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Building the future of work together

Insiders and outsiders – how to bridge the gap?

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Labour markets around the world are becoming increasingly polarised. In many countries we are seeing a rising inequality in the way in which different groups of workers are treated and this has significant implications for society and the future of work.

The workforce is often divided into two groups: those with jobs and those without; those in the system and those outside of it; those with open-ended contracts and those who ricochet from one short-term contract to another. Often these differences occur between generations. In a number of the economies of southern Europe there is a marked difference between the fate of older workers and that of the younger generation. **Older workers** frequently enjoy antiquated employment contracts which provide them with total security in jobs from which they can never be fired. **Younger workers**, by contrast, are often shut out from these contracts as they are no longer offered, as employers fear the high costs and rigidity implied. Instead these workers are employed under fixed-term contracts which offer no job progression and no chance to build up pension rights, holiday entitlements etc.

This is obviously an unsustainable state of affairs as one half of the workforce is essentially enjoying a water-tight job-for-life at the expense of the other half which has no job security at all. In yet another scenario, people have work, but in the undeclared, black economy. This means that workers never actually become part of the system. By working in the undeclared economy, officially these workers simply do not exist. They receive no social security benefits such as sick pay, holiday pay, pension rights etc. and they work in a way that offers no job security and no training or job progression. **While this is highly unsatisfactory for the workers themselves as they never get a foot on the ladder of the employment market, it is also detrimental to economies and governments** who lose out on social security and tax payments into their national finances, and for companies who have no security whatsoever about their workers. Again, the main cause of this is the fear of employers to properly hire staff, due to the lack of agility in available forms of work.

There are significant implications for society if whole generations of people are not able to plan or take on long-term responsibilities such as a mortgage, pension or starting a family

because they have absolutely no employment security. So what can be done to address the issue and stem the emergence of a two-tier labour market?

Unsurprisingly, badly-functioning labour markets with either little, or over-strict regulation are often the root of two-speed systems and high levels of undeclared work. The more that labour market structures are open and flexible the more inclusive they become and the higher the levels of labour market participation. In today's fragile economic environment labour markets need to be agile and allow businesses to respond to the ebb and flow of economic demand. Governments need to implement reforms to remove antiquated contracts and unjustified restrictions on different forms of employment, and create labour regulation that offers flexibility alongside security and strikes an appropriate balance between the needs of workers and employers.

With unprecedented levels of job creation and destruction now a fact of life, even open-ended contracts no longer offer unending security. OECD data reveals that 50% of contracts are terminated within just two years. Indeed the very idea of a "permanent" contract – popular for not much longer than three or four decades in the mid-twentieth century, in manufacturing-based economies – is now increasingly irrelevant in our twenty-first century, service based economies. They are gradually being replaced by a wide range of different contractual arrangements including open-ended, agency work, part-time, freelance and fixed term.

Rather than seeking a return to the days of almost exclusively full-time, open-ended contracts, governments must maintain labour market regulation that allows for a balance of contracts within employment markets, ensuring that all contracts offer adequate levels of protection and security for all parties. They will need to overhaul their social security systems too, so that rights and benefits such as sick pay and pensions are attached to individuals not companies, and are portable, allowing workers to carry them from job to job throughout their working lives.

In order to avoid polarisation, labour markets will also need effective labour market intermediaries able to match supply with demand in the workplace. Employment agencies have an active role to play, staying close to the labour market to identify the jobs available and able to find and train workers to carry them out. In this way we ensure that people remain constantly in work and make ongoing transitions within the labour market – from school or unemployment to work; from job to job; and from temporary roles to full-time work and from shrinking industries to sectors that are expanding.