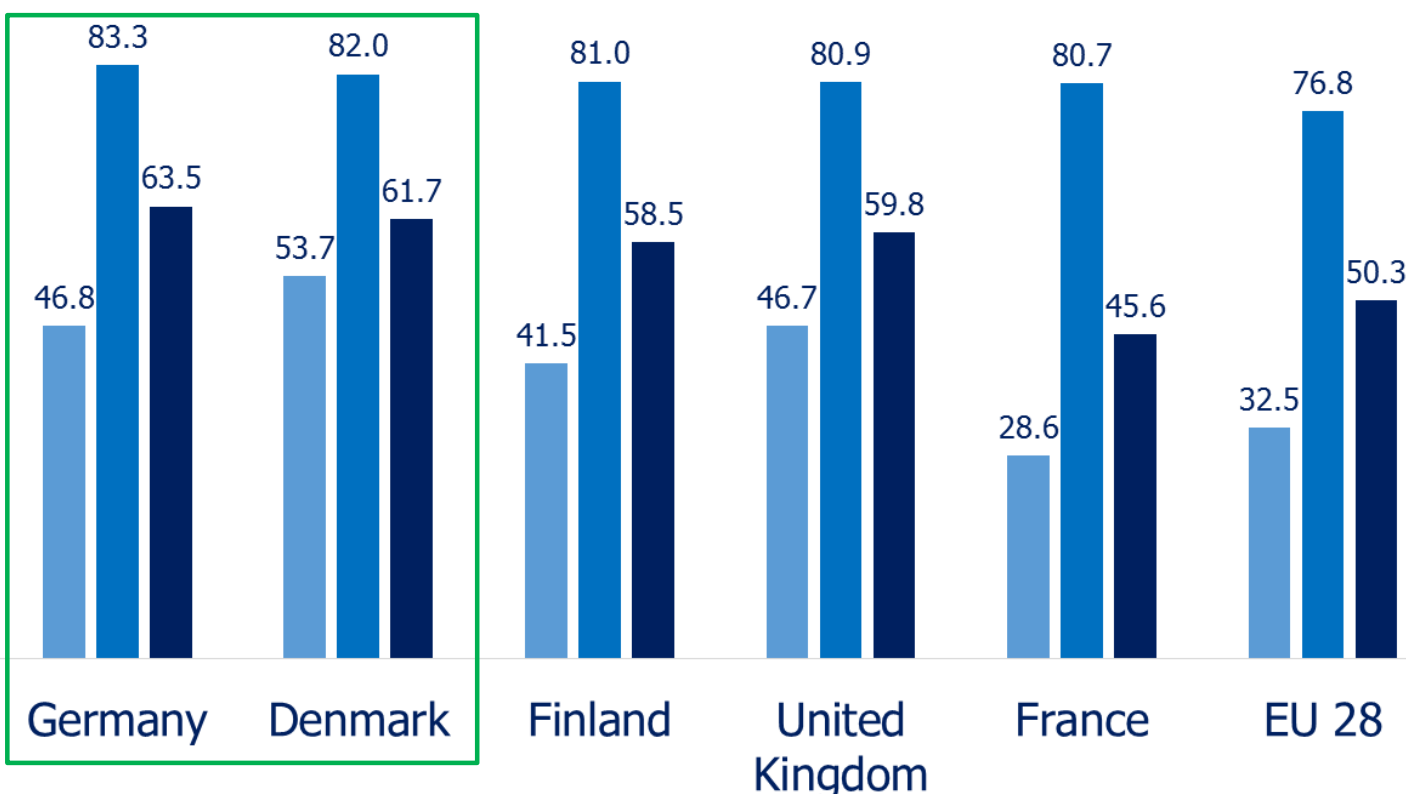
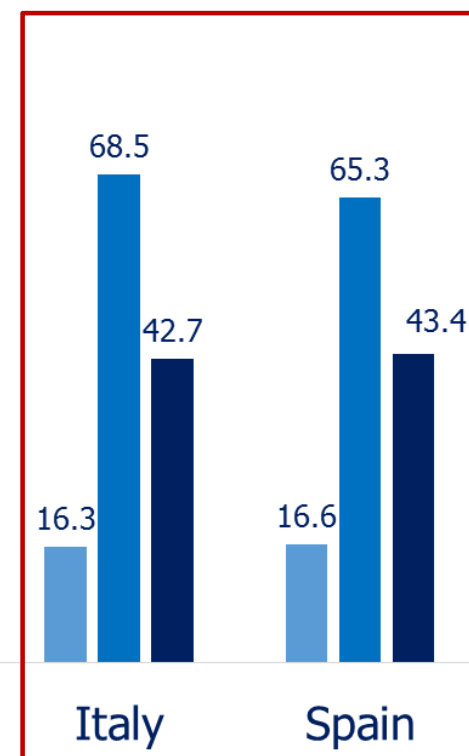
1

Employment rate by age groups (% of total population), 2013

Best performers



Worst performers



■ Employment rate (15 to 24 years) ■ Employment rate (25 to 54 years) ■ Employment rate (55 to 64 years)

School drop out rates in Spain and also in Italy are significantly high

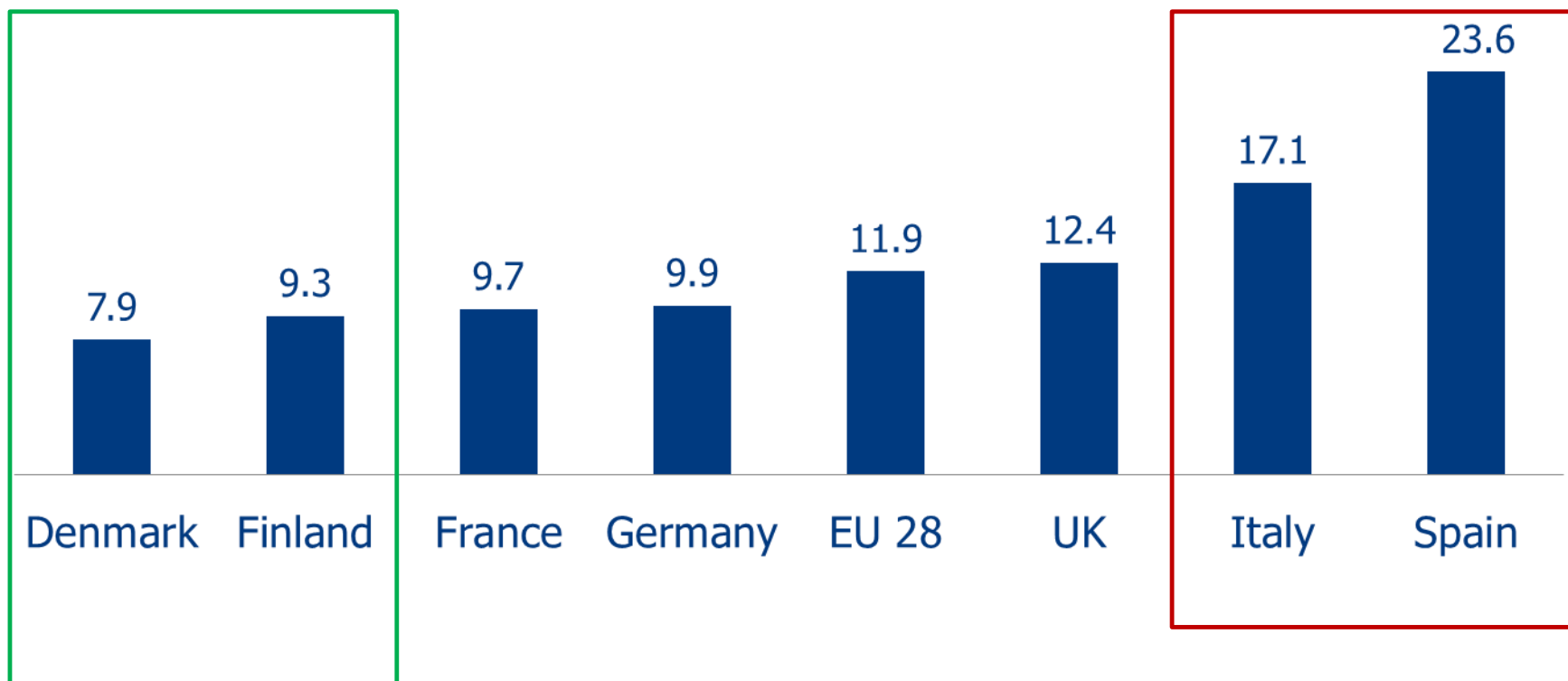
2

Early leavers from education and training in selected countries

(% of population 18-24), 2013

Best performers

Worst performers

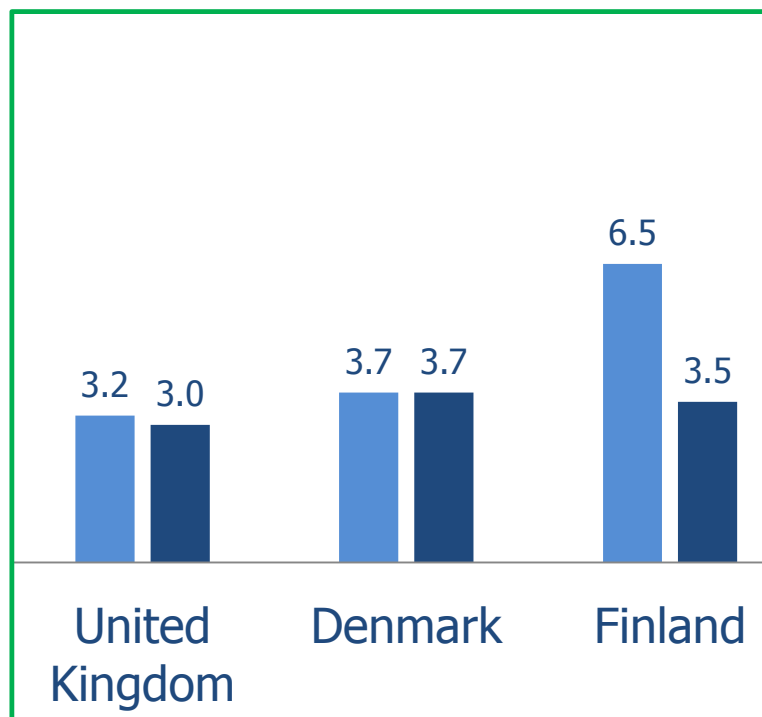


Italy and Spain have the worst rate of school-to-work transition too

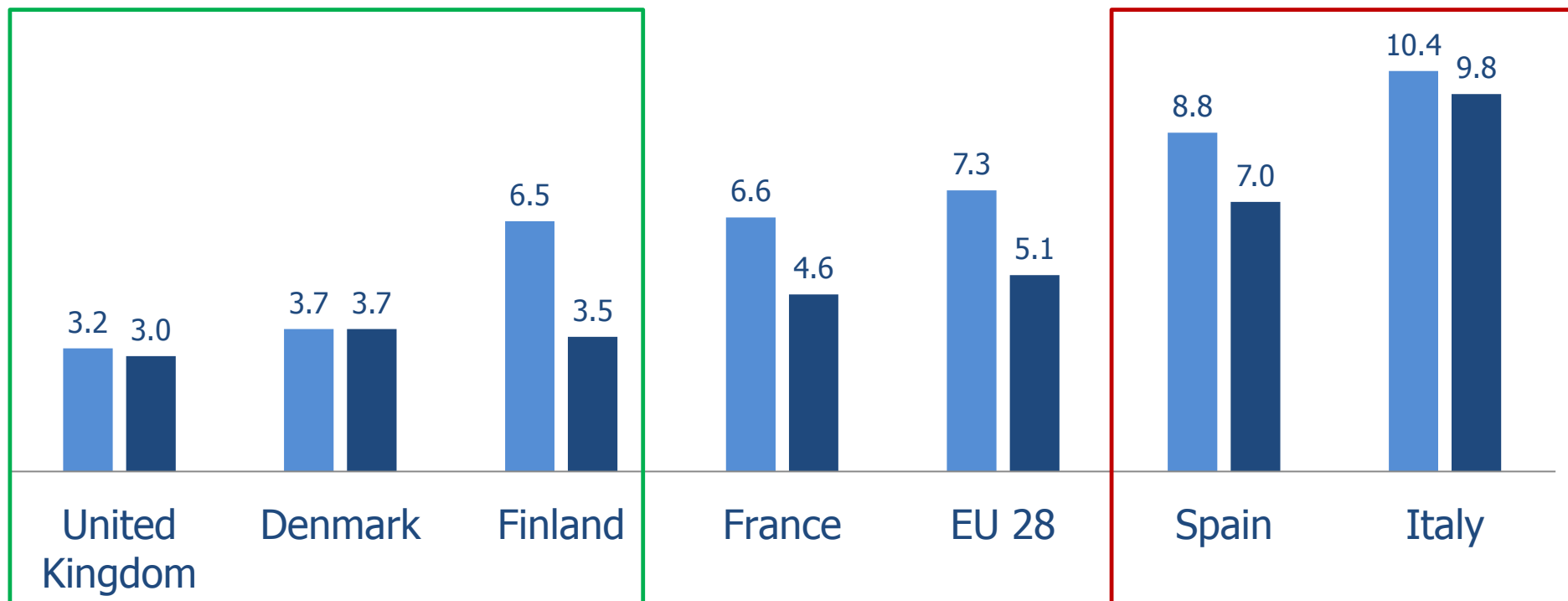
3

Number of months from last formal education and first employment by educational attainment, 2010*

Best performers



Worst performers



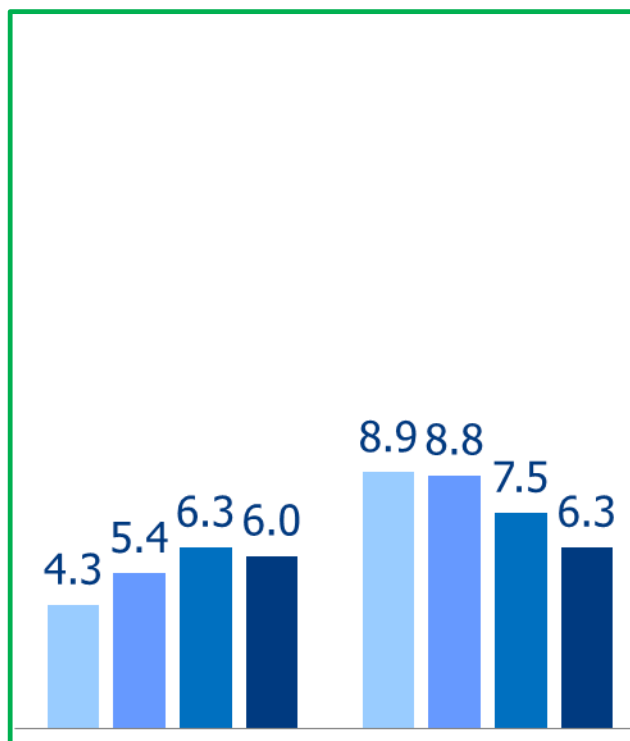
■ Upper secondary education ■ Tertiary education

Northern European countries have lower level of NEETs

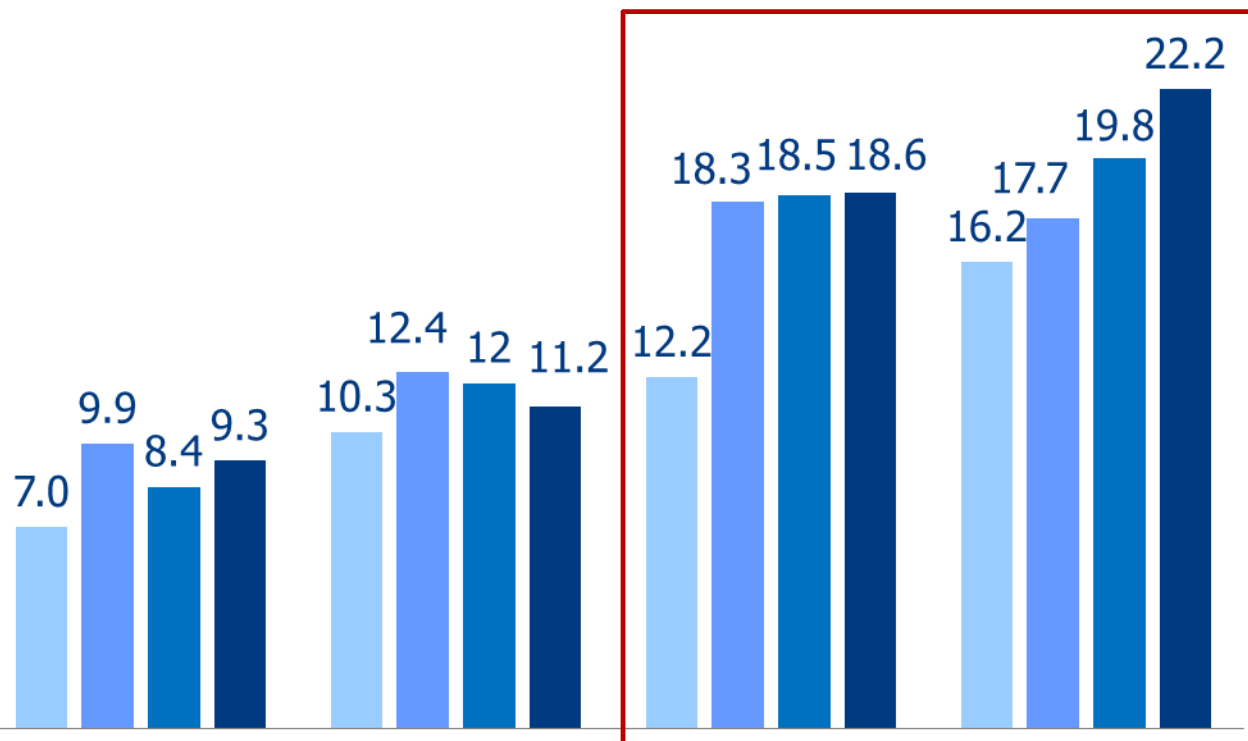
4

Young People Not in Employment, Education or Training in 2013 (aged 15-24, % of total population)

Best performers



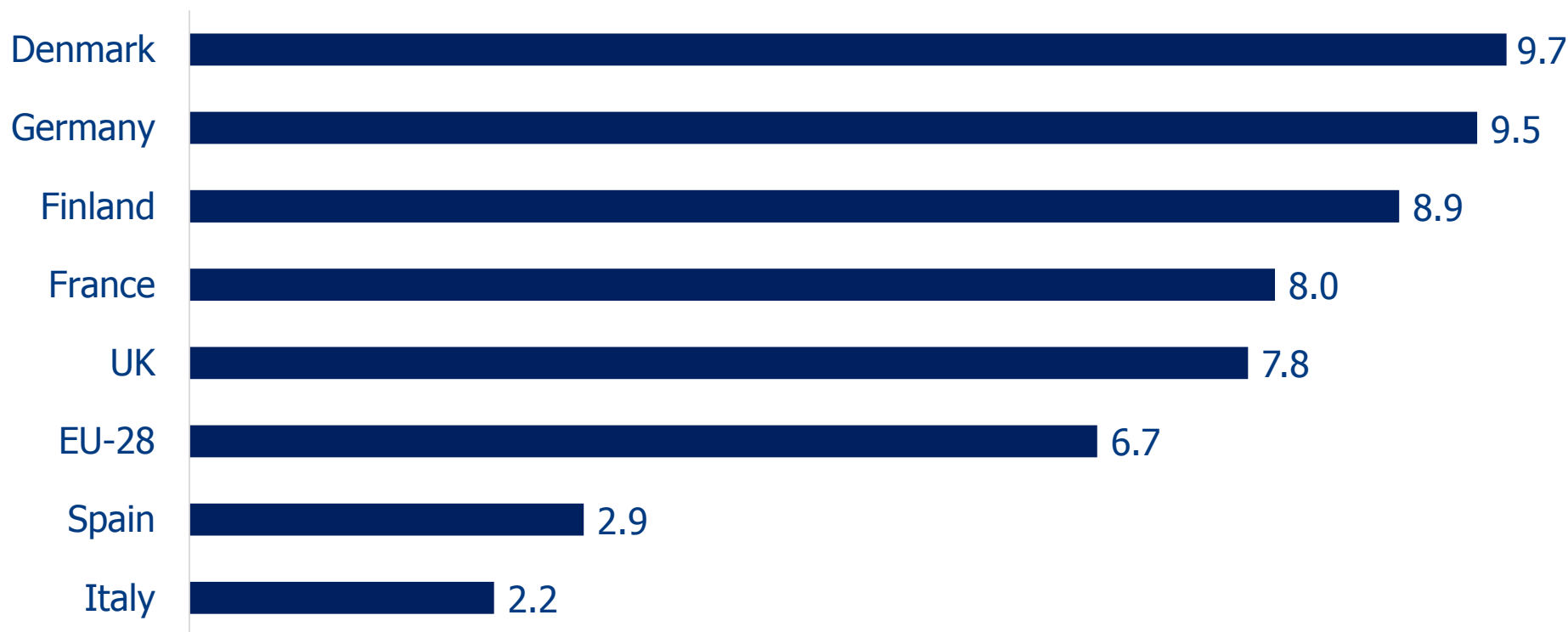
Worst performers



■ 2007 ■ 2009 ■ 2011 ■ 2013

The "Employability Index" shows wide differences across Europe

The European House - Ambrosetti "Employability Index", 2014*
(10= high employability, 1= low employability)

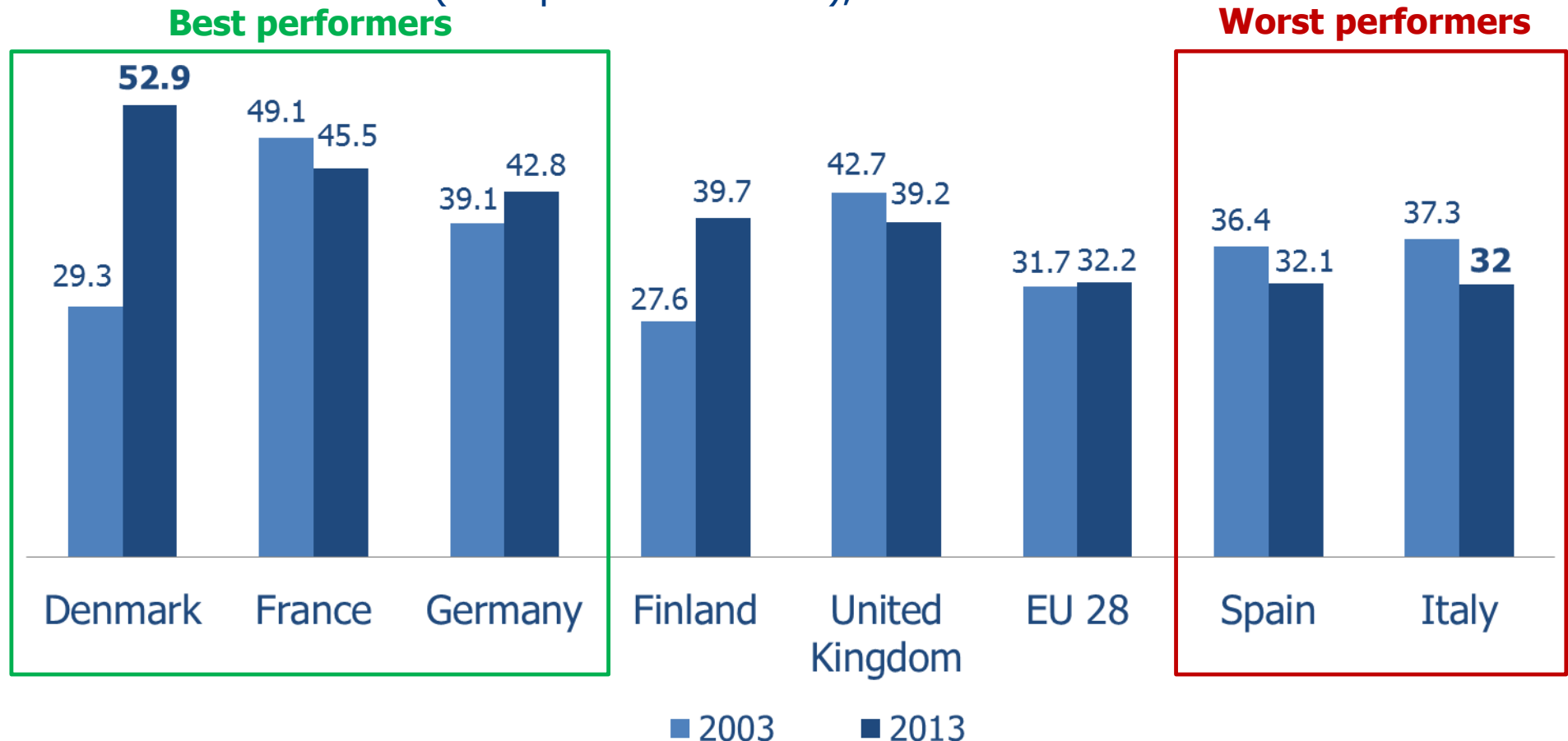


(*) The index considers three factors that impact on national human capital and employability: school drop-out, school-to-work transition periods, NEETs rate

Labour productivity in Denmark grew by 80% while in Italy it fell by 14%

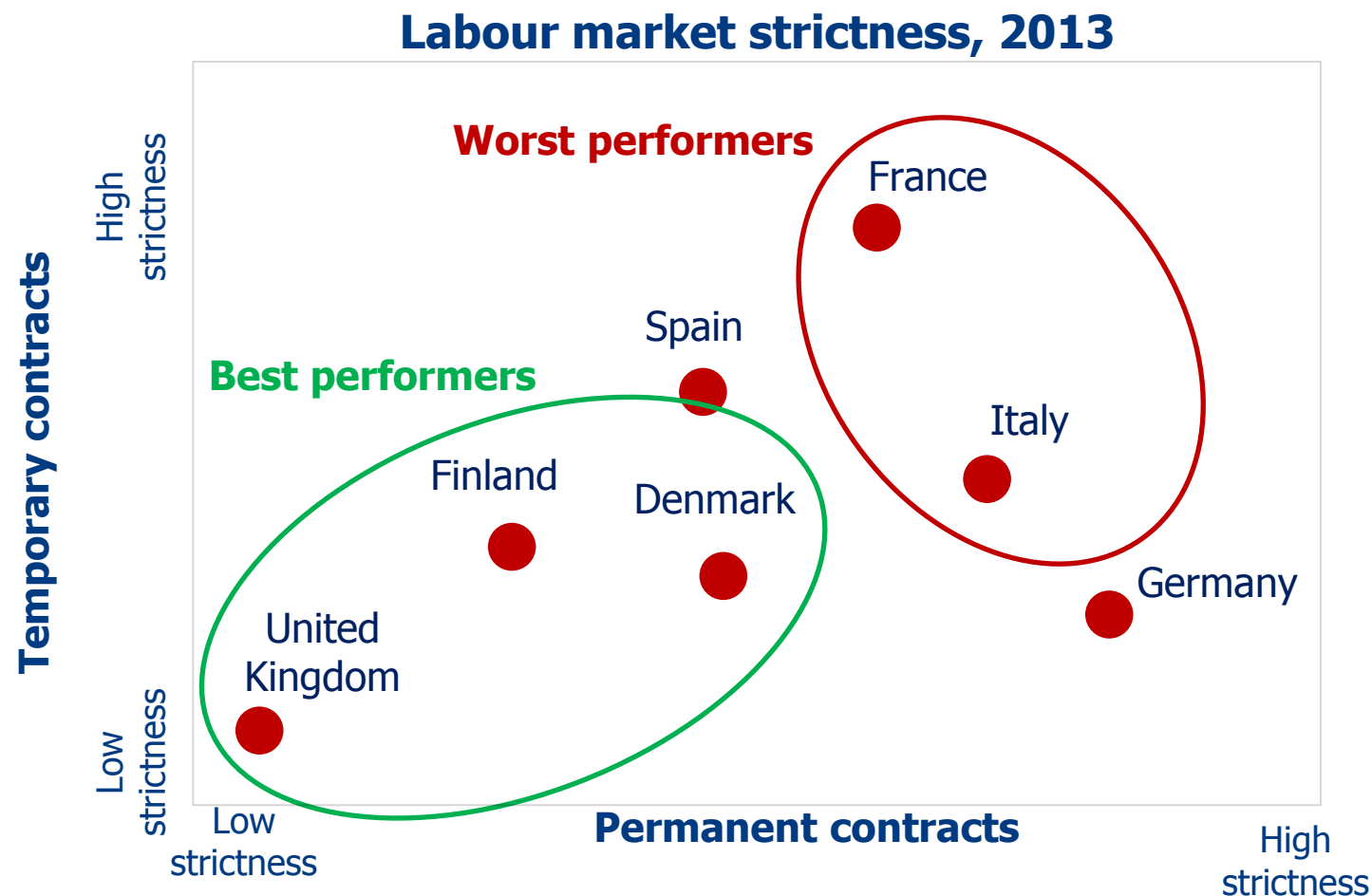
5

Labour Productivity per Hour Worked (Euro per hour worked), 2003 and 2013



Italy and France have highly strict labour market policies

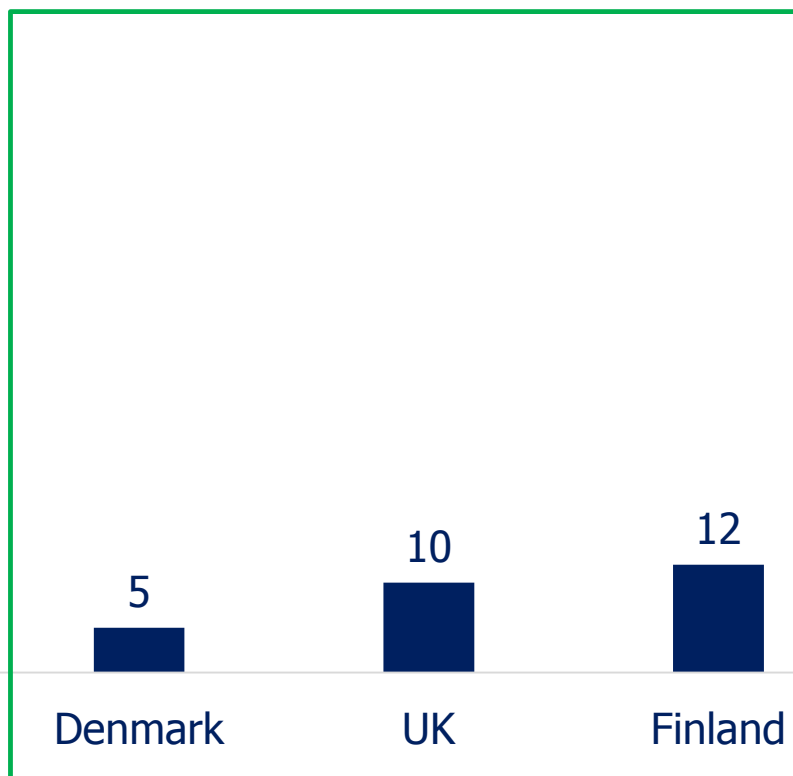
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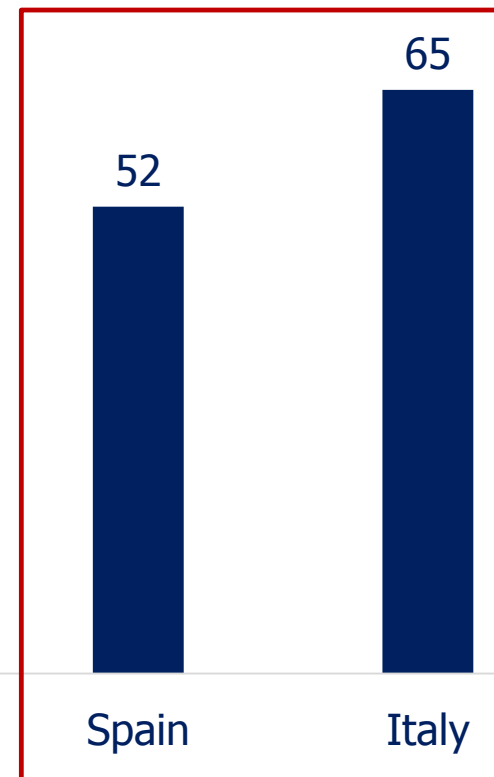
Denmark and UK have the most business-friendly regulatory environment

Ease of doing business index
(1=most business-friendly regulations), 2013

Best performers



Worst performers



Diverging performances of labour markets across Europe in time of crisis (1/2)

Best performers

- High employability rate
- High employment rate
- NEETs have increased only moderately
- Low rate of drop out
- Smooth transition from education to work
- High level of labour productivity
- Labour market flexibility and active employment policies
- Business friendly regulatory environment

Worst performers

- Low employability rate
- Employment rate lower than EU average
- Dramatic increase of NEETs
- High rate of drop out
- Difficult transition from education to work
- Low level of labour productivity
- Labour market rigidity and ineffective employment services
- Difficulty of doing business

Diverging performances of labour markets across Europe in time of crisis (2/2)

	Employment Rate	Drop Out	School-to-work transition	NEETs	Labour Productivity	Labour market flexibility	Business Environment
Denmark	●	●	●	●	●	●	●
France	●	●	●	●	●	●	●
Finland	●	●	●	●	●	●	●
Germany	●	●	●	●	●	●	●
Italy	●	●	●	●	●	●	●
Spain	●	●	●	●	●	●	●
United Kingdom	●	●	●	-	●	●	●

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Best labour market policies – a review

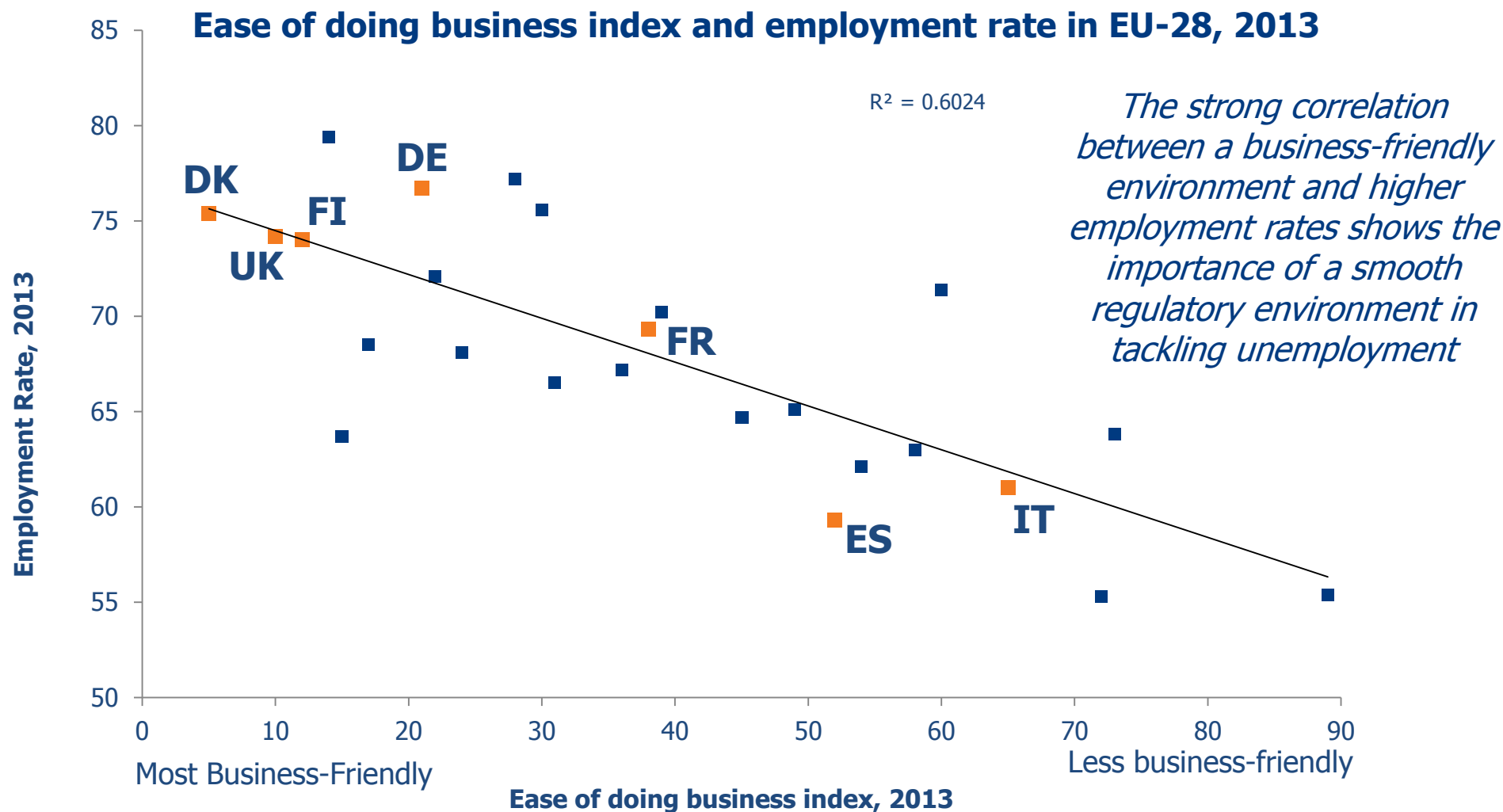
The implementation of labour market reforms in countries with high rate of unemployment is a key priority to relaunch growth in Europe

The European House - Ambrosetti identified **six areas of best practices** that will contribute to increase *employability* of the work force and *labour market organisation*:

- A. Smooth regulatory environment
- B. Decentralised wage bargaining
- C. Flexicurity
- D. Apprenticeship
- E. EU Youth Guarantee
- F. Foster entrepreneurship (start-up)

Business-friendly regulations drive employment rate up

A



The World Bank Doing Business Report 2014 ranks Denmark as the best European country to do business (5th in world) ...

A

- 1. Ease of Starting Business.** Starting a business takes 24 hours and the numbers of procedures required is limited as well as the related costs. The Government reduced the minimum capital requirement for limited liability companies from 16.800 Euro to 10.748 Euro
- 2. High quality public sector.** Denmark shows an efficient and positive approach to business activities and a low level of corruption. Denmark ranks at the top of International Transparency Index (1st out of 177 countries)
- 3. Tax efficiencies.** Denmark has a unique tax rule: companies are not taxed on income from foreign branches, preventing double taxation. In most other countries, relief from such double taxation results in adverse tax consequences. This makes Denmark the best platform from which to base a Nordic or European headquarter

... and ranks Italy as 65th in the world

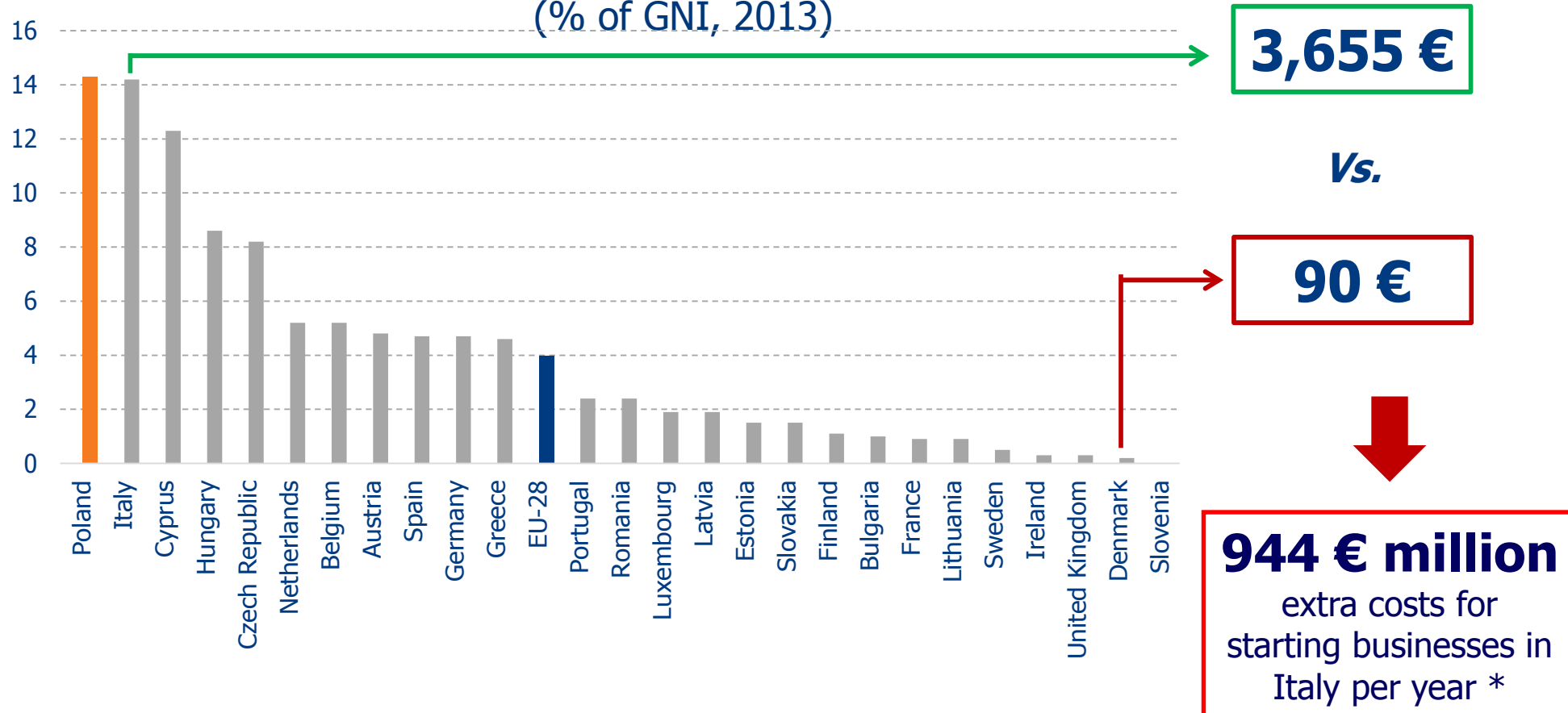
A

- 1. Difficulty of Starting Business.** Entry costs for new businesses are particularly high, due to lack of open competition and high procedural and regulatory burdens
- 2. Unefficient judicial system.** It results in lengthy and costly commercial dispute resolution (es. the average commercial dispute resolution takes between 855 days in Turin and 2022 days in Bari, with costs ranging from 22.3% to 34.1% of the dispute value)
- 3. Complex tax system.** Companies are required to make 15 payments a year, taking 269 hours to deal with taxation administrative procedures
- 4. Regional divergences.** Ease of doing business varies significantly across different cities, regions and public administration offices

EU distortions in ease of starting a business: Denmark vs. Italy

A

Cost to start a business
(% of GNI, 2013)



(*) In 2013, 265,000 new companies were established in Italy

Source: The European House – Ambrosetti on World Bank, 2014

Bureaucracy and labour market regulation in Italy, inefficiencies persist – *based on interviews with HR Italian managers (1/2)*

A

- **National Collective Bargaining** in Italy takes for granted economic growth and it is highly inefficient
 - 60% of the Italian work force under this regime has its job contract expired
 - It does not trigger incentives to best performing firms
 - It does not allow firms to negotiate salaries and working conditions directly with the employees
- The last reform of the **pension system*** does not provide active labour policies for supporting unemployed aged over 50 seeking re-employment and does not allow any system of early retirement

* Italian Law No. 92/2012, “Legge Fornero”

Bureaucracy and labour market regulation in Italy, inefficiencies persist – *based on interviews with HR Italian managers (2/2)*

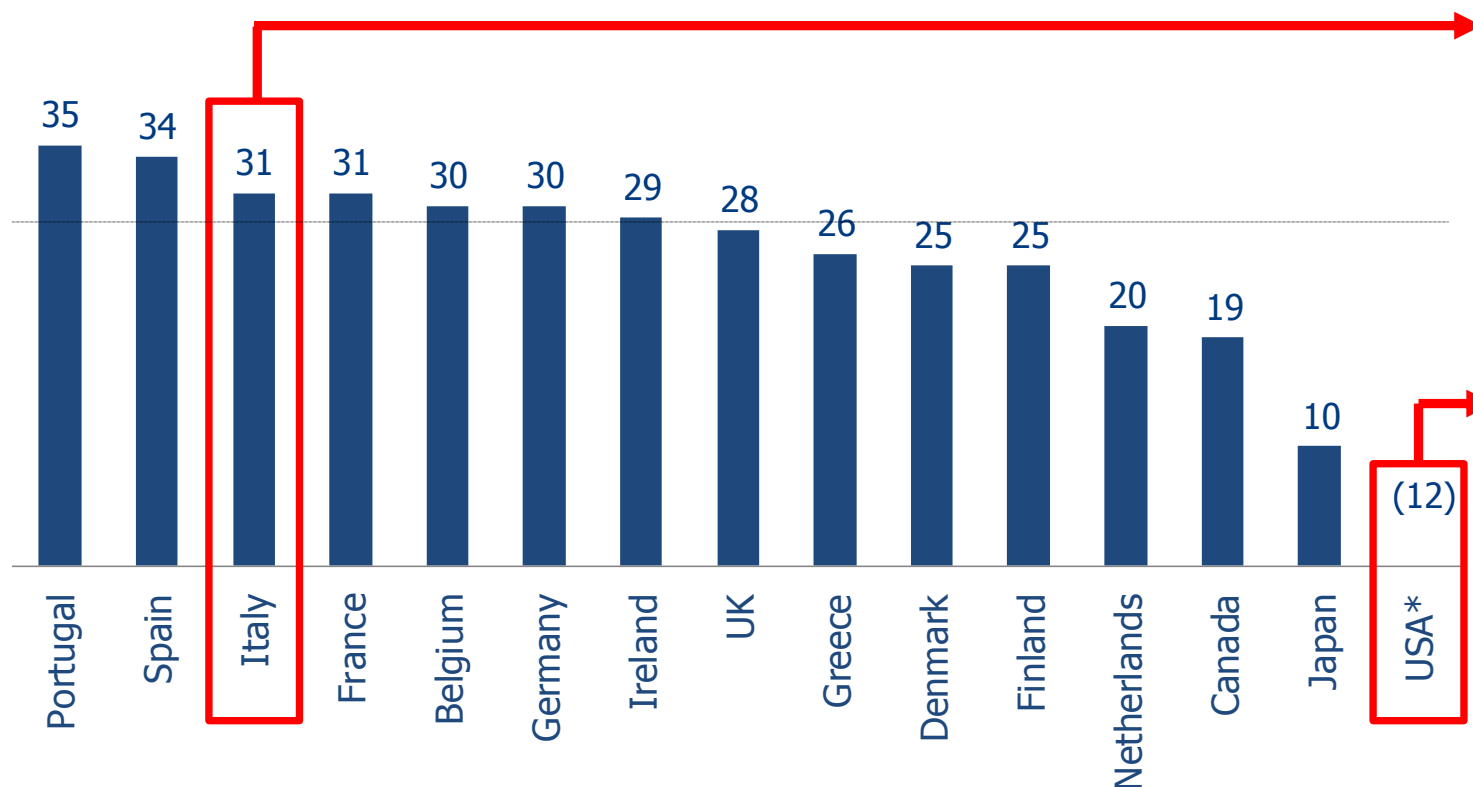
A

- **Unpredictable costs and regulatory burdens** (some examples):
 - Permission to hold **Trade Union executive meetings** forces firms to pay 3 days per month of permitted absence
 - **Law 68/1999** (“regulation and promotion of the employment of persons with disabilities” – each firm must employ up to 7% of persons from this category). This often triggers corruption episodes in the commissions responsible for issuing disability certifications. Forged disability certificate costs taxpayers over € 8 billion per year

Italy is one of the countries with the highest number of statutory paid holidays and paid vacation days

A

Statutory annual leave by country
(days per year), 2013



Bringing paid holidays within the EU average would produce **€ 1.1 bln** extra labour value added per year...

...and bringing it in line with the **USA** average would produce additional **€ 6.6 bln**

(*) USA has not statutory paid leave but on average employees are granted 12 days of paid holidays per year

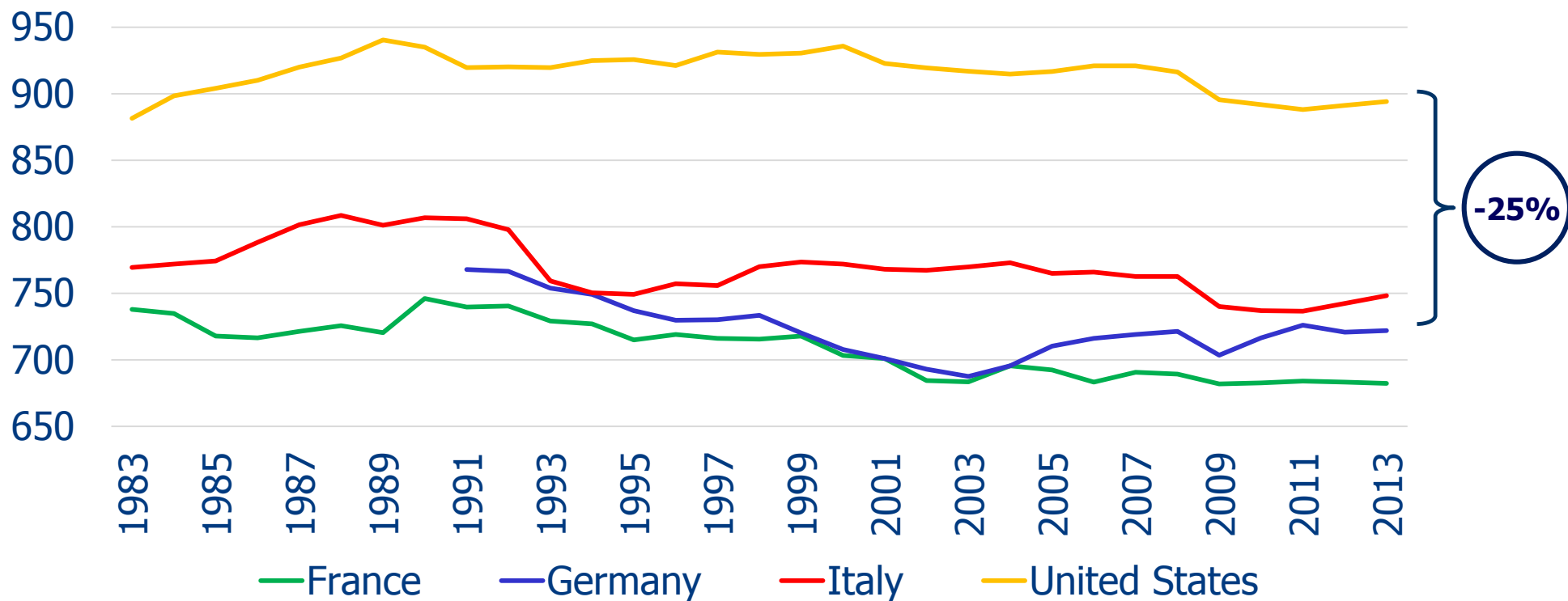
Source: The European House – Ambrosetti on OECD, 2013

Every four years the US work one year more than Europe*

A

Hour worked in the US and European countries (hour worked per citizen, 1983-2013)

Hour worked
pro capta per
year



*Germany, France, and Italy average

Source: The European House – Ambrosetti on OECD data, 2014

Decentralised wage bargaining

■ Key characteristics

A more flexible governance of industrial relations, **from the industry level to the single firm or single worker**, means **autonomy in the wage bargaining and working conditions**, as well as reduction of the influence exerted by the government in the negotiations

Firms under decentralised wage bargaining regime can change contractual agreement scheme so to react promptly to the specific conditions and need. They increase their competitiveness by managing the negotiations directly with the workers on:

- ❑ working hours
- ❑ salaries
- ❑ benefits
- ❑ bonuses
- ❑ dividends and shares (co-ownership)

Decentralised wage bargaining – The German example (1/2)

B

Germany introduced **opening clauses** within the existing collective contracts that allow social partners (Unions, firms, etc.) to agree on a more flexible work organisation:

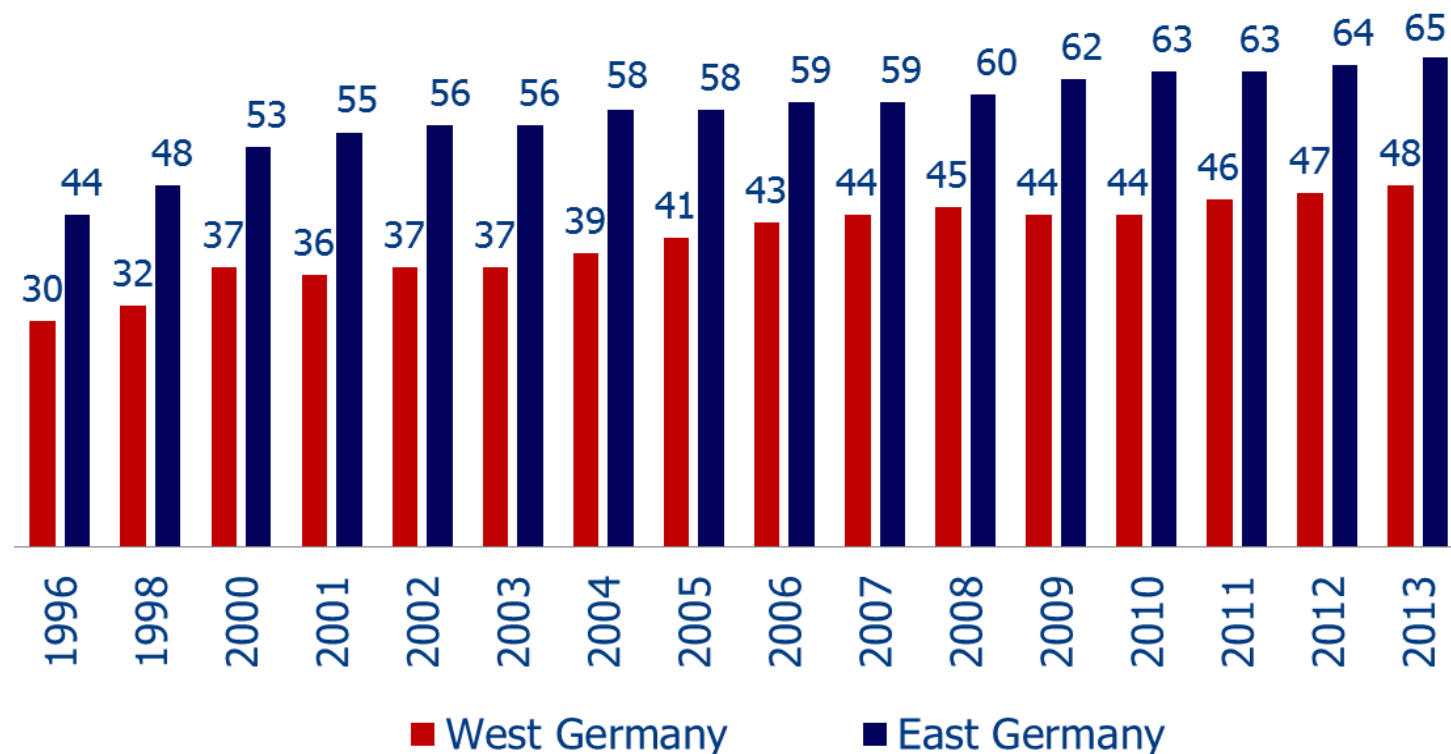
- A. Setting up individual «working hour accounts» where surpluses balance out or are paid for in the long-term. Firms benefit from more flexibility in bargaining workers' salaries and working conditions while workers benefit of low risk of dismissal
- B. The surplus of hours worked is not counted as overtime pay but reduces future working hours in time of crisis. This minimizes the impact of a profit loss and reduces the unit labour cost

Decentralised wage bargaining – The German example (2/2)

B

Firms that adopt decentralised collective bargaining in Germany (% of total, 1996-2013)

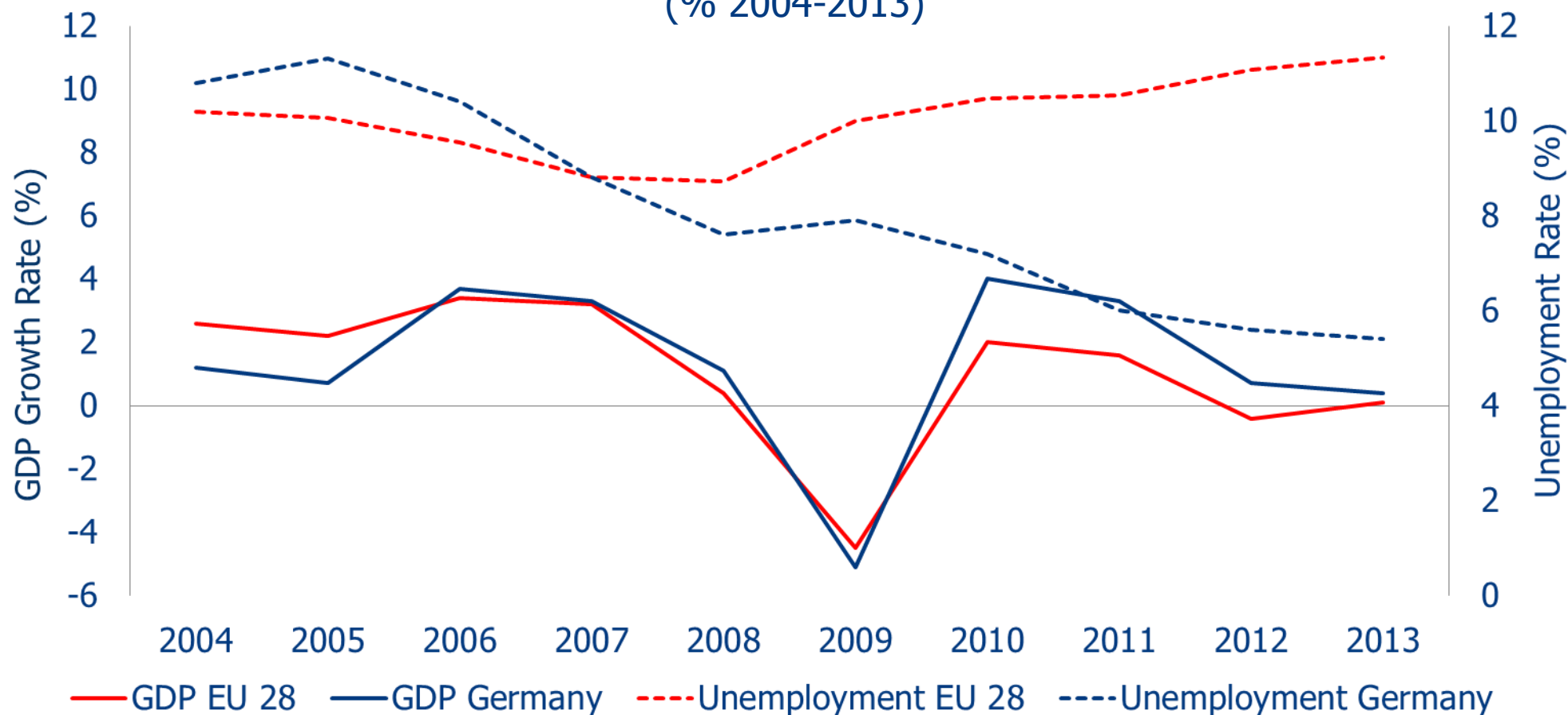
Decentralised wage bargaining in Germany has increased by more than 50% since 1996



Unemployment in Germany has decreased despite the current economic crisis in Europe

B

GDP Growth Rate and Unemployment Rate
(% 2004-2013)



Flexicurity = from Job security to Employment security

C

■ Key characteristics

Flexicurity provides for a wider deregulation of the economy, giving firms a competitive advantage to compete globally

Flexibility in **hiring and firing** supports firms in the reconversion of industrial productions allowing for the dismissal of employees during downturns and making easier to increase staff during expansion cycles

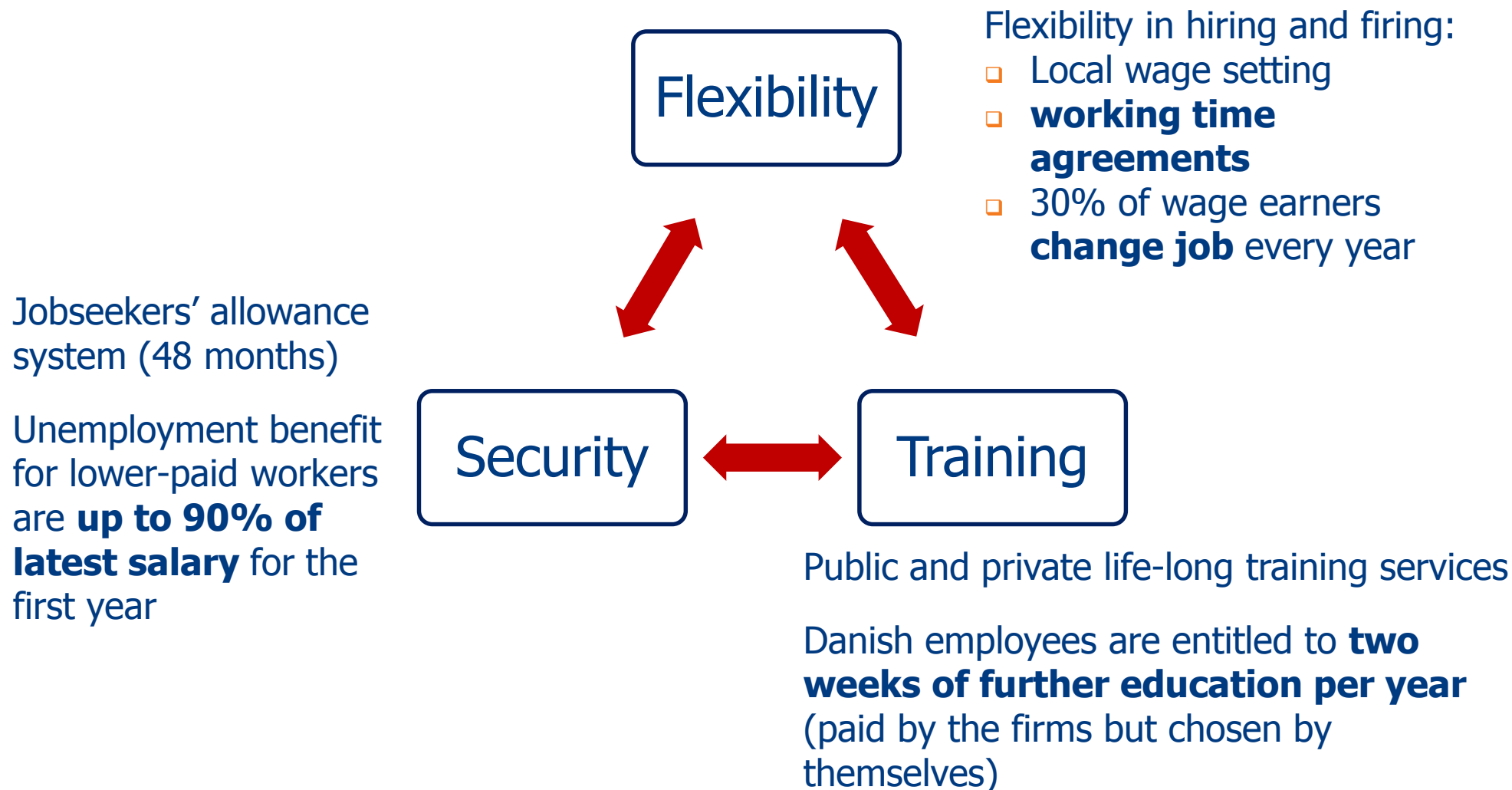
Active labour market policies offer guidance to unemployed by providing education courses and training for new placement

- ❑ Obligation to be receptive of employment offers
- ❑ Skills development
- ❑ In-job training and life long learning

A **social welfare system** that allows people to become risk-takers (firms, individuals) without falling out of social safety nets

Flexicurity – the Danish model

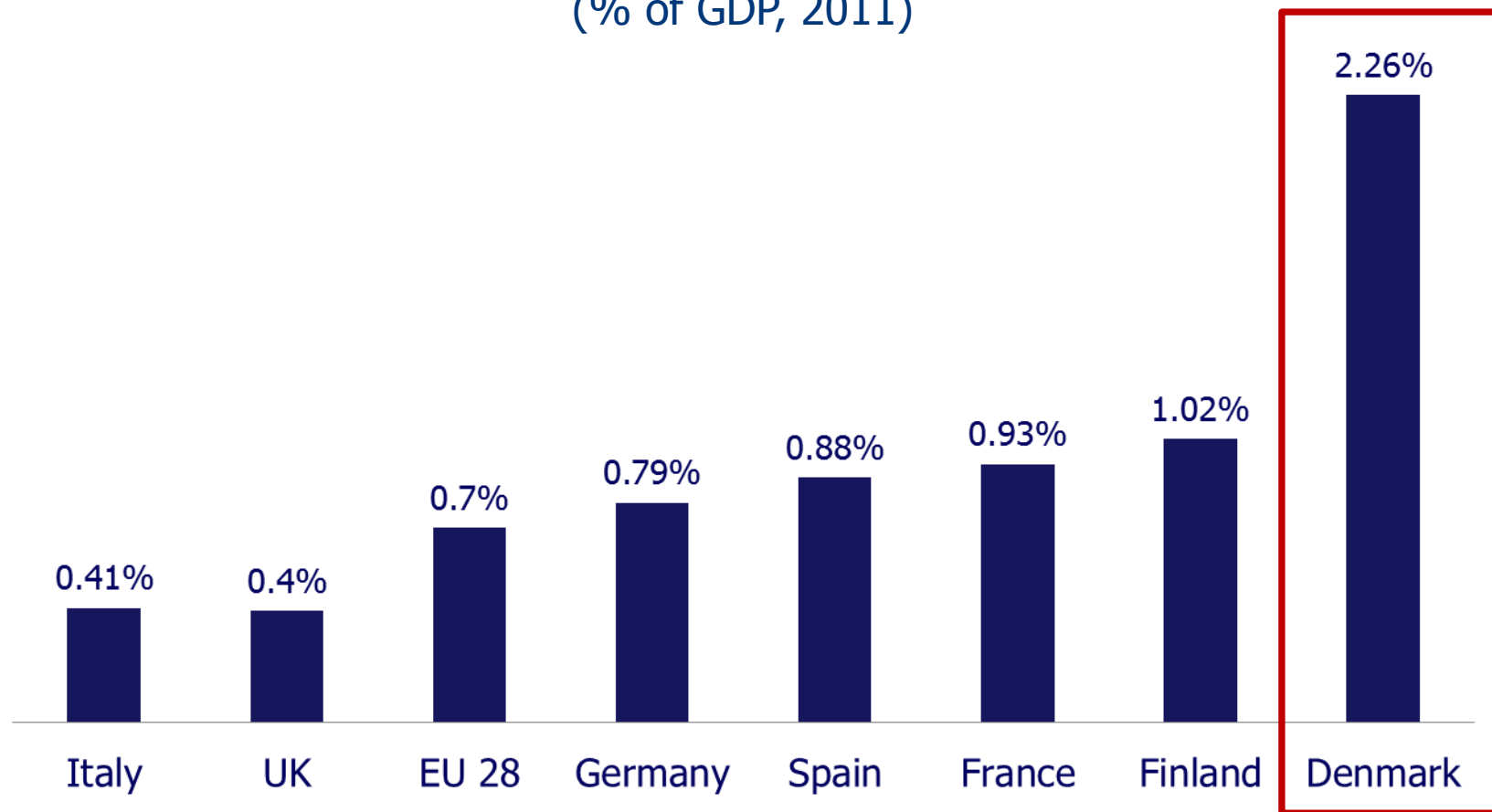
C



Denmark has the highest Public expenditure on active labour market policies across the EU ...

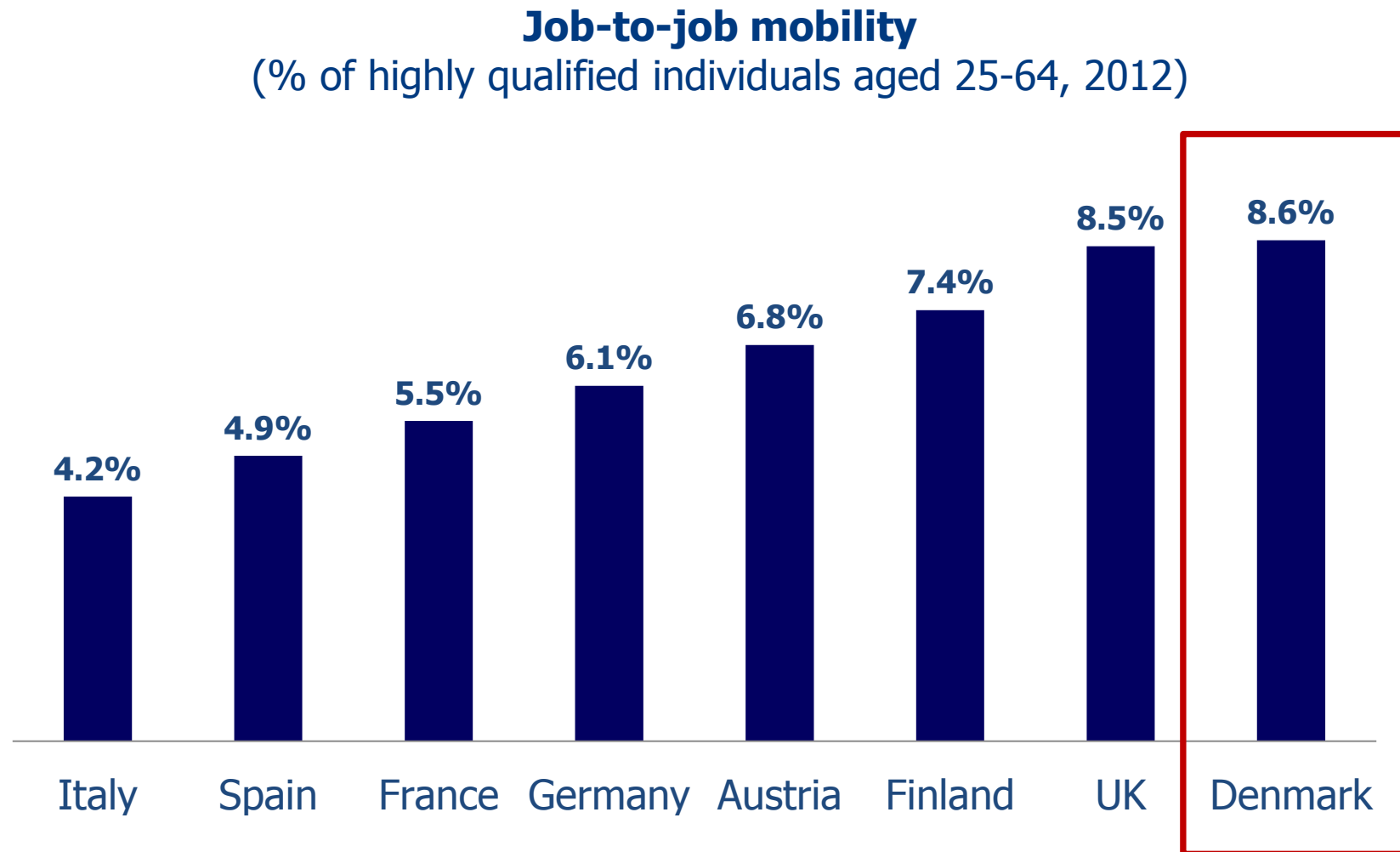
C

Public Expenditures on Labour Market policies (% of GDP, 2011)



... and is at the top for Job Mobility among European Countries

C



Apprenticeship – main characteristics

■ Key characteristics

Apprenticeships are work-training schemes that link the education system to industry and technical professions. They provide job contracts between 6 months and 3 years to young people, with possibility of permanent basis placement

Through apprenticeships young people develop the necessary skills, **competencies and expertise** required to enter the professional world

- ❑ Firms benefit from fiscal incentives and enjoy tax breaks during and after apprenticeships, thus reducing unit labour costs
- ❑ Young people receive hands-on professional training, increase their employability and receive a salary while making the transition from education to work

Apprenticeship in Germany – A dual programme

D

In Germany, apprenticeships play a key role in the education-to-job transition for many young people

- **330 professions** recognized in the country with apprentices
- **66%** of Germans took part in apprenticeships
- **Dual programme** (75% industrial training and 25% vocational schooling)
- Traineeship includes skills-oriented **trainings on-the job** and **vocational schools**, receiving theoretical grounding based on **specific industries**
- Apprenticeships lasts 2-3.5 years

Over 80 % of apprenticeships lead to a permanent contract

EU Youth Guarantee: boosting youth employment in the EU

E

The Youth Guarantee is a EU-wide programme inspired by best practices pioneered in Finland to facilitate education-to-work transition among young people

The programme ensures that all **young people under 24/29* get job, apprenticeship, traineeship or education offer** within 4 months after leaving formal education or becoming unemployed

A central role is played by **public employment services**, which provide a tailored needs assessment to job seekers, an employment plan, followed by the guarantee

In 2013 the EU allocated **21 billion €** per year to implement the programme in countries saddened by high unemployment

The programme is currently under implementation

(*) The age group to which the EU Guarantee is applicable varies across EU countries (e.g. 15-24 y.o. in Germany and 15-29 y.o. in Italy)

Source: *European Commission*, 2014

State of the implementation of the EU Youth Guarantee (1/2)

E



FRANCE

2013

Allocation of 310 mln EURO

EU's recommendation: Improve the transition from school to work, by stepping up measures to further develop apprenticeship with a specific emphasis on the low-skilled



UNITED KINGDOM

2014

Allocation of 206 mln EURO

EU's recommendation: Improve skills that meet employer needs; Ensure employer engagement by placing emphasis on addressing skills mismatches through more advanced and higher level skills provision and furthering apprenticeship offers



Finland, Denmark and Germany are not eligible for EU funding due to low level of youth unemployment

State of the implementation of the EU Youth Guarantee (2/2)

E



ITALY 2013

Allocation of 567 mln EURO

EU's recommendation: provide services to non-registered young people and ensure stronger private sector's commitment to offering quality apprenticeships and traineeships



SPAIN 2013

Allocation of 943 mln EURO

EU's recommendation: provide good quality offers of employment opportunities, apprenticeships and traineeships; improve the outreach to non-registered unemployed young people; increase the labour-market relevance of vocational education and training



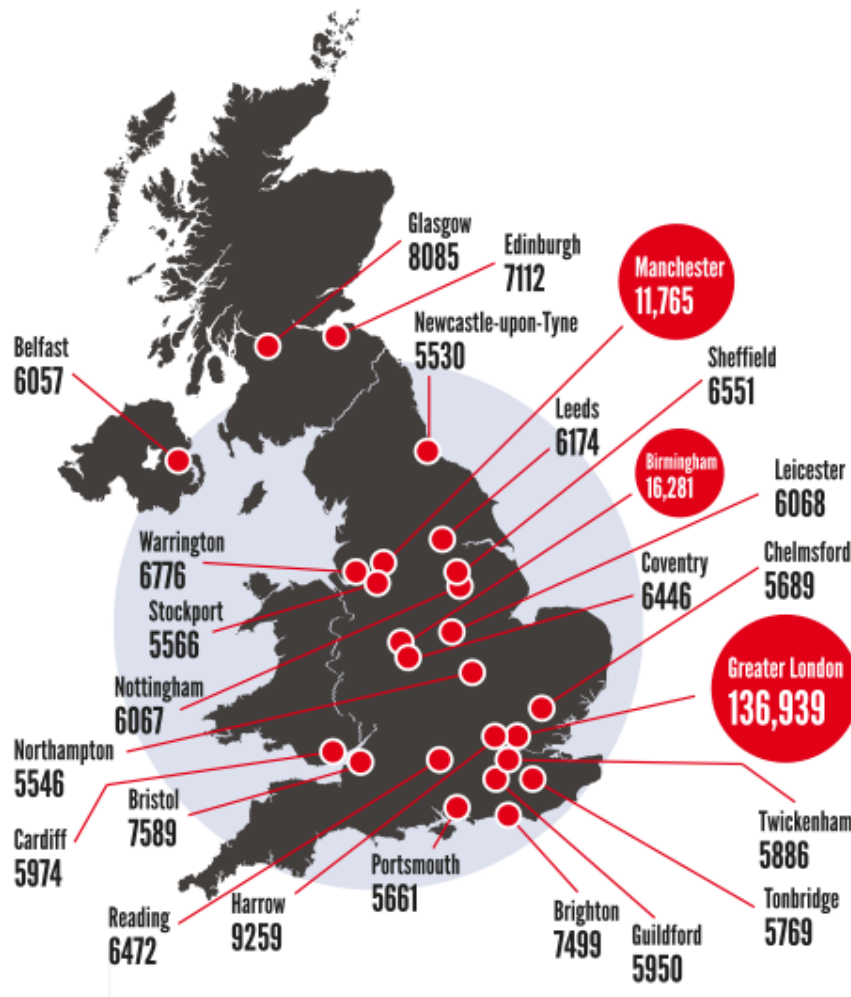
Finland, Denmark and Germany are not eligible for EU funding due to low level of youth unemployment

«StartUp Britain» is a joint government/private sector initiative to help entrepreneurs to set up small businesses

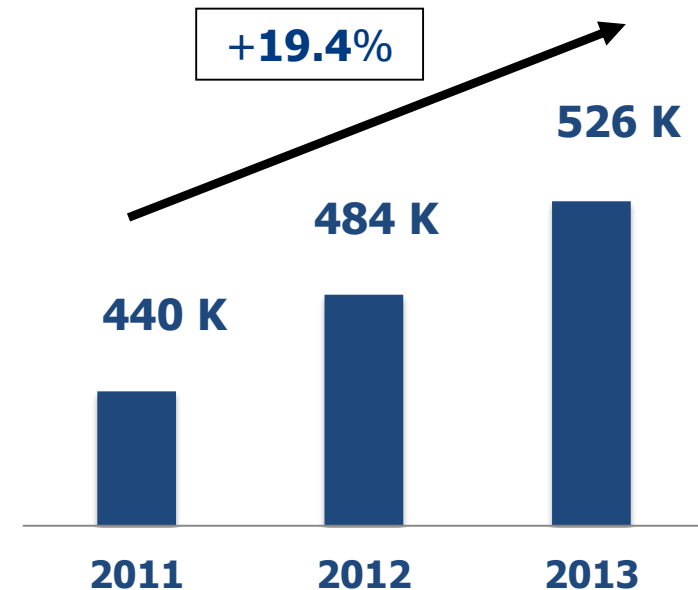
F

- “StartUp Britain” is a national campaign, launched in 2011 by the Prime Minister David Cameron, backed by young entrepreneurs and supported by sixty partner companies
- The aim is to tilt UK’s economy from the public sector towards private initiative and enterprise-led recovery, through some specific measures:
 - **Crowdfunding** to raise seed capital for startups
 - **Innovation Vouchers** offer to startups assistance in fields such as cyber security, managing intellectual property and developing small business technologies
 - **Growth Vouchers** provide services to get expert advice on finance and cash flow, recruiting and developing staff, marketing and keeping customers

The programme registered a record 526 K new businesses in 2013 with London as top performer **F**



Number of Startup in Britain
(Growth rate, nominal values 2011-2013)



The Italian Governmental Plan for Start-Ups

F

- 1. No registration fees** for new start-ups and online registration procedure
- 2. Hiring flexibility.** Start-ups can hire people through fix-term contracts, which last from 6 months up to 48 months
- 3. Encouraging stock options** and **work for equity** as remuneration for team members and developers
- 4. Tax incentives** for direct and indirect private investments in start-ups (from 2013 to 2016)
- 5. Access to credit** through crowdfunding and guarantee scheme on bank loans provided by the *Fondo Centrale di Garanzia*
- 6. Fail fast procedure** that enables entrepreneurs to speed up the liquidation procedure and quickly start a new business

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Flexible labour markets and business-friendly environments help to reduce unemployment and to increase productivity (1/2)

- The **impact of the crisis** on European economies and labour markets was **uneven** as a result of different labour policies as well as structural economic factors
- Over the past few years, some countries (e.g. Germany) have introduced **more flexible labour policies** that have contributed to avoiding the high unemployment/high public debt negative spiral that is currently trapping some of the countries at the Eurozone periphery (e.g. Italy and Spain)
- Evidence shows that there is a strong **correlation between business-friendly countries and high level of employment**. Instruments like decentralised labour market bargaining, flexible working hours, efficient judicial and administrative procedures had a strong positive impact on national competitiveness

Flexible labour markets and business-friendly environments help to reduce unemployment and to increase productivity (2/2)

- In Europe, **Germany, Denmark and Finland** rank among the best performing countries in terms of economic competitiveness and labour market efficiencies. They have implemented ambitious labour market reforms and experimented policies that are considered by the international observers as an example of best practices
- Differences across labour markets in terms of performance as well as regulatory framework remain strong. There **is no one-size-fits-all model to be applied across Europe**, but this analysis showed that the best performing countries have produced **innovative labour policies that can serve a model for Europe**
- The implementation of foreign best practices, however, should always take into consideration the **specific peculiarities**, rigidities, and structural conditions of each national system