Targeting the Most Vulnerable Groups on the Labor Market: What Regulatory Trajectories in Europe?

Gemma Scalise (Università di Milano-Bicocca), Werner Eichhorst (IZA Bonn e University of Bremen)

The permanent restructuring of the economy combined with dualized or polarized labour market are putting pressure especially on the secondary segment of the labour market, progressively increasing semi- and low-skilled workers' risk of labor market marginalization, low pay, or further skill erosion due to long periods of un/employment without access to continuous training and professional development. Still, this segment is also characterized by contradictory trends. One the one hand, in line with available forecasts digitalization and automation might affect some of these respective jobs most severely, yet, parts of the service sector are notoriously hard to automate. And while available labour supply has tended to be put pressure on wages and working conditions, post-pandemic labour shortages seem now to give rise to increased workers' bargaining power in essential service sector. All in all, however, taking a more long-term perspective, it is quite difficult to combine high employment with job quality and equality in core private services sectors that are main areas of job creation for this part of the labour force.

This paper investigates what strategies European governments have put in place over the last years to the most recent period to address the labour market situation of those at risk of being left behind. It analyses to what extent countries a) focus on, invest, and support them through active labour market policies and adult learning to facilitate job upgrading, b) to what extent social benefits are used to buffer non-employment and c) to what extent incentives are provided to reduce barriers to employment by way of in-work benefits or hiring subsidies, taking into account wage floors and non-wage labour costs. In the framework of the social investment recalibration, the paper discusses the institutional preconditions of the possible strategies (e.g., fiscal, administrative and political feasibility) and the role played by social partners, in particular regarding wages and training policies.

Empirically, the paper provides an in-depth analysis of a sample of most interesting national country cases with strongly regulated and dualized labour markets, focusing on four cases from Continental and Southern Europe (France, Germany, Spain and Italy). The evidence collected shows that even this relatively similar cluster of labour markets in Europe, individual countries have adopted different paths to deal with the challenges of creating employment opportunities and job quality and equality in the labour market segment in focus. For example, Germany has long pursued a work-first strategy tolerating a large low-wage sector, but recently reversed this with the introduction and subsequent increase of the statutory minimum wage and reinforced publicly supported training policies for workers at risk. France, on the other hand, provides significant public resources to stabilize jobs in the service sector via labour cost subsidies to employers and in-work benefits to low-wage workers while containing wage dispersion through an elevated minimum wage while training policies are less prominent. As for Mediterranean cases, they both come from a common path of labour market deregulation which, over the last two decades, has not been counterbalanced by the upgrade of the traditionally modest and fragmented income benefits nor training programs, also because structural reforms have been long inhibited by fiscal consolidation constraints. Yet, since 2019 Spain has started to rebalance labour protection and income inequality and concerted reforms have led to a hike in the statutory minimum wage and the reversion of the temporary character of employment, making permanent contract prevailing. In Italy, on the contrary, despite the intense reformism new policies have not triggered a process of change and the vicious circle of low-productivity employment, low wages and weak economic expansion persists, while in-work poverty has risen exacerbated by lack of effective anti-poverty measures and a statutory minimum wage.

Hence, the paper also discusses the specific institutional and fiscal constraints that have led to adoption of these paths in individual countries and under which conditions they can be changed. For example, the EU recovery funds may play a major role in Spain and Italy in overcoming long-standing institutional barriers to skill upgrading.