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Policy report
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Employment regulation and the *labour* market

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Employment regulation and the labour market

Policy report

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Acknowledgements

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The Work Foundation transforms people's experience of work and the labour market through high-quality applied research that empowers individuals and influences public policies and organisational practices.

Through its rigorous research programmes targeting organisations, cities, regions and economies, The Work Foundation is a leading provider of research-based analysis, knowledge exchange and policy advice in the UK and beyond.

The Work Foundation is part of Lancaster University.

Executive summary

We find no overall advantage for most of the major OECD economies from weak or strong employment protection legislation when looking at broad labour market measures – some do better on some indicators, others worse. The UK rarely shines, with many mid-table rankings. The Nordics and the Netherlands score consistently well. Some southern and eastern European economies could improve some labour market outcomes through greater liberalisation.

The UK scores badly in three specific areas – productivity, low pay and integration of young people into the labour market. Productivity has been a long-standing weakness of the UK, and we have lost significant ground since 2008. The US, Germany, France and Italy all have much higher productivity than the UK and Canada, though productivity is lower in Japan. The UK's performance on low pay is also a major weakness, along with the US. Finally, young people fare especially badly in the UK in comparison with other G7 economies.

The UK scores well against the EU28 on most workplace-related indicators when employees are asked about working conditions and various aspects of their job. The idea that German, French and Italian workers are more content at work than their UK counterparts is not strongly supported by the evidence, despite the benefit of stronger legal rights and collective protections that the former enjoy. The quality of employment in the UK is much better than is often perceived.

What we think this report is pointing to is that in the UK what actually happens in the workplace (what we term 'practice') matters much more for the quality and efficiency of work than legislation setting down employment rights. In our view, the UK is very unlikely to get much benefit from either further deregulation or significant re-regulation. Limited legislation may be needed to correct abuses in particular areas and to resolve some of the confusion around the relative status of employees, workers and the self-employed. There must be renewed emphasis on enforcing and improving awareness of existing employment rights among employers and employees.

The main focus instead must be on enhancing whatever strengthens good workplace practice, while addressing specific weakness – especially on young people and low pay – with a range of complementary and appropriate economic, industrial and labour market policies.

The UK has a number of important labour market institutions that are all developing a more strategic approach to the labour market. The Department for Business, Innovation and Skills (BIS) should help bring together key labour market 'social partner' institutions (for example UKCES, Acas, LPC, CBI, TUC) with other independent expert bodies to form a hub for expert policy advice on the workplace. The CIPD has suggested the creation of a Workplace Commission for this purpose to co-ordinate policy-making across government departments and relevant agencies on workplace issues and to engage those bodies with the expertise and leverage to improve practice in organisations. Its primary purpose would be to develop and drive forward a government-supported, sector-based and workplace-focused campaign on productivity, performance and good work.

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Introduction

The purpose of this report is to provide a balanced perspective on how modern labour markets are regulated and the associations between the degree of regulation and what impact that has on labour market and workplace outcomes. We explore whether or not there are strong associations between more liberal and more restrictive employment protection policies and macro-economic outcomes (productivity and employment) and workplace outcomes (employee perceptions of workplace conditions and job quality).

The public debate can often appear polarised between those who argue that the UK suffers from a lack of regulation, especially around protections at work, which encourages poor treatment, high levels of insecurity and widespread low pay. The Trades Union Congress (TUC), for example, has argued for stronger protections in some areas and also for measures to support wider collective bargaining. Employer organisations have expressed concern at increasing regulatory burdens on business and reducing flexibility, especially at a time of economic crisis across much of the OECD and intensifying competitive pressure from the emerging economies.

In reality, the debate is often less polarised than might be assumed, especially when we move away from a narrow focus on employment protection. For example, there is widespread industrial and cross-political party support for the National Minimum Wage, which would have been unthinkable in the mid-1990s. Organisations representing labour and capital still have their differences, but few voices on either side are calling for either a major rolling-back of the regulatory reforms made since 1980, or for a major new push towards a completely deregulated labour market. A recent CBI report[1] notes that *'cohesive societies … help create stable political and regulatory environments in which firms can do business.'* And while the CBI opposes further regulation in areas such as zero-hours contracts, the report does not propose further deregulation.

More radical positions have nonetheless been taken by some who argue that the UK could extract significant further advantage from further limits on employment rights and constraints on industrial action. Others have argued that there are diminishing returns for lightly regulated economies such as the UK from further moves towards the theoretical frontier of zero employment protection regulation.[2]

In 2012 the Government published the independent Beecroft report,[3] which argued for radical reforms on employment protection. The Coalition did not adopt the report's recommendations, but it has increased the time limit before individuals can claim unfair dismissal, reduced the notice that firms have to give to trade unions in collective dismissal cases and increased the cost to individuals bringing unfair dismissal claims to industrial tribunals. In 2014 the Secretary of State for BIS[4] announced a review of employment rights to consider potential abuses, address confusions and increase awareness amongst employers and employees of the existing rights framework.

The rest of this report is divided into the following sections:

- the different ways in which the UK labour market is regulated
- the indicators we have used to assess the UK's relative performance
- the theory behind employment protection and economic outcomes
- how we compare on macro and workplace indicators.

1 How the labour market is regulated

The big focus of debate has been on employment protection regulation – both through individual dismissals and collective dismissals when groups of workers are made redundant. By this measure the UK is lightly regulated by international standards. But it is misleading to say the UK has an unregulated labour market. All labour markets are regulated in many different ways and the UK is no exception. There are important protections against discrimination on the grounds of race, sex, disability and age; all employees must receive the appropriate rate of the National Minimum Wage; employers must auto-enrol their employees in a designated pension scheme; health and safety regulation is well established and comprehensive; working time is controlled and flexible working promoted. The Gangmasters Licensing Authority regulates businesses that supply labour for agricultural and related processing activities. Employers have been co-opted into helping enforce restrictions on non-EU citizens working in the UK. As well as these cross-cutting measures, certain activities are more closely regulated if they involve potentially dangerous processes or involve dealing with vulnerable groups such as children.

There is also growing awareness that whatever the regulation in force, much depends on effective implementation. Effective enforcement of measures such as the NMW is essential for it to retain credibility amongst employers who need to be confident that there is a level playing field and also amongst employees that they are receiving the right payments. The cost and speed of processes is also important – the Coalition's recent changes to access to industrial tribunals were designed to reduce costs and improve dispute resolution, although critics would contend that it has made it harder for employees to bring legitimate grievances against employers. In countries such as the UK, case law is also important and the lightness of regulation can in some areas increase the degree of uncertainty about how courts will interpret employment practices.

Union membership has fallen in almost all OECD economies since 1980, but collective bargaining and social partner institutions are often powerful regulators in the labour market in many parts of Europe, where collective bargaining coverage underpinned by statutory provisions covers the vast majority of the workforce. Consultative machinery is often stronger and more highly developed in the workplace. As we show later, this can be important in trying to interpret some of the results of workplace perceptions across different countries with very different institutional settings. Collective bargaining coverage in the UK is lower than in many European countries, especially in the private sector, but significant numbers of people are union members. Indeed, union membership as a share of the workforce is significantly higher in the UK than in Germany or Japan and much higher than in France or the United States.[5]

Social partner institutions are seldom recognised as such in the UK. However, social partner type institutions such as the Low Pay Commission (LPC), the Health and Safety Commission (HSC), the Arbitration and Conciliation

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Advisory Service (Acas), and the UK Commission for Skills and Employment (UKCES) all help regulate and influence the labour market through a mixture of legal powers to intervene and enforce those interventions (LPC and HSC) or significant funding streams (UKCES). Such institutions are common throughout the rest of Europe and the social partner role is often more direct and influential than in the UK.

Regulation can also operate through accreditation – a significant and growing if imprecise share of the workforce is subject to regulation through requirements on professional standards and other qualification-based criteria enforced through a mixture of state regulation and trade bodies and associations.[6] In the US, one estimate was that 30% of the workforce needed a licence to practise from national, state or local authorities in 2008 compared with less than 20% in the 1980s.[7] The share of professionals in the UK workforce continues to expand – occupations include engineers, scientists, teachers, doctors and lawyers. In 2014, about 24% of all those in work were classified as professionals in the UK compared with 17% in France and Germany and 15% in Italy.

We think of the 1980s and 1990s as periods of great labour market de-regulation. However, as we show later in this report, the UK was no less strictly regulated in terms of employment protection laws in 2013 than it was in the mid-1980s. Those changes in laws governing individual and collective dismissal and the regulation of temporary work that did occur seem to have had little overall impact on the UK's relative position compared with the rest of the OECD. The big changes were around the role and regulation of trade unions, including the end of the closed shop, restrictions on the ability to strike, and trade union governance. Successive governments have pursued reform of the welfare system, with less generous benefits and stricter requirements to look for work. Major changes have also occurred in product markets, with widespread privatisations and opening up of previously restricted markets such as financial services.

There are important linkages between product and labour market regulation and labour market outcomes. The OECD has noted that countries with highly regulated product markets also tend to have lower business sector employment rates and that a complementary approach of reducing both product and labour market regulation could reinforce positive impacts on employment growth. Indeed, they may be interdependent, so that reforms in one area may be ineffective unless there is complementary reform in the other. For example, making labour markets more flexible may have much less impact when entry and exit by businesses to certain industries and activities are inhibited by regulatory controls and barriers.

However, while both product and labour market regulation can influence growth and employment, product market deregulation may be even more important. A 2012 study by Frontier Economics[8] for the Better Regulation Executive concluded that while there was some ambiguity about the impact of employment protection on growth, product market deregulation was highly likely to have positive impacts.

Overall, it is perhaps not surprising that employers in the UK continue to complain about a regulatory burden of which their counterparts in the rest of Europe might be envious. Firstly, employers are unlikely to welcome additional regulation in principle, albeit opposition tends to be much less when it can be demonstrated that there are business benefits, including the creation of level playing fields through effective enforcement and where some of the costs are born by the state. Secondly, the UK has limited scope for reducing employment protections further given their already low levels, making government appear unresponsive to calls for more radical change, such as the proposals in the Beecroft report. Thirdly, it is highly likely the overall regulatory burden associated with employment has increased since the mid-1980s.

It is beyond the scope of this report to look at every way in which the UK and other OECD labour markets are regulated. As we show below, there have been formidable technical and methodological barriers to overcome in developing an indicator for the employment protections. Where appropriate, however, we have offered some commentary where other factors seem important in interpreting the results.

2 Regulation and economic and labour market outcomes

The OECD's employment protection index has become one of the most widely quoted measures in the public and political debate about labour market flexibility and employment protections and one of the most widely used proxies for labour market liberalisation in a vast range of economic studies. However, in 2013 the OECD had a major rethink and concluded that *'this method of collection, while parsimonious in resource use on the part of the OECD Secretariat, cannot guarantee an adequate degree of cross country comparability of the indicators, on which policy advice can be adequately based.'*[9] The OECD has introduced a revised measure to try to improve matters.

The revised version makes two important changes. Firstly, the way regulations are applied can be just as important, so the new measure also takes into account collective agreements and case law decisions. Secondly, it might be perverse to conclude that a country was freeing up its labour market through a form of partial liberalisation that entrenched the relative position of insiders by, for example, making it easier to employ temporary workers while protecting permanent workers and reducing permanent employment as a result. The revised measures change the position of some countries but generally for most economies adjustments in one direction are balanced by adjustment in the opposite direction (so, for example, a country that appeared liberal on the legal position might be scored down on the cost, time and complexity of implementation, and vice versa). Overall, those economies seen as lightly regulated and those seen as strictly regulated have not changed.

The OECD indicators of employment protection are based around three measures: the protection of permanent workers against dismissal; specific requirements governing collective dismissals (redundancies); and the regulation of temporary contracts. The collective dismissals measure is a relative measure – it captures the difference in costs to employers of dismissing more than one worker – and the OECD advises that it should be used in conjunction with the indicator on individual dismissals (hence the combination of individual and collective protection against dismissal measures into a single indicator). The UK scores low on the protection of individuals, along with other Anglo Saxon economies such as Canada and the US. In contrast, protection is significantly higher in Germany, Italy and France. The same contrast is also true for temporary work, with very strict regulation in Spain, France and Italy and very light regulation in the US, Canada and the UK.

Protection against collective dismissal is less clear cut: regulation in the UK, US and Canada is close to the OECD average, with the UK slightly below, and Japan somewhat above. It is particularly noticeable that the relative cost of collective dismissal in the Nordic economies appears to be either similar to or weaker than in the US, the UK, and Canada. However, this is misleading: this measure shows the *relative* cost of collective dismissals. Table 1 overleaf shows the relative rankings in 2013, with the UK highlighted alongside the US and Canada as lightly regulated labour forces, and Germany, France and Italy as some of the most highly regulated labour markets in the OECD.

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Table 1: Employment protection indicators across the OECD 2013

Individual protection		Collective dismissal*		Temporary work	
United States	0.5	New Zealand	0.0	Canada	0.2
Canada	0.9	Chile	0.0	United States	0.3
UK	1.1	Finland	1.6	UK	0.5
New Zealand	1.4	Israel	1.9	New Zealand	0.9
Hungary	1.5	Korea	1.9	Australia	1.0
Ireland	1.5	Portugal	1.9	Ireland	1.2
Switzerland	1.5	Czech Republic	2.1	Netherlands	1.2
Australia	1.6	Sweden	2.5	Sweden	1.2
Japan	1.6	Norway	2.5	Iceland	1.3
Estonia	1.7	Australia	2.9	Japan	1.3
Slovakia	1.8	Estonia	2.9	Switzerland	1.4
Mexico	1.9	Denmark	2.9	Israel	1.6
Spain	2.0	Poland	2.9	Denmark	1.8
Iceland	2.0	UK	2.9	Germany	1.8
Belgium	2.1	United States	2.9	Finland	1.9
Denmark	2.1	Canada	3.0	Hungary	2.0
Austria	2.1	Turkey	3.1	Czech Republic	2.1
Greece	2.1	Spain	3.1	Austria	2.2
Poland	2.2	Netherlands	3.2	Mexico	2.3
Turkey	2.2	Austria	3.3	Portugal	2.3
Norway	2.2	Japan	3.3	Poland	2.3
Israel	2.3	Greece	3.3	Belgium	2.4
Luxembourg	2.3	Slovakia	3.4	Chile	2.4
Korea	2.3	Slovenia	3.4	Slovakia	2.4
Finland	2.4	France	3.4	Korea	2.5
Slovenia	2.4	Ireland	3.5	Slovenia	2.5
Italy	2.4	Iceland	3.5	Italy	2.7
Sweden	2.5	Germany	3.6	Greece	2.9
Chile	2.5	Hungary	3.6	Estonia	3.0
France	2.6	Switzerland	3.6	Spain	3.2
Germany	2.7	Italy	3.8	Norway	3.4
Netherlands	2.8	Luxembourg	3.9	Luxembourg	3.8
Czech Republic	2.9	Mexico	4.4	France	3.8
Portugal	3.0	Belgium	5.1	Turkey	5.0
OECD average	2.0	OECD average	2.9	OECD average	2.1

This index measures the difference between the strictness of protections against individual dismissal and the strictness of protections against collective dismissal. A score of zero or a very low figure does not mean that there is no or almost no collective protection – rather, there is no or very little difference in strictness between individual and collective dismissals.

Source: OECD employment protection database.

The longest consistent data series are for protection against individual dismissal and regulation of temporary work, from 1985 onwards, based on the original version of the OECD index. These results have to be somewhat qualified, taking into account the OECD's own strictures about use of such measures as a reliable guide to country comparisons. These longer-term measures are based on the first iteration of the employment protection indices, which have been subsequently updated and improved. The latest measures suggest that the earlier versions tended to underestimate the level of employment protection and regulation, but there is little indication that they have significantly misrepresented the direction of travel for individual economies.

In the rest of the OECD, the main changes since 1985 have been in two areas. Firstly, some but not all countries significantly eased restrictions on the use of temporary work, including Germany, Sweden, Belgium, Italy, Portugal, Spain and Greece. Secondly, a small number of countries reduced individual protections significantly, including Spain, Portugal and Greece, which in the mid-1980s had very high levels of individual protection. But in most of the rest of the OECD, movement was limited and, for many countries, levels of protection against individual dismissal in 2013 were not that different from those prevailing 30 years ago.

The financial crash of 2008 has put additional pressure on some OECD countries in southern and eastern Europe to further deregulate their labour markets, with structural labour market reforms being advocated as one way of restoring competitiveness. We have an updated version of the OECD indicator covering the period from 2008 to 2013. This index shows that outside southern and eastern Europe there has been almost no change – with the exception of the UK and the Netherlands. The regulation of temporary contracts has remained almost unchanged in all OECD economies, with some economies slightly tightening regulation, including Sweden, Germany and the UK; nor has there been any change in the relative cost of collective dismissal. In southern European economies some of the changes have come about through changes in the powers granted to courts rather than specific changes in employment protections. For example, in Italy a reform introduced in 2012 limited the ability of courts to order reinstatement in the most serious cases of unlawful dismissal.

In the rest of this report we have compared levels of employment protection against three sorts of indicators:

- economic and labour market statistical measures across the OECD and the EU, including productivity, employment rates, working hours, the extent of low pay and unemployment measures
- composite indicators developed by the OECD to measure job quality, job strain and labour market insecurity
- European employee surveys covering worker perceptions of job quality and job security.

Where appropriate, we have brought these different measures together – for example, we can look at whether the UK really is a long-hours labour market, as popular perception often claims, and how satisfied employees are with their working hours and with their work–life balance. Sometimes the indicators will tell somewhat different stories – for example, on employment security measured by objective statistical measures and by subjective employee perceptions of how easy it would be to get another job. There is also an imbalance between the range of 'hard' statistical indicators and the 'soft' indicators of employee attitudes. Although there are many surveys of the workplace, most are partial and non-comparable and virtually none ask the sort of questions across a large number of countries that is needed for this sort of exercise. What we do have is limited to Europe.

The critical feature of flexible labour markets is that they quickly reallocate labour from declining sectors and failing enterprises to areas of new employment opportunities. This allows them to generate high levels of employment and lower unemployment. Critics point out they may also lead to greater wage inequality and insecurity, especially for those with little bargaining power, and encourage a 'hire and fire' culture that militates against long-term investment in skills and weakens commitment and loyalty to firms. We might, for example, find that countries such as the UK, which score well on labour market flexibility indicators and have high levels of employment and low levels of unemployment, score badly on measures of productivity and workplace-based measures such as job satisfaction, job insecurity and engagement.

The OECD Employment Outlook for 2013 presents a comprehensive review of the literature. Many studies in the past have failed to find a link between the strictness of employment protection legislation

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on aggregate employment and unemployment. The reason for this, it was said, is that while strict employment protection made firms reluctant to hire, it also made it difficult for them to fire, with the two effects more or less cancelling each other out over time. However, more recent work suggests small but negative impacts primarily because of the reduction in the efficiency with which labour can be reallocated.

Regulation can also lead to substitution amongst different groups in the labour market if protections favour one group over another. Some studies which look at partial liberalisation for some groups but not others have shown significant substitution effects – for example, temporary workers replacing permanent workers when restrictions on temporary workers are eased but permanent workers remain highly protected. Employers expand temporary work at the expense of permanent contracts, so the share of permanent jobs in the workforce declines.

Partial liberalisation appears to be less of a problem in the handful of countries which have what the OECD calls a ‘unified contract’ (UK, Ireland and New Zealand), where the approach over time has been to apply a single set of rights that cut across all forms of contract. In more complex systems, especially in the EU where high levels of protection for some in work have been well established and enshrined in both legal and collective bargaining processes, moves towards a unified contract can be hard to implement. In these countries partial liberalisation may have undesirable unintended consequences.

Regulation is thought to deter productivity growth by reducing the ability of the economy to reallocate resources effectively, meaning they are used less efficiently than would otherwise be the case. Some studies point to reduced returns on investment to the employer as a result. Others have argued that restrictive measures have the greatest impact in fast-moving industries such as ICT, where frequent workforce adjustments are required to keep pace with rapid changes in markets and work organisation. As a result, economies with restrictive regulation will tend to specialise in less dynamic industries. Productivity could also be affected if firms decide to go for less risky incremental improvements rather than endure the cost and risk of more disruptive changes that offer bigger gains.

Some studies that find negative impacts are more tentative than others and there is clearly a major challenge in separating out employment protection effects from all the other factors that might impact on productivity. Moreover, there are also counterarguments that suggest high levels of employment protection may induce firms to make productivity-enhancing investments and incentivise workers to invest in firm-specific human capital. The balance of studies nonetheless suggests some negative impacts, primarily through higher costs of adjustment.

Employment protections ought to increase job security for existing workers, especially those in permanent contracts and those covered by collective agreements. But as the OECD notes, *‘the empirical relationship between EPL and job security is however complex’*.[10] One study shows that workers feel more insecure in countries with strict employment protections, while another shows that workers feel they are in less danger of losing their jobs in countries which constrain dismissals. These findings can be reconciled because, while strict protection makes incumbents feel safer, it also makes them more anxious about the consequences should they be dismissed.

Comparisons of this sort can also be tricky because we are comparing subjective views between groups of workers in different countries rather than objective measures. Moreover, answers may be driven as much by the state of the external labour market at the time as the workplace status quo – so in recent years we will have seen heightened concerns about job security in some southern European economies even where there has been no change in the degree of protection afforded to permanent workers. The OECD has recently published a job security index which draws on more objective measures and we report on these results later in this report.

The relationship between regulation and wages also appears complex. An insider–outsider relationship might suggest that workers who are more protected may earn higher wages than those who are not, and there is some evidence to suggest this might be true.[11] OECD research suggests that productivity gains from relaxing dismissal restrictions in industries with a high rate of labour reallocation show up in lower prices rather than higher wages.[12] Employment protection could also reduce the wage premiums associated with voluntary job changes, but again the OECD finds the relationship to be ambiguous.

Life would be much easier for both policy-makers and practitioners if the literature was clearer cut. But employment relationships are complex and how they play out in the workplace depends on factors which are hard to capture and the impact of regulation can depend on national and institutional settings. Overall, we would argue that it is more plausible that employment protection regulation has a measurable and significant impact on employment levels, unemployment and the distribution of employment opportunities rather than a major impact on productivity.

In the next section we look at how the UK measures up on the indicators listed above.

Employment regulation and productivity

The literature on the relationship between employment protection and productivity levels suggests that the higher employment protection economies would have lower levels of productivity and/or were exhibiting less dynamism in other ways. To the extent there has been some convergence towards US levels of employment regulation, we might have also expected some convergence towards US productivity levels. We might also find that, on average, lightly regulated economies were doing better than more tightly regulated economies. However, we have to take account of different levels of economic development – we would, for example, expect productivity levels to be significantly lower in countries which are still in the process of catching up the G7.

The relative positions of the EU economies and the US do not seem to have greatly changed between 1993 and 2013, according to OECD estimates of GDP per hour worked. The main exceptions were some low productivity eastern European economies such as Hungary, Poland and Estonia as well as Turkey and Chile, which have closed some of the gap against the US and the rest of the OECD. There was also a big increase in productivity levels in Ireland, associated with strong inward investment by multinationals.

It is not obvious that being a lightly regulated labour market is associated with faster productivity growth relative to the United States. Comparing 1985 and 2013, relative productivity compared with the US fell in New Zealand, Canada and the UK and remained about the same in Australia. Among the more highly regulated economies, relative

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Table 2: Productivity and employment protection in 2013

GDP per hour US=100		Employment protection index (scale 0 to 6)	
Norway	130	New Zealand	1.0
Luxembourg	124	United States	1.2
United States	100	Canada	1.5
Belgium	95	UK	1.6
Denmark	92	Chile	1.8
Netherlands	92	Australia	1.9
France	92	Estonia	2.1
Germany	90	Hungary	2.1
Ireland	87	Japan	2.1
Switzerland	85	Ireland	2.1
Sweden	83	Switzerland	2.1
Austria	82	Israel	2.2
Australia	82	Finland	2.2
Spain	78	Korea	2.2
Finland	75	Norway	2.3
Canada	74	Spain	2.3
Italy	73	Denmark	2.3
UK	70	Slovakia	2.3
Iceland	65	Austria	2.4
Japan	62	Poland	2.4
Slovenia	61	Greece	2.4
New Zealand	59	Sweden	2.5
Israel	55	Turkey	2.5
Slovakia	55	Iceland	2.5
Greece	53	Mexico	2.6
Czech Republic	48	Czech Republic	2.7
Portugal	47	Slovenia	2.7
Turkey	45	Portugal	2.7
Hungary	44	Luxembourg	2.7
Estonia	43	France	2.8
Korea	43	Italy	2.8
Poland	43	Belgium	2.9
Chile	40	Netherlands	2.9
Mexico	29	Germany	3.0
OECD average	71	OECD average	2.3

Note: Employment protection index is combined scores for protections against individual and collective dismissals of permanent employees only, as at 1 January 2013.
Source: OECD databases.

productivity fell in Italy and increased slightly in Germany and France. Nor is there any sign of convergence against the US by highly regulated economies such as Spain and Portugal, which arguably have made the biggest changes in levels of employment protection since 1995. However, there may be a lagged impact as structural reforms in the labour market can take a significant amount of time to show up in better economic performance.

In the UK, relative productivity improved somewhat between 1985 and 2007, but then crashed between 2007 and 2013, taking relative productivity back to where it was in the early 1990s. To the extent this is linked to the operation of a flexible labour market, it could be argued that in the UK, having a deregulated labour market has been good for jobs but bad for productivity. Nonetheless, it is a point worth considering that while the UK has plenty of numerical flexibility – the ability to hire and fire – it may have too little functional flexibility related to work organisation and skills which are associated with better productivity.

Table 2 shows the relative productivity for all OECD economies in 2013 and the latest version of the OECD index showing the strictness of employment protection. Highlighted are the three lightly regulated economies of the US, UK and Canada (in yellow) and the highly regulated economies of Germany, France and Italy (in blue). This looks like a story of US exceptionalism. Germany and France are close to US productivity levels despite being at the opposite end of the employment protection index. Italy's productivity looks similar to the UK and Canada. Looking at other countries with higher productivity than the UK, the vast majority have greater employment protections.

This does not necessarily mean that the linkages between employment protection and productivity levels either do not exist or are not important. There are many factors that influence productivity growth, and it may be that any gains from labour market deregulation have been offset by losing ground in other areas, such as skills. Similarly, it may be that high productivity but tightly regulated economies are missing out on even higher productivity levels as a result of excessive restrictions. Even so, we can see no obvious association between productivity performance and the degree of employment protection.

Labour market outcomes

In this section we look at both the overall quantity of employment measured by the employment rate (the share of the working age population in a job); signs of labour market inefficiency, such as the incidence of long-term unemployment; and measures of the composition of employment which might reasonably be affected by the degree and nature of employment protection. We might expect lightly regulated economies to be better at generating jobs and experiencing lower unemployment over time than highly regulated economies. We might also expect the incidence of long-term unemployment to be lower in lightly regulated economies, reflecting faster adjustments to economic shocks – in other words, people get a new job more quickly if they are dismissed.

Table 3: Employment protection, employment rates and long-term unemployment in 2013

Employment protection index		Employment population ratio		Share long-term unemployment	%
New Zealand	1.0	Iceland	85.7	Korea	<1
United States	1.2	Switzerland	82.3	Mexico	2
Canada	1.5	Japan	79.7	Norway	9
UK	1.6	Norway	77.9	New Zealand	12
Chile	1.8	New Zealand	77.3	Canada	13
Australia	1.9	Sweden	76.9	Israel	13
Estonia	2.1	Netherlands	76.0	Sweden	17
Hungary	2.1	Canada	75.2	Australia	19
Japan	2.1	Germany	75.0	Austria	24
Ireland	2.1	Australia	74.6	Denmark	25
Switzerland	2.1	Denmark	74.3	Finland	21
Israel	2.2	UK	73.8	Iceland	22
Finland	2.2	Austria	73.7	Turkey	24
Korea	2.2	Estonia	71.3	United States	26
Norway	2.3	US	71.2	Luxembourg	30
Spain	2.3	Finland	70.0	Netherlands	36
Denmark	2.3	Israel	70.0	Poland	37
Slovakia	2.3	Korea	69.7	Switzerland	33
Austria	2.4	Czech Republic	69.0	UK	36
Poland	2.4	Luxembourg	66.5	Japan	41
Greece	2.4	Chile	66.5	Belgium	46
Sweden	2.5	France	64.7	Czech Republic	45
Turkey	2.5	Portugal	64.6	Estonia	45
Iceland	2.5	Slovenia	64.5	France	40
Mexico	2.6	Mexico	64.0	Germany	45
Czech Republic	2.7	Belgium	62.4	Hungary	50
Slovenia	2.7	Ireland	62.0	Slovenia	51
Portugal	2.7	Poland	61.0	Spain	50
Luxembourg	2.7	Slovakia	60.2	Portugal	56
France	2.8	Hungary	58.9	Italy	57
Italy	2.8	Italy	57.5	Ireland	61
Belgium	2.9	Spain	56.0	Slovakia	67
Netherlands	2.9	Turkey	50.8	Greece	68
Germany	3.0	Greece	50.0		
OECD average	2.3	OECD average	68.4	OECD average	35

Notes: Long-term unemployment is 12 months or more as a share of total unemployed. Employment rate is share of working age population in employment.
No estimate available for Chile.
Source: OECD employment databases.

The working age employment rate shows a mixed picture. If we look at the least regulated economies in the OECD (New Zealand, US, Canada, UK, Chile, Australia), all of them except for Chile have above-average employment rates. But so did more tightly regulated Sweden, the Netherlands and Germany, and all of these economies had higher employment rates than the US and the UK. Indeed, the US looks distinctly mid-table, ranking 15 out of the 33 OECD economies. However, among the most restrictive economies, the employment rate was below average for France, Italy, Belgium and Portugal. So while the balance is not overwhelming, there does appear to be an association between lower employment rates and more restrictive labour markets.

The association seems more clearly in favour of lighter regulation for long-term unemployment (defined as out of work for more than 12 months). The share of long-term unemployment tends to increase as overall unemployment rises, as by definition the inflow is bigger than the outflow. However, the share of long-term unemployment is significantly lower in some less restrictive labour markets (Canada, US, Australia, New Zealand) than in more restrictive labour markets (France, Germany, Italy, Spain, Portugal, Greece). In 2013 the UK sat between the middle of these two groups, ranking joint 16 out of 33 countries.

Young people

Young people may be one of the groups that labour market protections discriminate against, partly because of the reduction in the rate of new hires and partly because young people's competitive position in the labour market is weak relative to older age groups with more experience. The story is mixed. Germany has one of the lowest youth unemployment rates in the OECD, alongside Japan. Canada and the US sit roughly mid-table – not the worst performers but not the best either. The UK and France are in the lower third, and Italy has very high rates. The UK's performance is poor compared both with the rest of the OECD and with other lightly regulated economies – ranking 22 out of 33.

However, this measure flatters the UK. Youth unemployment rates can be misleading because of big variations in the share of the youth population in full-time education. Countries where a very high share of young people enter some form of full-time higher and further education have small youth labour markets with a disproportionate share of the most disadvantaged. A better comparative measure is the youth unemployment ratio, which shows unemployed young people as a share of the total population. These are published for the EU28 by the European Commission, and we have added TWF estimates for the US, Canada and Japan from national databases.

Youth unemployment population ratios show much less country to country variation than unemployment rates. While it confirms the high rates of unemployment in some southern European economies, and the very low rates for Germany and Japan, there is no obvious relationship with the degree of regulation elsewhere. Canada, the US, France and Italy all have similar youth unemployment ratios and all do better than the UK. The UK's relative performance becomes even worse on this measure, slipping to 24 out of 30 countries for which we have comparative data. It is possible other forms of regulation may have more of an impact on the youth labour market, such as minimum wages, but we do not find a strong association between the more representative youth unemployment ratio and the degree of employment protection, except in some southern European

Table 4: Employment protection and unemployment among the young

Employment protection		Youth unemployment rate	%	Youth unemployment ratio	%
New Zealand	1.0	Japan	7	Japan*	3
United States	1.2	Germany	8	Germany	4
Canada	1.5	Austria	9	Austria	5
UK	1.6	Norway	9	Czech Republic	6
Chile	1.8	Switzerland	9	Belgium	7
Australia	1.9	Korea	9	Hungary	7
Estonia	2.1	Mexico	9	Estonia	7
Hungary	2.1	Iceland	11	Lithuania	7
Japan	2.1	Israel	11	Malta	7
Ireland	2.1	Netherlands	11	Romania	7
Switzerland	2.1	Australia	12	Slovenia	7
Israel	2.2	Denmark	13	Denmark	8
Finland	2.2	Canada	14	Bulgaria	8
Korea	2.2	Chile	16	Netherlands	8
Norway	2.3	New Zealand	16	Canada*	9
Spain	2.3	US	16	France	9
Denmark	2.3	Luxembourg	16	Latvia	9
Slovakia	2.3	Estonia	18	Poland	9
Austria	2.4	Turkey	19	Slovakia	10
Poland	2.4	Czech Republic	19	Finland	10
Greece	2.4	Finland	20	United States*	10
Sweden	2.5	UK	21	Italy	11
Turkey	2.5	Slovenia	22	Ireland	11
Iceland	2.5	France	24	UK	12
Mexico	2.6	Sweden	24	Sweden	13
Czech Republic	2.7	Hungary	27	Portugal	14
Slovenia	2.7	Poland	27	Croatia	15
Portugal	2.7	Belgium	30	Cyprus	15
Luxembourg	2.7	Ireland	30	Greece	17
France	2.8	Slovakia	34	Spain	21
Italy	2.8	Italy	40		
Belguim	2.9	Portugal	38		
Netherlands	2.9	Spain	55		
Germany	3.0	Greece	58		
OECD average	2.3	OECD average	17	EU28 average	10

Note: Youth unemployment rate is share of unemployed in the youth labour force (in work and unemployed). Youth population ratio is share of unemployed in the youth population (in work, unemployed and economically inactive).
Sources: EU Commission for EU28; TWF estimates from national data for the US, Japan and Canada.

economies. It would seem young people have not greatly benefitted from the UK's flexible labour market, although if weaknesses in the education and training system and its interface with the world of work have been largely responsible for the problems facing young people, the counterfactual could be even worse youth unemployment.

Job and employment security

The issue of job insecurity has gained a great deal of traction in the public debate in the UK through the growth of zero-hours contracts – although we do not know for sure by how much they have expanded. Across the EU in particular there has been general concern at the growth in temporary labour in some economies (although across the EU28 temporary work has contracted, both in absolute terms and as a share of employees since 2008). About 50% of the expansion in employment in the UK since 2010 has been in less secure forms of employment, such as self-employment, temporary work, family workers and government employment and training schemes.

It is worth distinguishing between employment security and job security. Employment security is a measure of how quickly workers can find another job at roughly comparable rates of pay, while job security is how secure they feel in their current employment. According to the literature, employees may have high levels of job security in their existing permanent job as a result of strong employment protection but have low levels of employment security if they think they will struggle to either get back into work at all, or can only get less skilled and lower-paid temporary work.

Most information on employment and job security comes from asking individuals about their perceptions in surveys. There are hardly any that cover the OECD on a comparable basis, so most information comes from EU-level surveys. We draw on two in this report – a large-scale one-off survey undertaken for the EU's Eurobarometer series in spring 2014 and the 2010 European Working Condition Survey, a regular survey carried out every five years by the Eurofound[13] EU research centre.

The OECD has recently published an index based on estimates of the risk of becoming unemployed[14] and the relative generosity of unemployment insurance measured as a share of previous earnings – the latter is intended to capture the expected earnings loss on average from being unemployed. The OECD index for 2012–13 shows that employment insecurity is extremely high in some southern and eastern European economies, such as Spain, Greece, Hungary and Poland, driven by very high job insecurity and relatively less generous unemployment benefit. However, most of these economies also tend to rank highly on the employment protection index and the suggestion is that high levels of protection increase job security but decrease employment security. We find that the relationship is less straightforward.

The UK and the US score badly on the OECD's employment insecurity index, ranked at 25 and 26 as

Table 5: Employment insecurity across the OECD in 2013

Unemployment risk		Unemployment insurance % average earnings		Insecurity index	
Luxembourg	3.1	Finland	79.1	Norway	1.0
Norway	3.1	Iceland	75.6	Switzerland	1.1
Korea	3.4	Switzerland	74.7	Iceland	1.2
Netherlands	4.3	France	74.5	Netherlands	1.3
New Zealand	4.6	Netherlands	69.7	Finland	1.6
Switzerland	4.6	Norway	69.0	Luxembourg	1.7
Austria	4.6	Ireland	66.5	Austria	1.8
Mexico	4.8	Germany	62.7	France	2.0
Japan	4.9	Austria	60.8	Germany	2.3
Iceland	5.1	Denmark	46.7	Korea	2.6
Australia	5.5	Belgium	46.4	Australia	3.1
Israel	5.8	Australia	44.8	New Zealand	3.5
Czech Republic	6.1	Luxembourg	44.4	Denmark	4.0
Germany	6.3	Sweden	44.3	Czech Republic	4.1
Portugal	6.7	Slovenia	38.3	Israel	4.2
Denmark	7.6	US	37.0	Japan	4.2
Finland	7.7	UK	34.9	Portugal	4.3
Italy	7.4	Portugal	35.9	Sweden	4.5
Canada	7.6	Hungary	33.8	Belgium	4.7
France	7.8	Canada	33.3	Mexico	4.8
Chile	8.1	Czech Republic	32.5	Canada	5.1
Sweden	8.1	Spain	32.3	Slovenia	5.2
Slovenia	8.5	Israel	28.2	Italy	5.4
Belgium	8.7	Italy	27.0	Ireland	5.5
UK	9.2	New Zealand	23.7	UK	6.0
US	10.4	Korea	22.4	US	6.5
Poland	11.1	Poland	19.2	Chile	7.4
Turkey	11.6	Estonia	14.8	Hungary	8.6
Hungary	12.9	Greece	14.8	Poland	9.0
Slovakia	14.3	Japan	14.5	Turkey	10.9
Estonia	16.1	Chile	8.1	Slovakia	13.2
Ireland	16.4	Slovakia	7.9	Estonia	13.8
Greece	16.5	Turkey	6.4	Greece	14.1
Spain	25.3	Mexico	0.0	Spain	17.1

Notes: Unemployment risk is probability of becoming unemployed and average duration of unemployment. Unemployment insurance is average unemployment-related benefits, including housing related, as a share of average earnings. Insecurity index combines these measures.
Source: OECD Employment Outlook 2014.

most insecure out of the 32 OECD economies. The main reason is higher risks of unemployment – the UK and the US sit about mid-table when it comes to unemployment insurance. This is a little surprising, as the UK Jobseeker's Allowance (JSA) rates are very low compared with many other OECD countries. However, once housing-related benefits are taken into account, the UK system looks somewhat more generous overall and gives the UK a mid-table position – roughly the same as the US and Canada, better than Italy and Japan, but worse than France and Germany.

The UK and the US score badly on the risk of unemployment – which the OECD defines as the risk of being unemployed times the probability of duration – as might be expected in more flexible labour markets, as a key impact of employment protection is to reduce the possibility that workers will be dismissed and a key advantage of lightly regulated economies is that workers are reallocated to new jobs more frequently. However, all the other G7 economies (Canada, Italy, Germany, France and Japan) have significantly lower scores on this measure, as do other low employment protection economies such as New Zealand and Australia.

The OECD combines these two measures into a single index called labour market insecurity. These confirm the relatively lowly position of the UK and the US compared with other G7 economies and other lightly regulated labour markets. It is no great surprise that economies such as Spain and Greece suffer from intensive labour market insecurity, given both high unemployment and very high shares of long-term unemployment. However, workers in the UK and the US do appear to be paying a somewhat high price for flexibility in terms of employment insecurity compared with the rest of the G7 and some other lightly regulated economies.

Another measure of employment security is to look at how much employment is in insecure forms of employment such as temporary work and self-employment. This is a proxy measure, as the assumption that all forms of non-permanent work are insecure or contingent and that all forms of permanent contract are secure is not one that always holds, especially in economies such as the UK where the differences between the protections offered to permanent and temporary workers are relatively small. In 2005, the US Bureau of Labor Statistics undertook a special survey of all those in employment. The survey found that some permanent workers should be regarded as contingent because they thought their jobs would not last very long and some self-employed should not be counted as insecure because they had stable long-term trading relationships with a single major client.[15]

The OECD has found, however, that in countries with strict employment protection for permanent workers, employers tend to use both temporary workers and 'dependent' self-employed as substitutes depending on circumstances to circumvent permanent worker protections.[16] In principle, it could be argued that if the authorities make it very easy to hire temporary workers, employers will hire more of them and increase the casualised workforce. However, it is the gap between the protection of temporary workers and permanent workers that seems to matter more – the bigger the gap, the more incentive employers have to employ more temporary workers.

By comparison with other OECD countries, the UK has a very high share of permanent employment – around 80% of all those in work in 2013 were on a permanent contract. This is one of the very few labour market indicators in which the UK has a top-ten finish, ranking seventh out of the 31 OECD economies for which we have comparable data. The US also has a very high share.[17] Germany is not far behind the UK, although the share has been falling in recent years, with a significant expansion of temporary work. However, the share of permanent employment is much the same in lightly regulated Canada as it is in tightly regulated France. There is a clearer picture for southern and some eastern European economies, where permanent work varies from between 64% in Italy to just 56% in Poland. This is also where some of the Nordic economies (Sweden and Finland) appear to do less well, with significantly fewer permanent jobs than in the UK or the US.

What also matters is whether temporary work is being provided because employers need the extra flexibility or because people want to take advantage of the flexibilities that temporary work can offer. We only have consistent data from the European Labour Force Survey on whether temporary work is involuntary. However, we have to be careful in interpreting this answer, as the EU estimates exclude 'some other reason' and in the UK data about one third of all respondents gave this as an answer. Moreover, we are not completely confident that we are always comparing like for like in some of the country responses.

In almost all EU states, including the UK, the share of 'involuntary' temporary workers is high and the share of people who did not want a permanent job is low. In 2013 about 55% of temporary workers in the UK said they only took a temporary job because no permanent job was available, which is slightly below the EU average of 61%.[18] The UK nonetheless does reasonably well on this measure – somewhat better than France and much better than Italy, where over 70% of those on temporary contracts say they wanted a permanent job, and

Spain, where over 90% said they wanted a permanent job. The share of involuntary temporary workers varies somewhat with the economic cycle in some EU states: in the UK the share is edging back towards the pre-recession rate of around 40%. However, in many other European states, high shares of involuntary temporary working appear to be a structural feature of labour markets where access of temporary workers to permanent work is limited. The current high shares seen in countries such as Italy, Greece, Spain and Portugal are little different from those rates that prevailed before the recession.

Germany at first glance appears to have embraced temporary work, with only 21% saying they took a temporary job because they could not find permanent work. This is misleading: in Germany most people say they were in temporary work because of education or training or because of a probationary period. These two reasons accounted for 75% of responses from temporary workers in Germany compared with just 17% in the UK. If we were to take the answers at face value, there is much less appetite among German workers for temporary work than in the UK: the share of temporary workers in Germany who were doing temporary work because they did not want a permanent job is tiny – only 4% of respondents, against 28% in the UK. Similarly, in the Netherlands 44% of temporary workers say it is because they are serving a probationary period compared with just 6% in the UK. However, it is hard to know how far these variations reflect underlying differences in the structure and use of temporary work and how far they reflect different national perceptions of temporary work and hence the responses to the question.

Table 6: Permanent jobs, involuntary part-time and temporary employment

Permanent jobs (share of total) OECD 2013		Involuntary part time (% of all part-time) OECD 2013		Involuntary temporary (% of all temporary) EU28 2013	
Estonia	88	Norway	6	Austria	8
Norway	85	Switzerland	6	Germany	21
Luxembourg	84	Netherlands	7	Estonia	35
US	83	Austria	9	Netherlands	40
Denmark	83	Slovenia	9	Croatia	50
Australia	79	Luxembourg	9	Malta	51
Austria	79	Belgium	10	Denmark	51
Slovakia	79	US	12	UK	55
Hungary	79	Israel	13	Slovenia	56
UK	79	Germany	13	Sweden	56
Belgium	78	Denmark	14	France	60
Germany	77	UK	17	Lithuania	64
Japan	75	Czech Republic	18	Ireland	65
Iceland	75	Japan	18	Finland	65
Ireland	74	Estonia	19	Poland	66
Czech Republic	74	Poland	19	Latvia	68
France	74	New Zealand	23	Bulgaria	70
Sweden	74	Sweden	23	Italy	73
Canada	73	Finland	26	Hungary	73
Finland	73	Canada	27	Czech Republic	76
Switzerland	73	Australia	32	Belgium	77
Slovenia	69	Ireland	32	Slovakia	85
Netherlands	66	Hungary	34	Portugal	86
Italy	65	Portugal	35	Romania	88
Spain	63	France	36	Greece	88
Portugal	63	Greece	47	Spain	92
Greece	58	Italy	49	Cyprus	95
Korea	56	Slovakia	63		
Poland	57	Spain	66		
Turkey	56				
Mexico	51				
Chile	49				

Note: Permanent employee jobs as share of total employment. Involuntary part-time share of people in part-time work (including self-employed) who said they wanted a full-time job. Involuntary temporary work share of all temporary employees who said they wanted a permanent job, excluding response 'other reasons'.
Source: OECD employment databases, Eurostat, TWF estimates.

We also suggested that countries with strong employment protections might have high levels of involuntary part-time workers, especially in dual labour markets, while noting that in some labour markets the share of involuntary part-time goes up and down with the cycle. We find similar results for temporary work. Involuntary part-time working in 2013 was relatively low in the US and Germany, followed by the UK, which was roughly mid-table. Involuntary part-time working was relatively high in Canada, and very high in France and Italy, where 36% and 49% of part-time workers said they took a part-time job because no full-time work was available. As with temporary work, involuntary part-time work looks more of a structural than a cyclical feature of some southern European economies, and this is consistent with a dual labour market, which has the effect of restricting opportunities for full-time and permanent work.

The 2010 European Working Conditions Survey asks two questions about employment and job security. The first asks whether people think they might lose their job in six months' time. The second asks whether people think it will be easy for them to find a job at a similar salary. Both answers will clearly be influenced by the overall labour market position and the incidence of short tenure employment as well as the strictness of employment protection. It should also be kept in mind that the sample size for some of the smaller countries is low – for example, in Malta, Cyprus, Estonia and Luxembourg, the results are based on less than 100 interviews. We have kept them in the comparative tables for comprehensiveness but would caution about putting much weight on them.

Given the UK's relatively low score on labour market insecurity shown above (Table 5), we might expect workers to be more fearful of losing their jobs than in countries with strict employment protection. This is not supported by the survey evidence. Workers in the UK in 2010 did not seem to be much more fearful than workers in countries with stricter employment protections. The share of people who said their job might end in six months was similar in the UK, Germany, France and Italy at 12–14% of all respondents.

Moreover, workers in the UK in 2010 along with the Nordics and the Netherlands were relatively more optimistic than in most other European countries that they would easily find another job at a similar wage. Over 40% of respondents in the UK said they were either very optimistic or optimistic that they could find another job at a similar wage. French workers also seemed equally optimistic, while German and Italian workers were much less so, with 30% and 24% saying they would find it hard to find another job at the same wage. The response in Germany may have been influenced by the increase in part-time and low-paid work in Germany over the past decade.

The relative optimism of UK workers might look odd given the emphasis on wage flexibility in the UK as a response to the recession between 2008 and 2010 and the poor ranking of the UK on the OECD labour market insecurity measure. However, wages seem to have been much more depressed for new entrants to the labour market than for those already in work who change jobs.[19] Moreover, the response to this question follows a 40–40 pattern in the UK and some other European economies. Almost as many people think it would *not* be easy to get another job at a similar wage than those who think it would be easy. A large share of the UK workforce (41%) in 2010 feared that they could not get a job at a similar wage rate. The share of the workforce

'Given the UK's relatively low score on labour market insecurity, we might expect workers to be more fearful of losing their jobs than in countries with strict employment protection. This is not supported by the survey evidence.'

who did not agree that it would be easy to get another job at a similar wage in the UK was not very different from that reported by workers in the Nordics and the Netherlands and was similar to France.

We might expect that in the UK we would see a bigger increase in people saying they might lose their job than in more tightly regulated economies, reflecting the greater ease firms have in firing workers. We do not find this to be the case. The 2005 European Working Conditions Survey has the same question about whether people expect to lose their job in the next six months. Job insecurity increases in France, the UK and Italy between 2005 and 2010 by about the same amount in percentage points, though with relatively little change in Germany. One factor that may have influenced the 2010 response is that fewer people are moving job – there seems to have been a decline in job separations in the UK and elsewhere since 2008 and a consequent increase in the average length of employment relationships measured by the duration of employment with the current employer. Similar trends have been seen in Germany, France and Italy, where average job tenures have also increased. A small number of countries show a dramatic increase in job insecurity, notably Ireland and Spain, and a few, such as the Netherlands and Poland, seem to have moved in the opposite direction. But broadly speaking, those countries that had high levels of job insecurity in 2005 were mainly southern and eastern European economies and those with lower levels were those of northern and western Europe and the same was true in 2010.

Table 7: Job and employment security across Europe 2005–10

Job might be lost in 6 months (2005) (% agree)		Job might be lost in 6 months (2010) (% agree)		Easy to find job at similar wage (2010) (% agree)	
France	7	Denmark	10	Norway	57
UK	7	Norway	10	Netherlands	48
Denmark	8	Austria	11	Denmark	45
Austria	8	Germany	12	Finland	45
Italy	9	France	12	Sweden	45
Belgium	9	UK	13	UK	43
Ireland	9	Italy	14	Belgium	42
Germany	12	Netherlands	14	France	40
Slovakia	13	Slovakia	14	Poland	38
Finland	13	Belgium	16	Slovenia	35
Spain	14	Finland	16	Austria	31
Romania	17	Portugal	18	Italy	30
Netherlands	18	Poland	18	Czech Republic	29
Portugal	19	Greece	19	Greece	25
Sweden	20	Sweden	22	Germany	24
Bulgaria	21	Hungary	24	Spain	24
Greece	21	Romania	24	Slovakia	21
Hungary	22	Spain	25	Bulgaria	20
Poland	25	Ireland	25	Portugal	19
Slovenia	26	Slovenia	27	Ireland	18
Czech Republic	27	Bulgaria	30	Romania	18
		Czech Republic	34	Hungary	15
Average	13	Average	17	Average	32
Norway	No data				

Note: Share who agree/strongly agree with the statements 'I might lose my job in six months' and 'Easy for me to find a job of similar salary'.
Source: 2005 and 2010 European Working Conditions Survey.

3 Employment protection and the quality of work

We have already touched on some aspects of job quality, such as job security. In practice, job quality can cover several different measures. In this section we look at some objective and subjective measures of job quality. Strict employment protection can limit the demand and supply of labour and either reduce employment or increase unemployment, but could it either improve or reduce the quality of work?

Flexible labour markets are frequently criticised for promoting greater wage inequalities, although it could also be argued that they allow more job opportunities to be created at both ends of the wages distribution. As we discussed above, flexible labour markets may have higher levels of employment insecurity, although for the UK this seems more strongly confirmed by measures of actual unemployment probabilities and loss of earnings rather than worker perceptions. Flexible labour markets could also encourage more transactional, shorter and more contingent working relationships where both employees and employers try to minimise mutual commitments to that strictly needed to do the job. As expected, the share of long-term employment relationships lasting at least ten years, measured by job tenure with the current employer, is higher in more tightly regulated labour markets at 45–50% of employees in Germany, France and Italy and 30–35% in the lightly regulated UK, US and Canada.

The OECD has developed three new indicators which are a mixture of aggregate measures of labour market performance and worker perceptions and try to capture earnings quality, labour market insecurity (the indicator described above) and a measure of the quality of the working environment. The OECD argues that levels of earnings and measures of life satisfaction are positively correlated across countries and that overall well-being is higher the greater the equality of earnings. According to the OECD, *'people tend to display an intrinsic dislike of high inequality in society'* – a characteristic called 'inequality aversion'. How strong that aversion might be is, however, hard to determine and in developing the index the OECD has three versions, depending on whether we assume a mild, moderate or high aversion to income inequality. In this report we have assumed moderate income inequality aversion.

The OECD argues that higher levels of worker autonomy, availability of learning opportunities and good working relationships lead to better management of work pressures and difficult tasks, higher levels of job satisfaction and higher productivity, while the absence of these factors impairs health at work and hence depresses performance and increases sickness absence. The OECD 'jobs strain' index tries to capture these features by drawing on the 2010 European Working Conditions Survey and a more dated 2005 survey covering other OECD economies.

The UK comes out roughly mid-table on the earnings quality index, with high earnings somewhat offset by the aversion to inequality. However, there is no obvious association between strict employment protections and earnings quality as measured by the index. Germany does better than the rest of the G7 but the UK, France, Canada, the US and Italy are

'The UK comes out roughly mid-table on the earnings quality index, with high earnings somewhat offset by the aversion to inequality.'

Table 8: Earnings quality (2013) and job strain across the OECD (2005–07)

Earnings quality index		Job strain (% of employees)	
Denmark	24.2	Sweden	14.7
Norway	23.9	Norway	18.2
Switzerland	23.1	New Zealand	19.5
Belgium	21.2	Ireland	21,7
Ireland	21.0	Finland	21.2
Netherlands	19.9	Switzerland	22.4
Luxembourg	19.7	Denmark	23.7
Germany	19.5	Australia	24.1
Finland	18.6	UK	24.2
Sweden	18.0	Netherlands	26.1
UK	17.6	Canada	27.7
Canada	17.0	Belgium	27.8
France	16.7	US	28.1
Australia	16.6	Israel	28.4
US	16.6	Mexico	33.4
Italy	16.4	Estonia	34.8
Austria	16.0	Luxembourg	36.5
Iceland	14.8	Austria	39.1
New Zealand	14.0	Germany	42.3
Greece	13.9	Czech Republic	42.4
Spain	13.6	Italy	42.6
Japan	13.0	Japan	42.5
Slovenia	11.5	France	44.0
Korea	10.0	Slovakia	44.9
Portugal	9.8	Korea	44.9
Poland	9.0	Portugal	45.4
Israel	7.8	Hungary	47.1
Czech Republic	7.7	Slovenia	49.8
Slovakia	7.7	Spain	50.2
Estonia	7.1	Poland	53.2
Hungary	7.1	Greece	58.0
Turkey	5.9	Turkey	67.5
Chile	2.9	Chile	No data
Mexico	2.2	Iceland	No data

Note: Earnings quality index takes account of average earnings growth and earnings inequality assuming 'moderate' social aversion to high levels of earnings inequality. Job strain index combines qualitative indicators on job demands and job resources.
Source: OECD Employment Outlook 2014.

all bunched together, while Japan is significantly worse. The job strain index result is the exact opposite of some of the more critical accounts of the flexible labour market: the UK, US and Canada all have significantly *lower* shares of jobs said to be under strain (24–28%) than Germany, France and Italy (42–44%). The share of jobs under strain in the UK is hardly trivial at 24%, but it is significantly better than in the more strictly regulated major European economies.

This result is confirmed both by other indicators from worker surveys which are discussed in more detail below and by a detailed analysis of the 2010 European Working Conditions Survey by Professor Francis Green and colleagues (although in both cases the results are just for the EU rather than the OECD). Professor Green divides jobs into four categories – high pay good jobs, jobs with a good balance, jobs with a poor balance, and low-quality jobs – using a range of indicators that include earnings, prospects at work, intrinsic job quality and working time quality. Jobs in the first cluster score the highest on most of these indicators and jobs in the fourth category score worst on most of these indicators. The results do not support the view that the UK has an excessive number of bad jobs. Compared with the European average, it has more well-paid good jobs and fewer low-quality jobs. The UK has slightly higher shares of well-balanced jobs compared with the European average and somewhat lower shares of poorly balanced jobs.

As Professor Green notes, however, the view that the UK has poor-quality jobs stems from the employment protection literature, whereas there are other factors that may more than offset the relative weakness of employment protection. Firstly, more affluent countries are more likely to have higher shares of good-quality employment than less affluent countries – the UK, for example, has an unusually high share of managerial and professional jobs. Secondly, in other respects UK workplaces can be quite tightly regulated – for example, the UK has an effective health and safety regime and a low rate of workplace accidents.

The UK has, alongside the Nordics, Ireland and the Netherlands, an exceptionally high share of well-paid good jobs at 24%, compared with 18% in Germany, 15% in France and 8% in Italy. When combined with well-balanced jobs, nearly two-thirds of jobs in the UK (65%) could, on this measure, be regarded as some form of 'good' job. This compares with 54% in Italy and around 50% in France and Germany. In contrast, the UK has relatively few poor-quality jobs – about 10% of the total – compared with 14% in Germany, 17% in France and 18% in Italy. The share of poorly balanced jobs at 25% is also significantly lower than in Germany (37%) and France (33%), and slightly lower than in Italy (28%). Although the UK does better than most other European economies, it still remains the case that about a third of jobs in the UK in 2010 could be described as poor in some respects – either badly balanced or low quality.

The relatively poor quality of employment in Germany is especially surprising – indeed, so surprising we might almost question whether this is an anomaly. It may be that German workers have higher expectations of what a good job should look like than workers in the UK. However, the results are consistent with other qualitative survey results and the OECD's estimate of job strain shown above. Moreover, there has been a significant increase in the share of jobs which pay below the OECD definition of low pay (two-thirds average earnings of full-time employees) in Germany over the past decade, and the share of such jobs in the German labour market in 2012 (18.3%) was not that far behind the UK (20.5%).

There is also not much sign of polarisation – in other words, countries with an above-average share of high-paid quality jobs tend to have a below-average share of low-quality jobs. The exception is Ireland, which had one of the highest shares of well-paid good jobs (32%) and also one of the highest shares of poor-quality jobs (23%).

We can also look at some similar questions in both the 2014

Table 9: Shares of good jobs and poor-quality jobs in 2010 across the EU

Total 'good' jobs	%	Low-quality jobs	%
Netherlands	80	Denmark	7
Denmark	78	Norway	8
Norway	76	Netherlands	10
Sweden	75	UK	10
UK	65	Finland	10
Finland	65	Sweden	12
Belgium	61	Belgium	12
Ireland	61	Germany	14
Austria	58	Austria	16
Italy	54	France	17
Poland	51	Italy	18
France	50	Poland	18
Slovenia	50	Slovakia	19
Germany	49	Slovenia	20
Spain	48	Czech Republic	22
Portugal	47	Ireland	23
Hungary	46	Spain	24
Bulgaria	46	Portugal	25
Slovakia	39	Bulgaria	26
Greece	39	Hungary	27
Czech Republic	39	Romania	30
Romania	37	Greece	32
All countries	51	All countries	20

Note: Total 'good jobs' is sum of high-paid good jobs and well-balanced jobs.

Source: EUROFOUND. (2012) *Trends in job quality in Europe.* Luxembourg: Publications Office of the European Union; TWF estimates.

Eurobarometer and the 2010 EWCS on working conditions in general. Unfortunately, they asked somewhat different questions, so we need to be careful about making direct comparisons. We also have the usual caution about international comparisons using subjective opinions, so we may be picking up differences in national expectations rather than actual conditions. Both the 2014 Eurobarometer Survey and the 2010 EWCS ask a general question about whether people think they have good working conditions.

The 2014 survey shows a remarkably widespread response on the working conditions question, even when we take into account differences in overall living standards – only 16% of workers in Greece thought they had good working conditions in 2014 compared with nearly 90% in Denmark. The UK ranks in the top third, at 78%, somewhat ahead of Germany (71%) and significantly ahead of France (58%) and Italy (25%). The EWCS gives a similar overall picture in 2010, albeit with a different question about whether workers are satisfied with their working conditions, which does not show the same extreme spread as in the Eurobarometer survey. In most countries the vast majority of workers say they are satisfied (over 90% in the UK), so we focus on those who said they were very satisfied. The UK scores exceptionally well on this measure. Just over 39% of workers in the UK said they were very satisfied with working conditions compared with 29% in Germany, 21% in France and just 19% in Italy.

Table 10: Employee satisfaction with working conditions

Good working conditions (% saying good 2014)		Very satisfied with working conditions (2010)	%	Good career prospects (% satisfied 2010)	
Denmark	87	Denmark	51	Malta	49
Luxembourg	86	UK	39	Luxembourg	48
Finland	84	Cyprus	39	UK	47
Netherlands	82	Ireland	39	Ireland	45
Ireland	80	Austria	35	Cyprus	40
UK	78	Malta	34	Belgium	42
Sweden	77	Belgium	32	Denmark	40
Belgium	76	Netherlands	28	Poland	35
Austria	76	Germany	29	Finland	32
Germany	71	Luxembourg	28	France	32
Malta	69	Sweden	26	Netherlands	32
Estonia	63	Spain	23	Slovenia	32
France	58	Finland	21	Greece	30
Cyprus	54	France	21	Latvia	30
Lithuania	50	Croatia	21	Portugal	29
Latvia	47	Poland	20	Sweden	29
Czech Republic	45	Italy	19	Spain	29
Hungary	40	Bulgaria	18	Bulgaria	29
Poland	38	Greece	17	Germany	28
Slovakia	36	Estonia	16	Czech Republic	28
Slovenia	32	Czech Republic	16	Croatia	26
Romania	32	Portugal	16	Estonia	26
Portugal	32	Slovakia	15	Austria	26
Bulgaria	31	Slovenia	14	Italy	25
Italy	25	Romania	12	Hungary	23
Spain	20	Hungary	12	Romania	20
Croatia	18	Lithuania	12	Slovakia	20
Greece	16	Latvia	11	Lithuania	17
EU28 average	53	European average	24	European average	31

Notes: Eurobarometer 2014 survey defined working conditions as working time, work organisation, health and safety, employee representation, and employer relations. The question asked respondents whether from their experience and that of friends and relatives what they thought of working conditions in their country today with categories of good, fairly good, fairly bad or bad. The published results group these responses as 'good', 'bad' and 'don't know'. The EWCS 2010 asked workers to say whether they were satisfied or not with their working conditions and also with their job prospects, including whether very satisfied, satisfied, not very satisfied, and not at all satisfied. The figures for good job prospects combine very satisfied and satisfied.
Source: Eurobarometer 2014; European Working Conditions Survey 2010.

The 2010 EWCS asked workers if they thought their job offered good career prospects. The UK again scores highly at 47%, and well ahead of Germany, France and Italy. Indeed, in 2010 Germans seemed exceptionally downbeat about their job prospects – only 28% said they had good prospects. However, the question also reveals large shares of people in all countries who disagreed with the proposition that their current job offered good prospects. The UK had a lower share of people than in most other EU economies who did not think they had good prospects, but it still constitutes over a third of the UK workforce. Germany, France and Italy all do significantly worse, with around 50% of the workforce saying their jobs do not offer good prospects.

The question is a little ambiguous, as some respondents when asked about good prospects may be thinking not just about their current employer but about more general prospects and their ability to get better jobs with other employers in the future. This in turn will be affected by perceptions of general labour market conditions as much as opportunities for future progression, and as we have noted workers in countries such as Germany, France and Italy are significantly less optimistic about their chances of getting another job on the same pay as their UK counterparts. However, the results for 2005 from the same survey asking the same question do not show much change for any of the four big economies, suggesting the deterioration in the economic climate between 2005 and 2010 has not greatly changed employee perceptions on career progression for good or ill.

Low pay

One of the most consistent criticisms of flexible labour markets is that they encourage the generation of low-paid jobs, where employers have little incentive to improve matters as they settle into a low-pay/low-productivity equilibrium. Employees with little bargaining power have to accept the wages offered, pushing wages down at the bottom and widening wage dispersion. Indeed, in 1998 the National Minimum Wage (NMW) was introduced to prevent this from happening. The current criticism is that while the NMW has done what it can in tackling what is sometimes called extreme low pay, the UK still has a large number of low-paid jobs and the NMW has made little progress in reducing that share. Moreover, in some low-pay sectors the NMW has almost become the going rate so that large numbers of low-paid workers are paid just above the NMW. There has been growing interest in promoting the Living Wage as a more robust response to the low-pay problem.

Others might argue that the alternative is to cut off a segment of the labour market that can provide job opportunities and an escape from unemployment and inactivity, especially for the young and the less well educated. Moreover, while the NMW has been carefully positioned to protect the wages of the most vulnerable without reducing employment opportunities, the Living Wage makes no such allowances and, if implemented on a large scale, could reduce employment for many of the workers it was trying to help. This debate will run and run.

The OECD publishes estimates of the number of low-pay jobs in the economy, which it defines as two-thirds of the wages of full-time workers (the case could be made that a better indicator would be two-thirds of the wages of all workers). The UK does not have the highest share of low-paid jobs in the OECD, as is sometimes claimed, but it certainly sits (un)comfortably in the top quarter of countries with large numbers of low-paid jobs. The US, UK and Canada all have 20–25% of employment in low-paid work compared with 18% in Germany and just 10% in Italy. The share of low-paid jobs is also surprisingly high in Denmark, at 19%. There are no OECD estimates for France, but other more regulated economies such as Spain, Greece and Portugal also have relatively few low-paid jobs, typically 10–15% of total employment.

The number of low-paid jobs in the economy will be affected by the relative level of the minimum wage, though other factors such as industrial structure and the influence of collective bargaining and regulation may be even more important. The relationship between the relative strength of the NMW and the share of low-paid jobs in the economy does not appear to be a very strong one, especially when we look beyond the extremes of countries such as France, where the NMW was 62% of the full-time median, and the US, where it was 28% according to the OECD (the latter may be somewhat understated, because of higher rates in some US states). The UK and Canada have much higher NMWs relative to the median than the US – the UK's NMW was around 47% of median full-time wages, Canada 45% – but all have high shares of low-paid work. In contrast, Japan, which has a relatively low NMW, and Spain and the Netherlands, where the relative level of the NMW is about the same as in the UK, all have much lower shares of low-paid jobs.

Working time

Working time has been regulated in the UK for many years, but mainly for those in specific occupations where excessive hours might prove a danger to the public (with the notable exception of hospital doctors). The Working Time Regulations introduced in 1998 and amended in 2003 mean that most employees can refuse to work beyond 48 hours a week on average over a given period, unless they decide to opt out. This means that in principle working time is less tightly controlled that in many other EU states. In addition, it is argued that in some manual occupations overtime payments have become the accepted way of topping up low hourly rates of pay. The idea that as a result the UK works the longest hours in Europe is widely held: however, at best it is only partially correct.

In 2013 the usual weekly hours worked by employees in the UK were just over 36, in line with the EU28 average. In Germany and Italy the average was slightly less at just under and just over 35 hours, and about the same as the UK in France. Working hours were generally higher in southern and eastern Europe and lower in some of the Nordics and the Netherlands. The UK has somewhat higher working hours for full-time workers: just over 42 hours against an EU28 average of just over 40 hours; and somewhat shorter hours for part-time workers (just over 19 hours compared with just over 20 hours across the EU28).

The OECD has defined long-hours jobs as those involving 50 hours a week or more: by this measure most of the lightly regulated economies (the US, UK, Australia and New Zealand) have more long-hours jobs than in most other OECD economies – though Canada does not. About 12% of employee jobs in the UK involved long-hours working compared with 9% in France, 6% in Germany and 4% in Italy. This is not surprising, as weaker restrictions on the maximum number of hours that employees can work would tend to increase the number of long-hours jobs. However, in the case of the UK another factor could also be the exceptionally high share of corporate managers in the workforce compared with many other EU states, and senior managers tend to have more discretion under the Directive on how long they can work.

Table 11: Usual hours worked and share of long-hours jobs in the OECD

Usual weekly hours 2013		Share of long-hours jobs (50+) 2012	%
Netherlands	29	Netherlands	<1
Denmark	33	Sweden	1
Ireland	34	Denmark	2
Germany	34	Hungary	3
Norway	34	Norway	3
Belgium	35	Canada	4
Italy	35	Estonia	4
Switzerland	35	Finland	4
Sweden	36	Belgium	4
Austria	36	Ireland	4
Australia	36	Italy	4
Finland	36	Luxembourg	4
France	36	Germany	6
UK	36	Greece	6
Luxembourg	37	Slovenia	6
New Zealand	37	Spain	6
Spain	37	Slovakia	6
Estonia	39	Switzerland	7
Hungary	39	Czech Republic	7
Greece	39	Poland	8
Slovenia	39	Austria	9
Iceland	39	France	9
Slovakia	40	Portugal	9
Czech Republic	40	US	11
Poland	40	UK	12
Portugal	40	New Zealand	13
US	41	Iceland	14
Israel	41	Australia	14
Chile	45	Chile	15
Mexico	45	Israel	19
Turkey	50	Japan	23
Canada	No comparable data	Korea	27
Japan	No comparable data	Mexico	29
Korea	No comparable data	Turkey	43

Note: Chile is 2012.
Sources: OECD employment database for usual weekly hours worked by employees; OECD Better Life Index for share of employees working very long hours.

There are more subjective indicators which give us some insight into whether the UK is suffering from excessive working hours. The 2014 Eurobarometer Survey and the 2010 Working Conditions Survey both asked questions about work–life balance. There is nothing in the survey evidence to suggest that UK workers are more discontented about working hours than workers in other major EU states which operate more restrictive regimes and some evidence that they may be somewhat more contented. UK workers are also more likely to say they have a good work–life balance.

The 2014 Eurobarometer asked workers if they were satisfied with their work–life balance. Most workers in most countries gave a positive response to this question, and while the UK was slightly ahead of Germany and France and somewhat ahead of Italy, the differences are not great. The 2010 EWCS question asked workers whether their work–life balance suited them. The UK came out close to the top, second only to Denmark, with 48% of workers responding either very well or well suited. French, German and Italian workers were much less likely to say they had a good balance – France and Germany were around 30%, and in Italy the share was only 17%. These responses may be influenced not just by hours but also by the choice and flexibility that workers feel they have in taking them.

The 2014 Eurobarometer also asked workers if they were satisfied with their working hours. The majority of workers were highly satisfied: the UK came out slightly ahead of France and Germany, and somewhat ahead of Italy. Although the regulation of working time has provoked fierce debate for different reasons in France and the UK, the UK's more liberal regime does not seem to have produced less satisfaction about working hours or work–life balance amongst British workers compared with their French counterparts. Similarly, the stricter regulation in France has not produced better results in terms of worker satisfaction.

Table 12: Satisfaction of workers with work–life balance and working hours

Working hours (share very/satisfied) 2014	%	Work–life balance (share very/satisfied) 2014	%	Work–life balance (share very well/well) 2010	%
Denmark	92	Denmark	89	Demark	58
Netherlands	91	Netherlands	88	UK	48
Finland	90	Belgium	86	Norway	46
Austria	90	Luxembourg	85	Cyprus	45
Estonia	90	Finland	84	Austria	44
Belgium	90	Sweden	84	Ireland	44
Sweden	88	Austria	81	Sweden	43
Luxembourg	87	Ireland	78	Belgium	39
Slovenia	86	Latvia	78	Netherlands	36
Latvia	85	Malta	77	Finland	34
UK	84	UK	77	Luxembourg	33
Bulgaria	84	Slovenia	77	Malta	33
France	83	Estonia	77	France	31
Latvia	83	France	76	Romania	28
Malta	82	Germany	76	Estonia	27
Czech Republic	82	Cyprus	74	Germany	27
Germany	80	Bulgaria	73	Spain	27
Hungary	80	Hungary	72	Croatia	27
Croatia	79	Slovakia	72	Bulgaria	25
Ireland	79	Romania	71	Czech Republic	25
Poland	78	Portugal	71	Poland	23
Portugal	78	Italy	70	Greece	20
Cyprus	78	Poland	70	Slovakia	20
Slovakia	77	Italy	70	Slovenia	18
Romania	76	Latvia	68	Italy	17
Italy	76	Croatia	66	Latvia	17
Spain	67	Spain	63	Portugal	16
Greece	61	Greece	46	Lithuania	14
EU28 average	80	EU28 average	74	European average	29

Source: Eurobarometer 2014, European Working Conditions Survey 2010.

As well as working hours, a key focus of policy and practice in many countries is to promote greater flexibility in the use of working hours. The Eurobarometer survey asks two questions on workplace flexibility: are flexible working arrangements offered, and have they been taken up or will they be used by workers in the future? The question is limited to full-time workers – often (mistakenly) seen as representing the norm or status quo – and the flexible options are going part-time, working at home and flexible working hours. It is sometimes argued that the flexibility of the UK labour market facilitates a diverse range of employment contracts and working arrangements.

There is a big range in the share of workers who say they have been offered these forms of flexible working – from around 80% in Denmark and the Netherlands to 22% in Greece. The UK scores well, with 77% of full-time workers reporting they had been offered one of these flexible options. France also reports a relatively high score, at 69%, but Germany and Italy are much lower at around 60%. Take-up is, understandably, somewhat lower and here the UK's lead vanishes. UK full-time workers are no more likely to have used or are likely to take up in the future flexible work options than workers in Germany or France, although they are somewhat more likely than Italian workers.

There is always more to be done on the UK supply side in terms of persuading more UK employers to offer more and better flexible work arrangements to a higher share of their workforce, but on this measure the UK is already among the leading

Table 13: Flexible working – offers and take-up in 2014

Flexible work offered to full-time employees	%	Flexible work take-up by full-time employees	%
Denmark	82	Sweden	57
Netherlands	80	Denmark	51
Belgium	75	Finland	45
UK	75	Netherlands	47
Luxembourg	73	Malta	40
Malta	71	Estonia	38
Sweden	70	Luxembourg	36
Austria	69	Austria	36
France	69	Slovenia	34
Slovenia	69	Ireland	34
Finland	66	Lithuania	31
Ireland	61	Slovakia	30
Italy	61	Germany	29
Estonia	58	UK	29
Romania	57	Belgium	28
Germany	57	France	26
Lithuania	52	Poland	25
Latvia	49	Czech Republic	24
Poland	49	Latvia	27
Czech Republic	49	Italy	20
Slovakia	45	Croatia	18
Spain	41	Romania	17
Hungary	36	Hungary	17
Croatia	36	Portugal	14
Portugal	35	Bulgaria	13
Bulgaria	25	Spain	12
Greece	22	Greece	9
Cyprus	17	Cyprus	9
EU28	40	EU28	26

Note: Employer offers either part-time, homeworking or flexible working hours to full-time employees. Take-up is share of full-time employees offered at least one of these flexibilities who say they have or would take them up.
Source: Eurobarometer 2014.

EU countries. The problem looks more on the demand side. About 29% of UK full-time workers said they had and would take up one of the offered flexibilities, but this is well behind countries such as Sweden, Denmark and the Netherlands, where 50–60% of the full-time workforce said they had taken up or would take up flexible working.

We have commented on the stalling of the share of the UK workforce in formal flexible working arrangements over the past decade,[20] but there may be good reasons why full-time workers do not want to take some of the flexibilities on offer, not least the large share of jobs with low hourly pay rates in the UK and at present a desire for more hours rather than fewer hours amongst a significant number of people in work. Moreover, the UK already has relatively high shares of part-time working, so we may be bumping up against a limit on how far voluntary part-time work can be expanded as a share of the workforce.

Homeworking is more complicated – although many UK employers do not offer working at home to more than a fraction of their workforce, the UK has by European standards a high rate of occasional homeworking (defined as working at least one day a week at home) and a very low rate of regular homeworking (defined as working at home all the time). However, much of the occasional homeworking may be informal, unpaid overtime by mainly white-collar workers. This seems more naturally part of an intensification of work story than an extension of flexible working.

The Eurobarometer survey gives us some insight into potential barriers by asking those workers who have been offered a flexible option whether they turned it down because of concerns it might damage their career or lower their pay. In the UK 5% of full-time workers said it might damage their career and about 9% said it was the reduction in pay. The German shares are not much different, but in both Italy and France they were more important. In France, 20% of full-time workers said that concerns over pay were inhibiting take-up. These responses will obviously be influenced by what sort of flexibilities are on offer.

Autonomy in the workplace

In many of these survey responses we have reported the UK doing rather well and in most cases better than the other major European economies. But in the 2010 EWCS, when it comes to workplace autonomy, the UK suddenly plummets towards the bottom, only outdone by Romania and Greece. If we are to believe these results, UK workplaces have much less individual discretion than in the rest of Europe.

This seems rather odd. We might have thought that if people were dissatisfied with autonomy – which is hardly a trivial feature of work – they might also be expressing that dissatisfaction in other measures. Put another way, if UK workplaces seem to be getting it right (or at least doing no worse) compared with other European countries, why are they getting it so badly wrong on just this one single indicator? The results are not as disastrous as might be first thought, as in all countries the majority of workers say they are satisfied with the autonomy they have, and in the UK the figure is 75%. However, in Germany the figure is 92% and in France 86%. We should also bear in mind that 15% of UK workers replied 'don't know' to this question, a much higher proportion than in any other country. It may simply be that 'autonomy' is a word that does not resonate with UK employees – compared with, say, 'discretion' – so its bald use among a set of questions asking about familiar job characteristics may have thrown some UK respondents.

It is possible that low levels of skills in some parts of the workforce mean that higher ratios of managers to staff are required and less individual discretion is possible in a significant number of UK workplaces compared with, say, Germany and France. This must be part of the explanation for the much higher German figure, though it is less plausible for France. Other possible explanations are the introduction of widespread target-setting in the UK public services in the decade leading up to 2014, and from 2010 to 2014 large-scale reductions in the UK public sector workforce that have not been replicated in the three other major European economies.

The 2014 Barometer results are, however, also at odds with some of the responses to a more sophisticated set of questions in the 2010 EWCS. Employees in the UK say they are more likely to be consulted before workplace work targets are set and more say that they have significant levels of influence over decisions than employees in Germany, France or Italy. For example, 55% of UK employees said they were consulted always or most of the time about work targets compared with 38% of German employees, 44% of French employees and 40% of Italian employees. Similarly, 45% of UK employees said they could influence decisions important for their job either always or most of the time, compared with 39% in Germany and just over 30% in France and Italy. In addition, UK employees were more likely to say they had supportive managers – 74% said that their manager supported and helped them always or most of the time in the UK, compared with 58% in France, 47% in Germany and 42% in Italy.

It would of course be wrong to jump to the opposite conclusion and say all British workplaces are full of enlightened managers consulting their employees and seeking their views at every opportunity. About a quarter of all UK employees say they

'…at the individual level the UK compares reasonably well on some aspects of task discretion with other major European economies.'

are rarely or never consulted or have any say over decisions important to their job.

Moreover, we must be careful about interpretation, given the often very different workplace context. German, French and Italian workplaces often have much more developed and effective formal mechanisms for collective consultations, so UK workplace managers have to do more at the individual level to get similar results. In the case of German workplaces, it may also be the case that managers appear less supportive of individuals because higher skill levels and better work organisation means much less intervention is required. Some of the responses to the 2010 survey, if viewed in isolation, also look implausible. For example, only 18% of German workers say they are always consulted before a work target is set, one of the lowest in Europe. This makes us cautious about whether we are comparing like with like when it comes to these questions. Nonetheless, we conclude it would be unsafe to assume that UK workers enjoy less autonomy than their German, French or Italian counterparts. It is more plausible and consistent with other survey findings that at the individual level the UK compares reasonably well on some aspects of task discretion with other major European economies.

Table 14: Autonomy, consultation and influence at work

Autonomy at work (% satisfied 2014)		Consulted before targets set (% always EWCS 2010)		Influence decisions important for your work (% always EWCS 2010)	
Denmark	96	Ireland	41	Poland	31
Netherlands	95	Malta	39	Greece	27
Finland	95	Denmark	37	Malta	26
Sweden	94	Latvia	36	Ireland	26
Germany	92	Hungary	35	UK	25
Austria	91	Estonia	32	Spain	25
Lithuania	81	Netherlands	31	Portugal	24
Slovenia	91	Sweden	30	Cyprus	23
Hungary	90	Slovenia	30	Estonia	22
Estonia	89	UK	30	Romania	21
Belgium	89	Cyprus	28	Croatia	21
Luxembourg	88	Czech Republic	26	Luxembourg	21
Czech Republic	87	Croatia	25	Sweden	20
Poland	86	Romania	25	Latvia	20
France	86	Luxembourg	24	Bulgaria	21
Portugal	83	Portugal	23	Hungary	19
Cyprus	83	Bulgaria	23	Denmark	19
Ireland	81	Finland	23	Netherlands	19
Croatia	81	Spain	23	Belgium	18
Malta	79	France	22	Czech Republic	17
Slovakia	79	Belgium	23	Slovenia	17
Latvia	79	Lithuania	21	Italy	17
Bulgaria	77	Poland	21	France	15
Spain	77	Italy	19	Austria	15
Italy	75	Greece	19	Lithuania	15
UK	75	Austria	18	Finland	14
Romania	72	Slovakia	18	Germany	13
Greece	62	Germany	13	Slovakia	10

Source: EU Barometer Spring 2014; European Working Conditions Survey 2010.

Conclusions

Employment protections have never been very strong in the UK and over the years there has been remarkably little net change, with a bit of strengthening here and a bit of weakening there. Much bigger changes have taken place around the role of trade unions, privatisation and the deregulation of markets. Moreover, it is misleading to describe the UK labour market as a whole as deregulated – wages, working time, health and safety, pensions and migration are all regulated, and anti-discrimination legislation on grounds of sex, race and disability has been strengthened. Entry to a growing number of occupations has been regulated by qualification. Indeed, the case can be made that the labour market is in many ways more regulated today than it was in 1980.

The link between labour market and workplace outcomes and employment protection outcomes is always going to be complex, not least because many other factors have a role to play. What our analysis suggests is that the UK's traditionally liberal approach has done nothing to enhance productivity performance and that despite the literature the link between employment protection and productivity is somewhat ambiguous. The US is the only clear example of a low employment protection, high productivity economy. There are more convincing positive associations between liberal employment protection and some labour market outcomes, notably around higher employment rates and less long-term unemployment. Moreover, despite the recent concerns about labour market casualisation, the UK has an exceptionally high level of permanent work.

However, on many of these indicators the UK does not exactly shine – it seldom achieves a top-ten finish even if it usually avoids dropping into the bottom third of OECD economies. Apart from the productivity weakness, other areas where the UK appears to do relatively badly are the extent of low pay, employment insecurity and unemployment amongst young people. The latter seem to have had little benefit from the UK's low levels of employment protection.

The findings which most challenge popular perceptions are, however, around workplace outcomes, such as job satisfaction and the quality of employment. UK workers seem more satisfied with their jobs, their working hours and their ability to progress than their counterparts in Germany, France and Italy. Of course, the Nordics dominate the European league table on these measures, as they always have done and may well continue to do so. But on most measures the UK comes a close second. Weaker employment rights have had no obvious impact on the quality of employment in the UK economy compared with most other economies with stronger employment protections.

It would be wrong, however, to suggest that UK workplaces are full of happy workers with supportive managers who look forward with confidence to their future in a flexible labour market. Many of the indicators suggest that at least a third of all jobs are poor quality. There are as many people who disagree that it would be easy to get another job without taking a pay cut, and a significant minority of the workforce say they are never consulted over target-setting or over decisions which they think are important for their job. The OECD index on employment insecurity places the UK on a par with the United States, and well behind Germany, France and Italy. For a significant minority of the UK labour force, workplace practice is a long way from the best that we see in other parts of the economy.

What we think this report is pointing to is that in the UK, workplace practice matters much more for good work than legislation strengthening employment rights. Indeed, it is questionable whether at current levels employment rights legislation matters as much as some might think in the more productive economies and better-performing labour markets across the OECD. However, it clearly matters much more in the weaker economies and the more tightly regulated dual labour markets of southern and eastern Europe.

In our view the UK is very unlikely to get much benefit from either further deregulation or significant re-regulation. There may be some scope for limited legislation to correct abuses in particular areas – hence the move to prevent employers from preventing zero-hours workers from taking work with another employer. There is also scope to resolve some of the confusion and ambiguity around the relative status of employees, workers and the self-employed, for example by removing the worker category and clearly delineating the differences in both employment and tax law between employees and the self-employed. There must be renewed emphasis on enforcing and improving awareness of existing employment rights among employers and employees.

'The CIPD has suggested the creation of a Workplace Commission for this purpose to co-ordinate policy-making across government on workplace issues and to engage those bodies with the expertise and leverage to improve practice on the ground.'

There is, however, a bothersome conclusion about why the UK's productivity performance is so poor. We know from other evidence that the UK invests significantly more in ICT than other major EU economies. The economy has above-average shares of high-skill jobs and above-average shares of knowledge-intensive industries. And now we can see that the UK has more good-quality employment than in many other European economies, including some with much higher productivity levels. So what is going wrong? Professor Keith Sissons, in a recent policy paper for Acas, suggested that a renewed focus on productivity in the workplace was required. This focus on the workplace must be right, although we also need to look at related factors such as the relationship between management practices, work organisation and getting the best out of investments in ICT and skills.

The main focus for government, employers and trade unions should therefore be on enhancing whatever strengthens good workplace practice, while addressing specific weakness – especially on young people and low pay – with a range of other economic, industrial and labour market policies. However, this raises the key question of what public policy recommendations can support and encourage employers to invest in upgrading their leadership and management and HR capability to improve workplace practices.

One problem is that government policy-making on the workplace is poorly co-ordinated, with the Departments for Business, Innovation and Skills, the Department for Education and the Department for Work and Pensions often operating in silos. The UK also has a number of important labour market institutions that are all interested in developing a more strategic approach to the labour market. The BIS should help bring together key labour market 'social partner' institutions (for example UKCES, Acas, LPC, CBI, TUC) with other independent expert bodies to form a hub for expert policy advice. The CIPD has suggested the creation of a Workplace Commission for this purpose to co-ordinate policy-making across government on workplace issues and to engage those bodies with the expertise and leverage to improve practice on the ground. Its primary purpose would be to develop and drive forward a strategic government-supported, sector-based and workplace-focused campaign on productivity, performance and good work.

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