



OECD Economics Department Working Papers No. 1648

Labour market institutions
for an ageing labour force
in Slovenia

Priscilla Fialho,
Jens Høj

<https://dx.doi.org/10.1787/9eca1535-en>

ECONOMICS DEPARTMENT

LABOUR MARKET INSTITUTIONS FOR AN AGEING LABOUR FORCE IN SLOVENIA

ECONOMICS DEPARTMENT WORKING PAPERS No.1648

By Priscilla Fialho and Jens Høj

OECD Working Papers should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

Authorised for publication by Alvaro Pereira, Director, Country Studies Branch, Economics Department.

All Economics Department Working Papers are available at www.oecd.org/eco/workingpapers.

JT03469862

OECD Working Papers should not be reported as representing the official views of the OECD or of its member countries. The opinions expressed and arguments employed are those of the author(s).

Working Papers describe preliminary results or research in progress by the author(s) and are published to stimulate discussion on a broad range of issues on which the OECD works.

Comments on Working Papers are welcomed, and may be sent to OECD Economics Department, 2 rue André Pascal, 75775 Paris Cedex 16, France, or by e-mail to eco.contact@oecd.org.

All Economics Department Working Papers are available at www.oecd.org/eco/workingpapers.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

© OECD (2020)

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. Requests for commercial use and translation rights should be submitted to PubRights@oecd.org

ABSTRACT/RÉSUMÉ

Labour market institutions for an ageing labour force in Slovenia

Population ageing will lead to a smaller and older workforce. Looking forward, this means that growth will increasingly depend on ensuring the best use of Slovenian workers. This implies keeping older and experience workers longer in employment and better support difficult-to-employ low-skilled job-seekers. In addition, better labour allocation will enable workers to realise their productivity and wage potential. This requires a greater role for social partners in securing individual wages that better reflect efforts.

This Working Paper relates to the *2020 OECD Economic Survey of Slovenia* (<http://www.oecd.org/economy/slovenia-economic-snapshot/>)

Keywords: Population Ageing, Labour Participation, Labour Allocation

JEL Classification: J08; J14; J21; J31; J60

Institutions du marché du travail pour une population active vieillissante en Slovénie

Le vieillissement de la population entraînera une main-d'œuvre plus âgée et une pénurie de main-d'œuvre. Cela signifie que, dans l'avenir, la croissance dépendra de plus en plus de la meilleure utilisation et répartition des travailleurs Slovènes. Cela implique maintenir plus longtemps les travailleurs âgés et expérimentés dans l'emploi et de mieux soutenir les demandeurs d'emploi peu qualifiés et difficiles à embaucher. En outre, une meilleure répartition de la main-d'œuvre permettra aussi aux travailleurs de réaliser leur potentiel de productivité et de salaire. Pour cela, les partenaires sociaux doivent jouer un plus grand rôle dans l'obtention de salaires qui reflètent mieux les efforts individuels.

Ce Document de travail se rapporte à l'*Étude économique de l'OCDE de la Slovénie 2020* (<http://www.oecd.org/fr/economie/slovenie-en-un-coup-d-oeil/>)

Mots-clés : Vieillissement démographique, Participation au travail, Allocation du facteur travail

Classification JEL : J08; J14; J21; J31; J60

Table of contents

Labour market institutions for an ageing labour force in Slovenia	6
1. Population ageing poses key challenges to potential growth	6
2. Underutilised labour resources need to be mobilised to sustain economic growth	7
2.1. Social benefits encourage early exit from work before the retirement age	10
2.2. Harder-to-place unemployed workers are not receiving enough support	12
2.3. Unemployment, inactivity and low-wage traps are high	14
3. Maximising long-term potential growth requires a more efficient allocation of labour	18
3.1. The rigid wage-setting system contributes to lower labour market mobility	19
3.2. Skills demanded and skills supplied are often misaligned	21
3.1. Lack of spatial mobility hampers the optimal allocation of workers to jobs	26
3.2. SOEs retain workers that could be redirected to more productive activities	32
References	34
Tables	
Table 1. Main Active Labour Market Programmes	14
Table 2. Main findings and recommendations on the labour market	33
Figures	
Figure 1. The working age population is declining and ageing	7
Figure 2. Some groups are under-utilised in the labour market	8
Figure 3. Bringing back to work some workers is challenging	8
Figure 4. Unemployment is more persistent for older workers	9
Figure 5. During the upswing, job creation benefitted foreigners	10
Figure 6. Older workers are increasingly seeking disability benefits	10
Figure 7. The disability insurance system is complex and admits preferential treatment for workers above 50	11
Figure 8. Few disability insurance beneficiaries enrol in occupational rehabilitation	12
Figure 9. Spending on labour market programmes could be more effective	13
Figure 10. Inactivity and low-income traps are high for second earners in Slovenia	15
Figure 11. Social security rates for employees are high in Slovenia	17
Figure 12. Slovenia is one of the countries with the highest top personal income tax rate	18
Figure 13. Revenue from property tax is low	18
Figure 14. The retention rate of older workers is low in Slovenia	19
Figure 15. The minimum wage is high relative to the median wage	20
Figure 16. There is a disconnect between wages and productivity	21
Figure 17. Older workers lack important skills	22
Figure 18. Younger cohorts are doing better with basic skills	22
Figure 19. Older workers are less likely to participate in adult education	23
Figure 20. Workers stay in the same job for long	24
Figure 21. The returns to tertiary education are falling	25
Figure 22. Unemployment is higher in Eastern Slovenia than Western Slovenia	26
Figure 23. Slovenia has a high home-ownership rate	27
Figure 24. It takes long time to get a construction permit	28
Figure 25. Public transport is little used in Slovenia	30

Figure 26. Regulation for rail and road transport is high in Slovenia	31
Figure 27. Slovenia's road traffic is a high CO ₂ emitter	31

Boxes

Box 1. Policies to improve working conditions for older workers	24
Box 2. The UK Employer Skills Survey (ESS)	26
Box 3. Policies to encourage housing supply responsiveness	28
Box 4. Policies to promote the development of a private rental market	29

Labour market institutions for an ageing labour force in Slovenia

Priscilla Fialho and Jens Høj¹

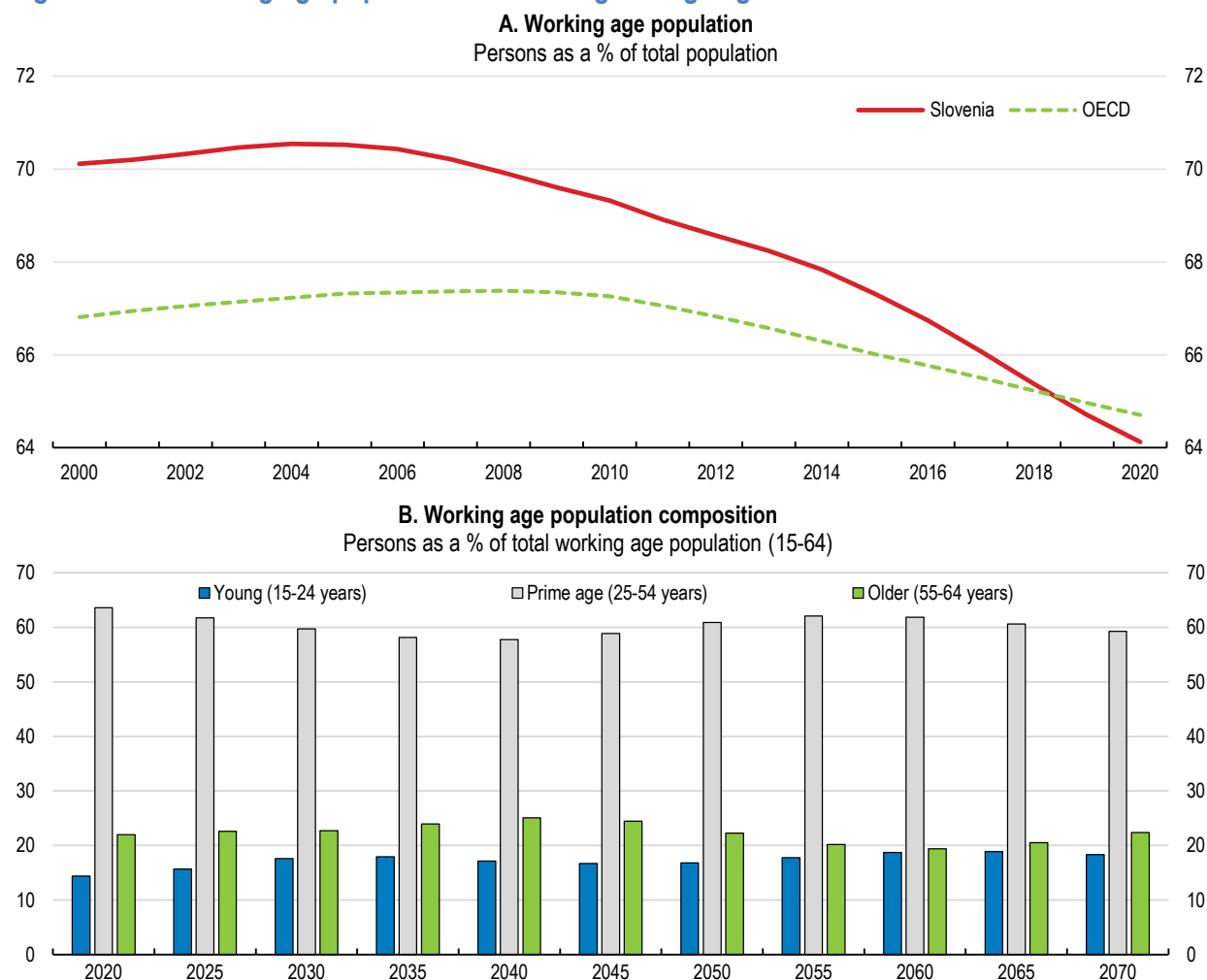
1. Population ageing poses key challenges to potential growth

1. The current crisis is increasing unemployment temporarily, but over the longer term population ageing will exacerbate labour market pressures as the working age population becomes smaller and older, reducing the long-term potential for economic growth (Figure 1). Before the crisis, unemployment had fallen to a historical low level of 4% in 2019, and the employment and the labour force participation rates had reached their highest level in a decade, above 70% and 75%, respectively (IMAD, 2018b). Similarly, an increasing number of firms were reporting labour shortages. Looking ahead, it is therefore pertinent to address the ageing challenge to avoid labour and skills becoming a growth bottleneck.

2. During the upswing, employers were particularly constrained by the shortage of mid-level qualified workers with occupation-specific knowledge rather than generic skills (Bank of Slovenia, 2019). Vacancies were increasingly been filled by hiring foreigners: they accounted for more than half of employment growth in late 2018 (IMAD, 2019). To address remaining gaps, employers were increasing the workload of their employees, expanding foreign outsourcing, but also refusing orders. Capacity constraints were therefore starting to reflect on the moderation of economic activity (Employment Preview Survey, Employment Service of Slovenia, 2018).

3. Avoiding such labour market imbalances will be essential to sustain inclusive growth in an ageing society. In the medium-term, most of the increase in unemployment will disappear again as the economic recovery comes under way, leaving behind the problem of fully mobilising labour resources. In the long-term, maximising growth potential will have to rely increasingly on improving the allocation of workers across firms, occupations and regions, as well as on equipping the workforce with adequate skills to make the most of new technologies.

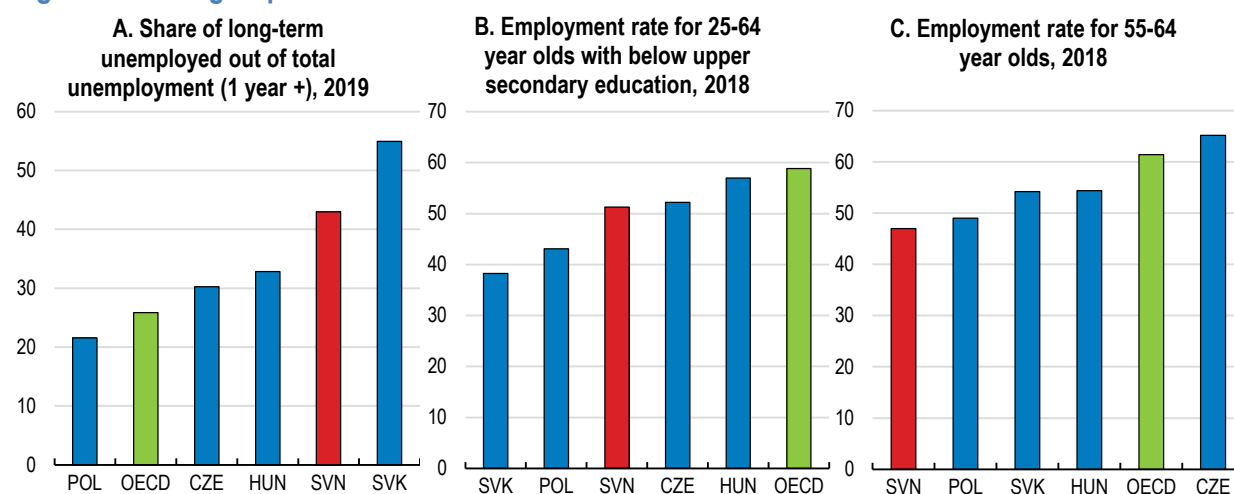
¹ Priscilla Fialho and Jens Høj are members of the OECD Economics Department. Contact: Priscilla.Fialho@oecd.org and Jens.Hoj@oecd.org. The authors would like to thank Cyrille Schweltnus, Gabriel Machica, Mame Fatou Diagne, Patrick Lenain, Nicola Brandt, Isabell Koske, Álvaro Pereira (from the OECD Economics Department), Kristine Langenbacher (OECD Directorate for Employment, Labour and Social Affairs) and Bert Brys (OECD, Centre for Tax Policy and Administration) for useful comments and suggestions. The paper has also benefitted from comments by Slovenian officials and by members of the OECD Economic and Development Review Committee. Special thanks to Klaus Pedersen and Federico Giovannelli (OECD Economics Department) for statistical assistance, and Poeli Bojorquez and Robin Houg Lee (OECD Economics Department) for editorial assistance.

Figure 1. The working age population is declining and ageing

Source: United Nations (2019), World Population Prospects: The 2019 Revision, Online Edition; and Eurostat Population on 1st January by age, sex and type of projection database.

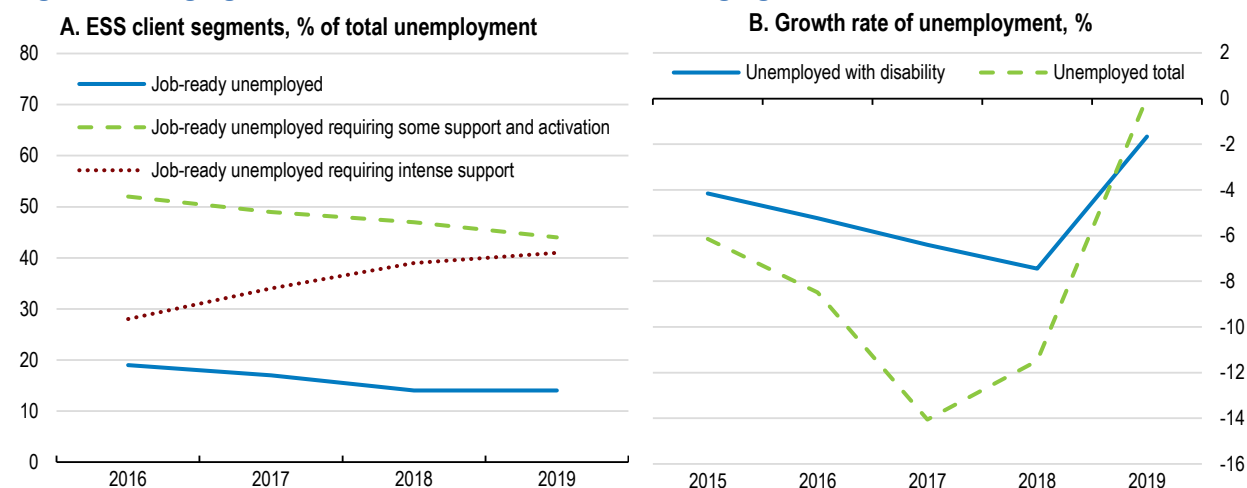
2. Underutilised labour resources need to be mobilised to sustain economic growth

Economic growth over the past years has not benefitted all workers equally. While Slovenia has comparatively high female and youth employment rates, the employment rates of older and low-skilled workers remain below the OECD average, while long-term unemployment remains relatively high (Figure 2). These groups represent an under-utilised pool of potential job candidates that employers remain reluctant to hire. Moreover, the current weak labour market is likely to reduce further these groups' labour market prospects, raising the numbers of difficult-to-employ job seekers. Thus, the current crisis is adding to the challenges of integrating these workers into the labour market.

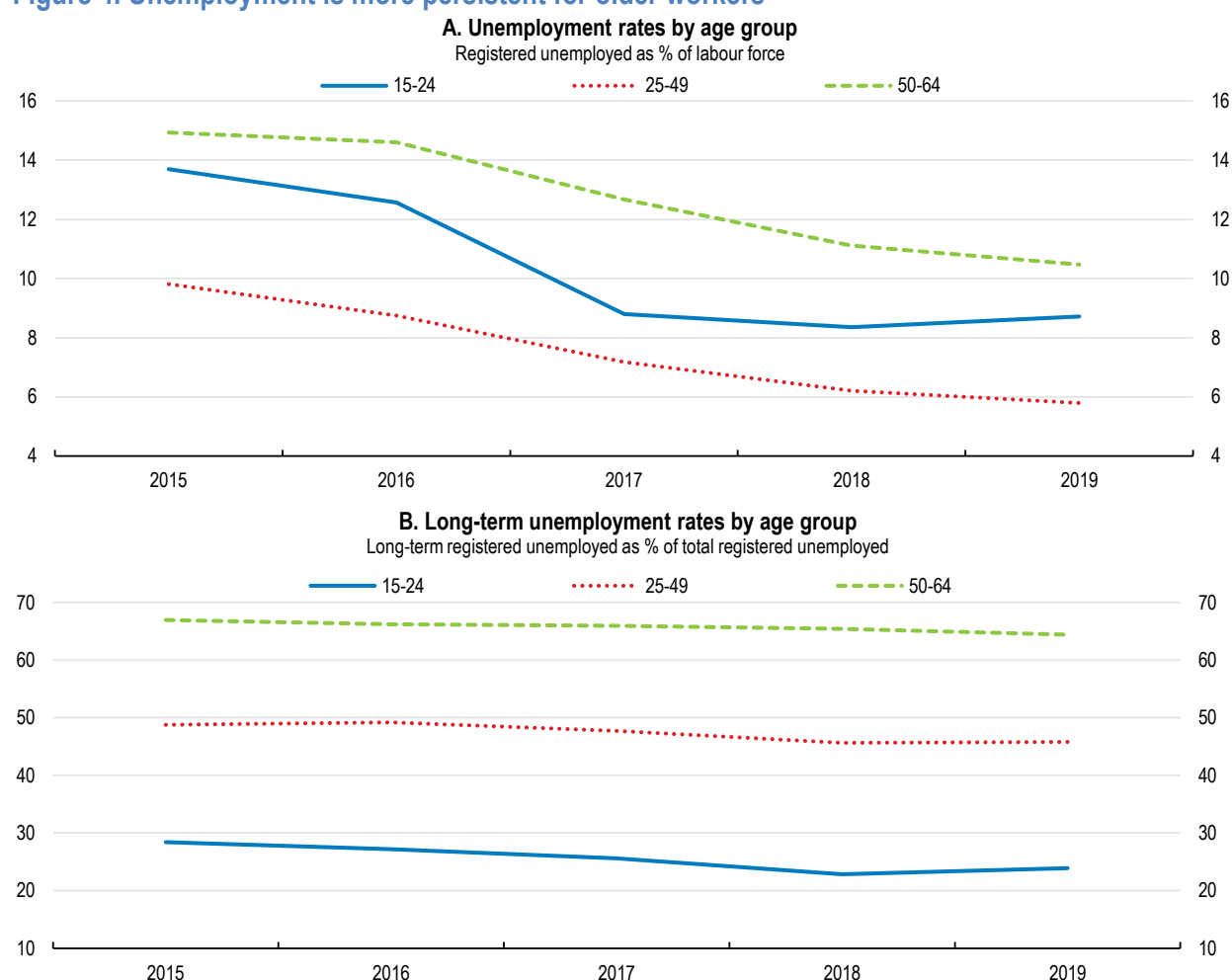
Figure 2. Some groups are under-utilised in the labour market

Source: OECD Labour Force Survey database; and OECD Education database.

4. Already prior to the crisis, unemployment fell at a slower pace for older, low-skilled and long-term unemployed, who require intense support and activation, and workers with some disability, compared to the overall population (Figure 3). The long-term unemployment rate also fell at a slower pace for older workers compared to other age categories (Figure 4). These workers may lack sufficient and relevant skills to be attractive for employers. Training is costly, particularly for workers with low education levels who lack basic skills, or workers with some disability who have special learning needs. The expected benefits of training are also lower for older workers.

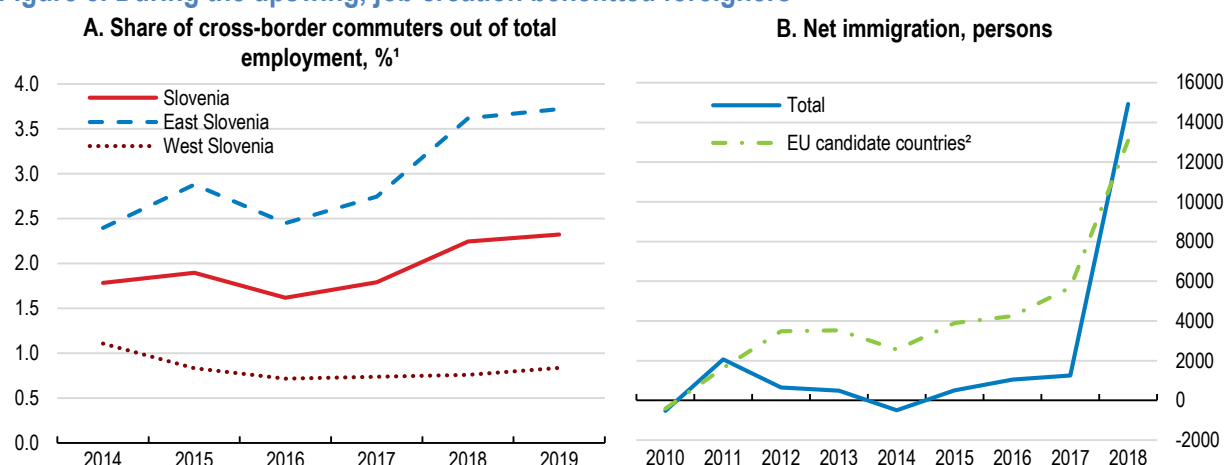
Figure 3. Bringing back to work some workers is challenging

Source: Employment Services of Slovenia (ESS).

Figure 4. Unemployment is more persistent for older workers

Source: Employment Service of Slovenia (ESS) for registered unemployment by age group and OECD Labour Force Statistics database for labour force by age group.

5. High reservation wages and strong incentives to remain unemployed also hamper employment for some workers. Despite a high unemployment rate in Eastern Slovenia (see below), employers hired workers from abroad, boosting cross-border commuting and net immigration, particularly from former Yugoslavia countries (Figure 5). Such flows are typically reversed during downswings. Obviously, recourse to immigrant workers eased labour shortages during the previous expansion period. However, looking ahead this labour resource is likely to dry up as ageing-related labour shortages continue to materialise in richer European countries. Mobilising harder-to-place workers within Slovenia is essential to sustaining inclusive growth.

Figure 5. During the upswing, job creation benefitted foreigners

1. Cross-border commuter are workers who have their place of residence outside Slovenia.

2. Bosnia and Herzegovina, the Republic of North Macedonia and Serbia. The Republic of North Macedonia and Serbia are candidate countries, while Bosnia and Herzegovina is a potential candidate.

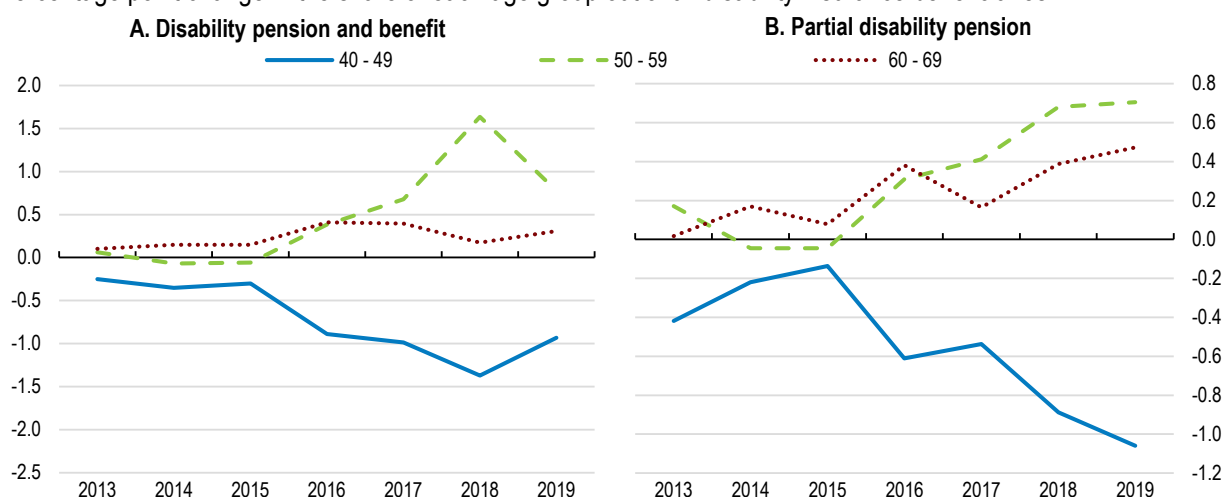
Source: Republic of Slovenia Statistical Office; and Eurostat.

2.1. Social benefits encourage early exit from work before the retirement age

6. Many older workers are using social benefits as pathways to early retirement – a trend that could be accelerated by the current labour market weakness. In 2016, one in three pensioners entered retirement through unemployment (OECD, 2016a). More recent data shows a decline to one in five pensioners (Pension and Disability Insurance Institute, 2019). Similarly, since the 2013 increase in the retirement age, an increasing share of older workers (+55) receives disability insurance (Figure 6).

Figure 6. Older workers are increasingly seeking disability benefits

Percentage point change in the share of each age group out of all disability insurance beneficiaries



Source: Pension and Disability Insurance Institute of Slovenia.

7. Preferential treatment of older workers in the unemployment and disability insurance systems can partly explain early exits from employment. Up until 2020, older unemployed workers (+55 years) who had accumulated 25 years of contributions could receive unemployment benefits for up to 25 months compared with 12 months for other workers with equal contributions. In addition, the Employment Service of Slovenia (ESS) pays old-age pension contributions during up to one year for older unemployed persons with at least

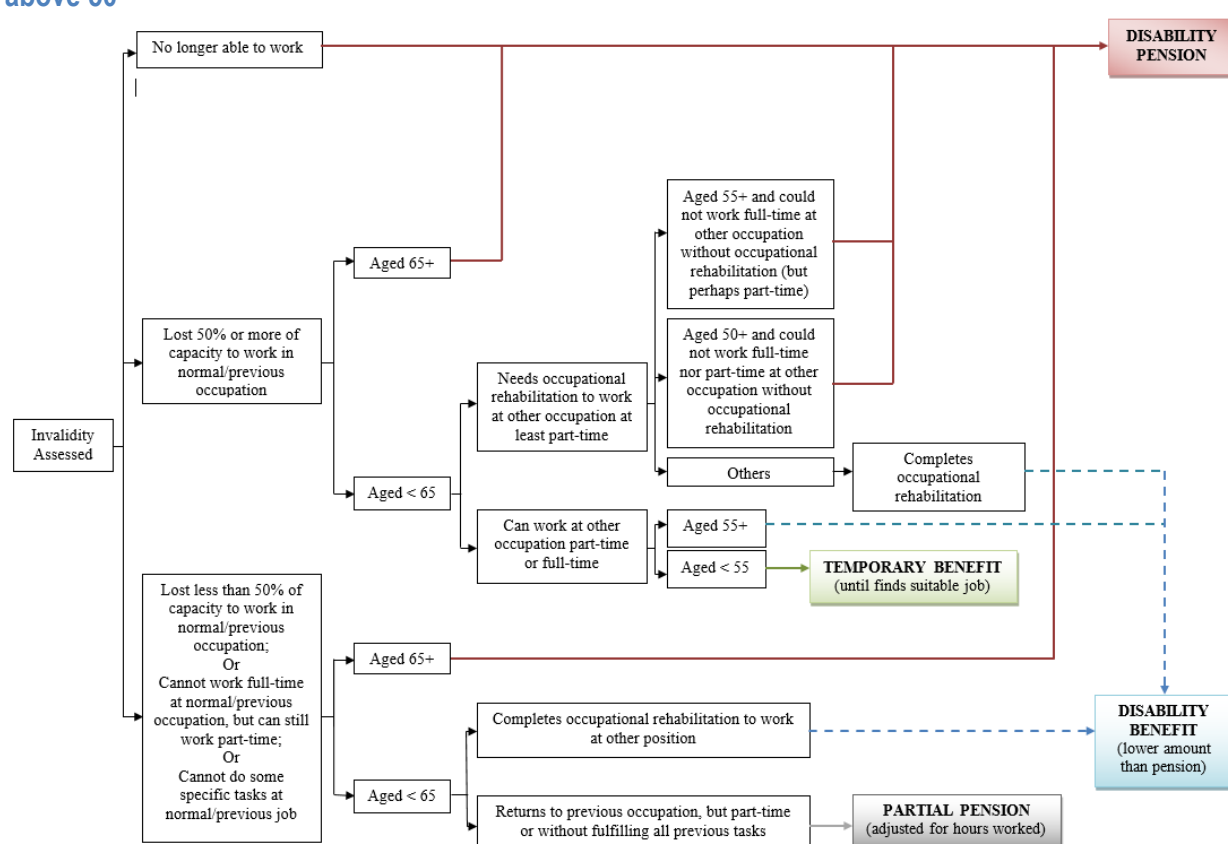
35 years of contributions, implying that these workers are not penalised in terms of their pensions (OECD, 2016a).

8. Recent steps were taken to tighten specific unemployment benefit eligibility criteria for older workers. Since the 1st of January 2020, older unemployed workers need to have accumulated 28 years (or 25 years) and to be 58 years old (or 53 years old) to receive unemployment benefits for 25 months (or 19 months, respectively). This is a step in the right direction. However, more could be done. Reducing unemployment benefit duration for workers above 50 and aligning it with benefit duration for other workers with equal contributions would also help raise incentives to return to work. Empirical evidence from Germany and Austria shows that lower unemployment benefits duration for older unemployed persons led to higher transition rates to employment (Hunt, 1995; Lalive and Zweimüller, 2004).

9. The disability benefit system is complex and generous towards older workers (Figure 7). Workers above 50 years old, who could regain some work capacity if rehabilitated, can qualify for a disability pension for life. Similarly, those above 55 years old who can return to work without rehabilitation are eligible for a permanent disability benefit (which provides a lower amount than the disability pension). In contrast, younger individuals in a similar situation can only receive a temporary disability benefit.

10. Disability insurance eligibility could be stricter, especially for older workers. Medical assessments only assess work ability for the most recent type of employment, without considering work capacity in alternative occupations. Re-assessments only occur every five years. Occupational rehabilitation is not mandatory and the number of disability beneficiaries referred to such programmes is strikingly low (Figure 8).

Figure 7. The disability insurance system is complex and admits preferential treatment for workers above 50

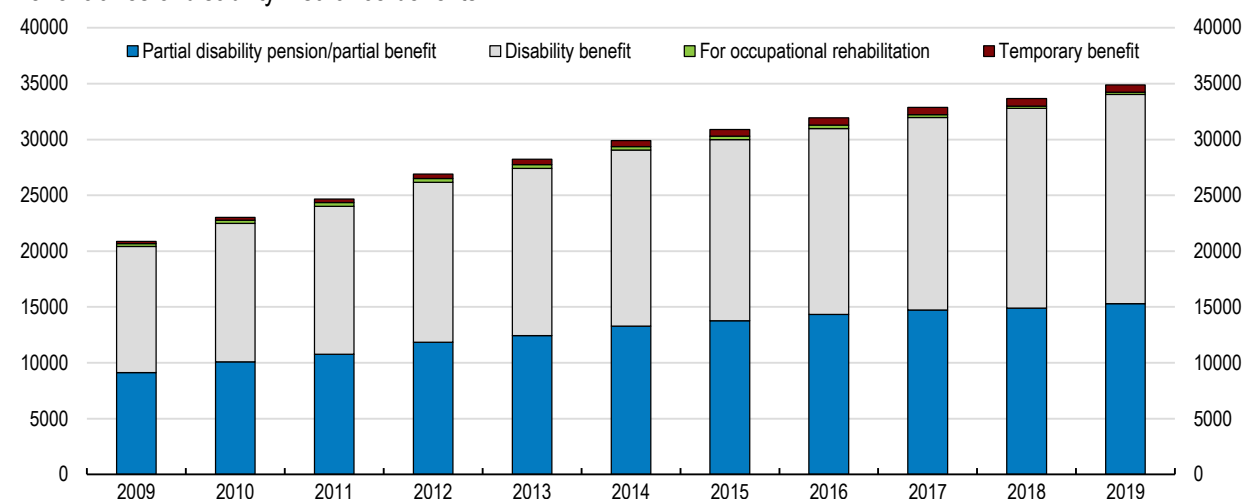


Source: Pension and Disability Insurance Act (ZPIZ-2)

11. The disability benefits system should be designed to encourage return to employment when there is still some work capacity. Older workers retaining some work capacity should be referred to occupational rehabilitation. This could be a requirement to receive disability insurance for all individuals with a residual work capacity. Work rehabilitation treatments are quite effective in developing lost skills while accommodating for specific impairments, regaining independence and employment (Joss, 2002; Legg, Drummond and Langhorne, 2006; Govender and Kalra, 2007). The assessment procedure to determine eligibility for disability insurance should be broadened to include other occupations. Re-assessments should be more frequent, for example annually. In fact, the risk of labour market detachment increases with time spent out-of-work and on disability benefits, as shown for Sweden and the United Kingdom (Melkersson, 1999; Jenkins and Rigg, 2004). Re-assessments of older workers could also take place while individual are still employed, as in Austria. Some of these workers could be redirected to less physically demanding occupations before reaching partial disability, prolonging their health status, well-being and working lives.

Figure 8. Few disability insurance beneficiaries enrol in occupational rehabilitation

Beneficiaries of disability insurance benefits



Note: The figure only accounts for beneficiaries in the reformed system (ZPIZ-2). Beneficiaries from the previous system (ZPIZ-1) are not included. The number of beneficiaries from ZPIZ-1 is progressively falling as all disability claims are now covered by ZPIZ-2. This explains the increasing number of beneficiaries from ZPIZ-2 over time. The total number of beneficiaries from both systems (ZPIZ-1 and ZPIZ-2) is actually decreasing.

Source: Pension and Disability Insurance Institute of Slovenia.

2.2. Harder-to-place unemployed workers are not receiving enough support

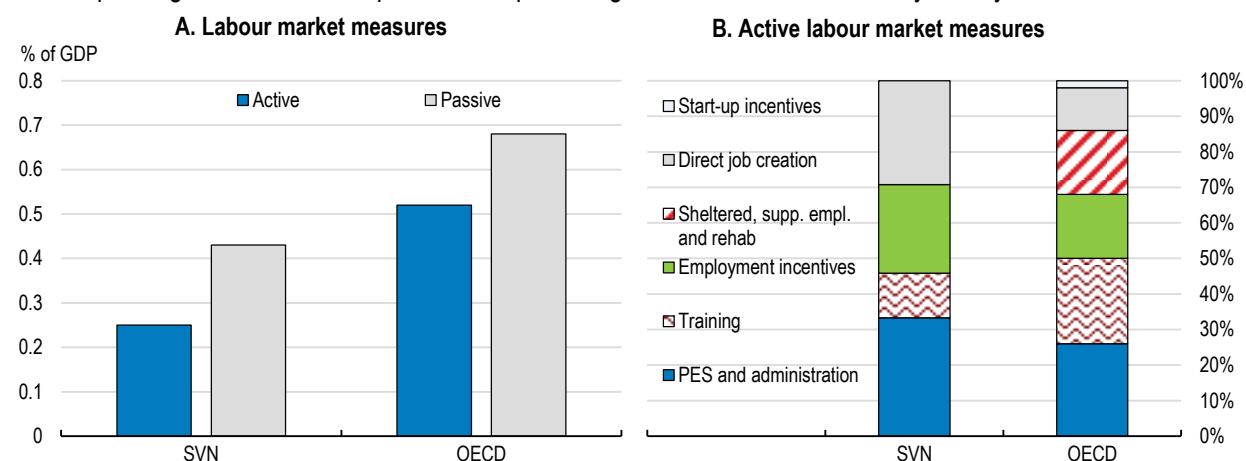
12. Public spending on labour market policies is lower than the OECD average (Figure 9, Panel A). There is a relatively higher reliance on passive labour market policies, such as unemployment benefits. International evidence suggests that passive policies tend to reduce incentives to return to work. By contrast, Active Labour Market Policies (ALMPs) tend to increase job-search efforts (Pignatti and van Belle, 2018).

13. Spending on active measures is not allocated in the most effective way. Most funds are allocated to subsidies for firms employing specific types of workers (such as young unemployed, long-term unemployed or older unemployed) or direct job creation in the public sector (Figure 9, Panel B). Employment subsidies seem to improve hiring rates. However, there is little international evidence on long-term positive effects, except if the subsidised period provides enough opportunity for skill accumulation (Crépon and van den Berg, 2016; Martin, 2015). Spending on training programmes is low, while such

programmes can have strong positive long-term effects as evidenced in other OECD countries (Bassanini and Duval, 2006).

Figure 9. Spending on labour market programmes could be more effective

Public spending on labour market policies as a percentage of GDP and breakdown by activity, 2017



Note: Category 3 consists of "Sheltered, supported employment and rehabilitation". These are programmes for workers with disabilities to develop work-related skills and behaviours. Category 6 consists of "Public Employment Services and administration".

Source: OECD, Labour Market Database.

14. The effectiveness of ALMPs is not adequately assessed. Most subsidies require that beneficiaries remain employed at least one year (Table 1). Therefore, taking stock of the employment rate of programme participants one year after the start of the programme is not an appropriate measure of success. Programmes can only be considered successful if the beneficiaries remain employed beyond the subsidised period. Some ad-hoc impact evaluations have been conducted (Ministry of Labour, Family, Social Affairs and Equal Opportunities, 2017b). However, the outcomes from all interventions should be regularly assessed, well after programme termination. Such assessments, which could be integrated into the policy making processes, would help to redirect public spending towards the most effective labour programmes.

15. The weakening labour market is increasing the risk of long-term unemployment among difficult-to-employ individuals. To prevent such scarring effects, labour market policies need to be focussed more on such individuals. The current mix of ALMPs does not sufficiently target harder-to-place unemployed persons (Table 1). Young unemployed workers are still eligible for several programmes although their unemployment rate reached a historical low of 8.8% in 2018 (OECD, 2019b). Resources should be redirected towards unemployed workers requiring intense support to become employable. As recommended in the new OECD Jobs Strategy, it is important to quickly scale down fiscal resources assigned to work programmes, that seek to preserve vulnerable jobs that are viable in the long-term, as conditions return to normal (OECD, 2018i).

16. Harder-to-place, i.e. low-skilled, long-term and older unemployed persons are not receiving enough counselling. The ESS offers several services, including services to employers. The extensive variety of activities results in a high average workload per counsellor (OECD, 2016a). To free-up resources for harder-to-place job seekers, the ESS plans to introduce statistical profiling tools. Statistical profiling is less costly than caseworker-based profiling. It can be used to identify unemployed workers requiring intense support to become employable, target resources to these jobseekers and refer individuals to the most adequate programme (Desiere, Langenbucher and Struyven, 2019). Such statistical profiling tools have long been implemented in Australia and the U.S., and more recently in Austria, Belgium and the Netherlands. Experience in these countries shows that continuous assessments and refinements of the

statistical system based on feedback from caseworkers and frontline staff is crucial for successful implementation (OECD, 2018a).

Table 1. Main Active Labour Market Programmes

Name	No. Beneficiaries in 2018	Retention rate*	Target	Content
Training programmes				
Work Trial	2086	82%	Unemployed for at least three months, aged 30+	One month trial period with employer
On-the-job training	1846	74%	Low-skilled long-term unemployed with 50+; Young people	One to three months training programme at a firm
Preparation and verification of National Vocational Qualifications (NVQ)	881	71%	Unemployed; Workers dismissed during notice period	Three to six month preparation for a one day exam
Development and training programmes	4187	62%	Unemployed and workers dismissed during notice period with at least a high school degree	Three days to six months courses with theory and practice
Employment incentives				
Employ.me	3267	60%	Unemployed 50+; low-educated unemployed; long-term unemployed	Subsidy between 5000€ and 7000€ for a job lasting at least 1 year
The first challenge	2896**	74%	Jobseekers <30	Subsidy of 7250€ for a job lasting at least 15 months
Program for sustainable youth employment	2385	N.A.	Unemployed workers between 15 and 30 years old	Subsidy of 5000€ for a job lasting at least 2 years
Active until retirement	274	N.A.	Unemployed aged 58+	Subsidy of 11000€ for a job lasting at least 18 months
Learning workshops	201	N.A.	Disabled unemployed; long-term unemployed; older unemployed; low-skilled unemployed; first-time jobseekers; migrants	6 months training in a social enterprise or employment centre + subsidy of up to 8000€ if employed after training for at least 1 year
Start-up/Entrepreneurship incentives				
Promoting women entrepreneurship	393	N.A.	Unemployed women with tertiary education who already completed the Entrepreneurial training programme at the Public Agency SPIRIT	Subsidy of 5000€
Incentives for young entrepreneurs	330	N.A.	Young unemployed	Entrepreneurship training + subsidy of 5000€ for remaining registered as self-employed for at least 1 year
Direct job creation				
Public works	5202	N.A.	Long-term unemployed	One to two years employment in non-profit organisation with obligation to continue seeking employment

Note: * Retention rates after 1 year, data from 2016. ** Number of beneficiaries in 2016, programme discontinued. N.A.: Not Available.

Source: Employment Service of Slovenia (ESS)

2.3. Unemployment, inactivity and low-wage traps are high

17. Low-skilled workers are faced with a high unemployment benefit trap. Single low-income workers with two children lose 88% of the additional earnings when moving from unemployment to full-time work (OECD, 2016a). Consequently, some unemployed persons wait for the exhaustion of benefits before intensifying job search efforts, raising the risk of falling into long-term unemployment (Vodopivec et al., 2015).

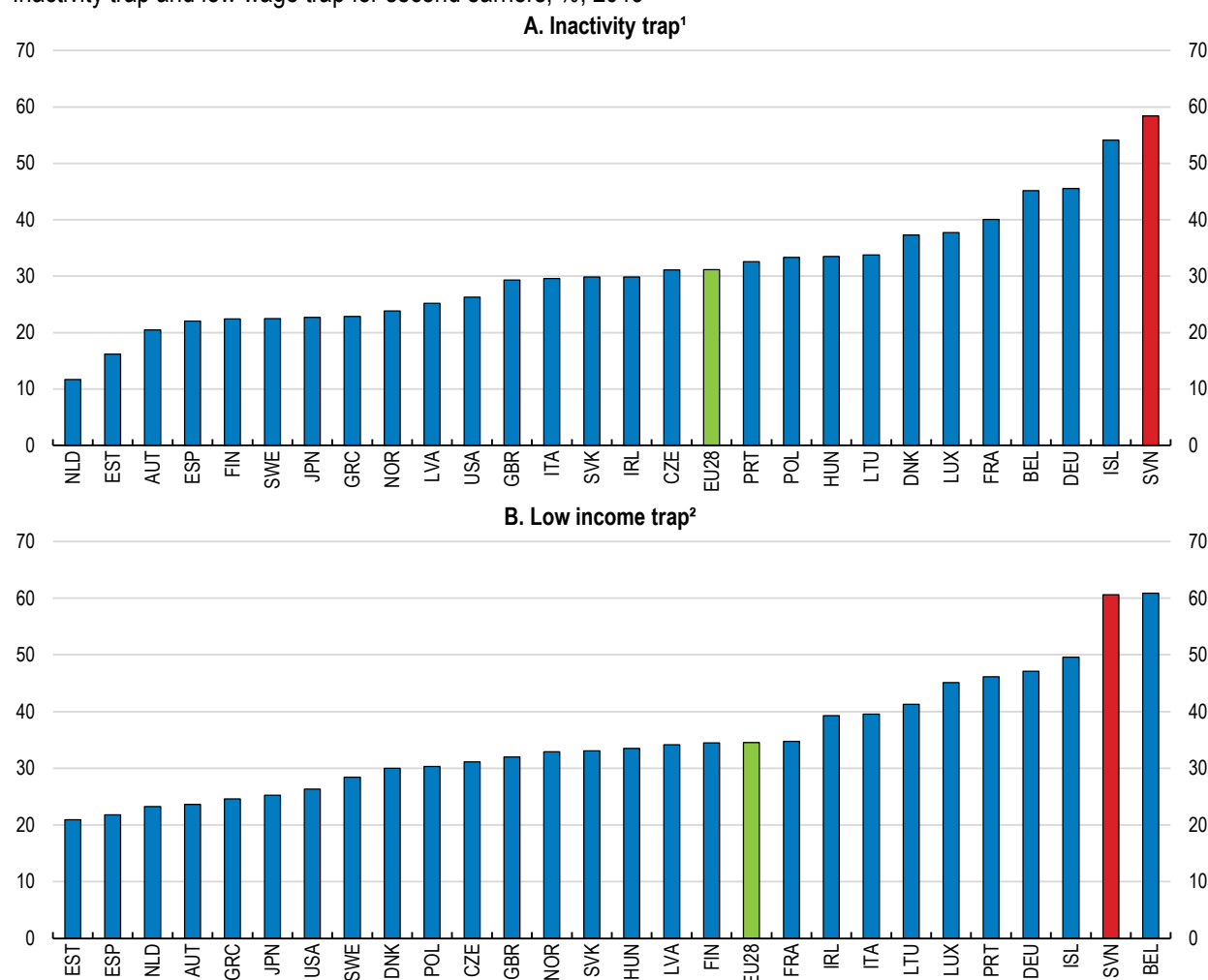
18. Other social benefits also contribute for the unemployment trap. Until recently, financial social assistance (FSA), a means-tested benefit based on household income, could be more financially advantageous than unemployment insurance, reducing job-search incentives even after the exhaustion of

unemployment benefits and further increasing the risk of long-term unemployment. Unemployment benefits and FSA were financially aligned on the 1st of January 2020, which is a step in the right direction.

19. Inactivity and low-wage traps are also high for second earners who are faced with large disincentives to work and increase their earnings (Figure 10). While there is no joint taxation in Slovenia, the inactivity and low-wage traps for second earners are mostly driven by the withdrawal of FSA. Indeed, FSA depends on the number of family members and total household income. The inactivity and low-wage traps increase risks of poverty and unemployment.

Figure 10. Inactivity and low-income traps are high for second earners in Slovenia

Inactivity trap and low wage trap for second earners, %, 2019



1. The trap data is for a second earner at 67 % of the average wage in a two-earner family with two children; the principal earner earns the average wage (AW).

2. The trap data is for a second earner with a wage increase from 33 % to 66 % of the average wage, in a two-earner family with two children; the principal earner earns the average wage (AW).

Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model.

20. Recent measures to make work pay more have not raised work incentives for those who are out of work and harder to place. Since 2019, unemployed workers with no qualifications can benefit from a wage subsidy equal to 20% of their unemployment benefit after regaining employment. This measure applies only to those who are still eligible and leaves out the long-term unemployed, the inactive, individuals on disability benefits or those who are socially assisted.

21. Implementing a scheme of “in-work” benefits could be effective in reducing work disincentives (Hoynes and Blundell, 2013). In such schemes, transfers to low-income workers are tied to working a minimum number of hours, and gradually withdrawn as earnings rise. Inactive workers, long-term unemployed, and individuals solely dependent on social assistance or disability benefits, would also be eligible for “in-work” benefits upon regaining low-paid employment, increasing their job-search incentives. “In-work” benefits also extend the benefit coverage to workers in all forms of emerging flexible work, as argued in the new OECD Jobs Strategy (OECD, 2018i). More than half of OECD countries operate “in-work” benefits, which are particularly effective in buoyant labour markets (Immervoll and Pearson, 2009).

22. Other elements of the social benefits and employment protection systems also lead to disincentives to work. Unemployed workers can refuse job offers that are located more than one and a half hours away from their residency by public transportation, without losing benefits. Given the poorly developed public transportation network, this limit leads to uneven effects across regions. In areas where public transportation is well developed, it opens up the possibility of accepting many more jobs than in remote areas where the public network is lagging behind. Therefore, the location criterion should be adapted to local conditions. Under all circumstances, this limit should gradually be expanded with length of unemployment spells.

23. High levels of employment protection contribute to firms’ reluctance to offer stable employment contracts and thus to the low share of job-seekers who relocate for work. In 2017, more than 70% of new hires were on temporary contracts (Eurostat). At the same time, the housing market in Slovenia is rigid and the private rental market is underdeveloped (as discussed below). Consequently, unemployed workers may not accept temporary and low-paid offers requiring reallocation. Further reducing strictness of employment protection could increase the share of stable job offers, as well as unemployed workers’ incentives to accept relocation. As argued in the new OECD Jobs Strategy, flexible labour markets are essential to create high-quality jobs and a more dynamic environment. In addition, partial labour market reforms that liberalise the use of temporary contracts, but maintain high levels of employment protection for workers on open-ended contracts can be counter-productive. It can result in an excessive use of temporary contracts, leading to overall low job quality and high levels of inequality across generations (OECD, 2018i).

24. High labour taxes also contribute to disincentives to work. Social security contributions (SSCs) constitute 40% of total tax revenues in Slovenia, 14 percentage points above the OECD average. Together with high personal income tax (PIT) rates, this points to a high reliance on labour taxes, which is associated with lower growth (OECD, 2018d).

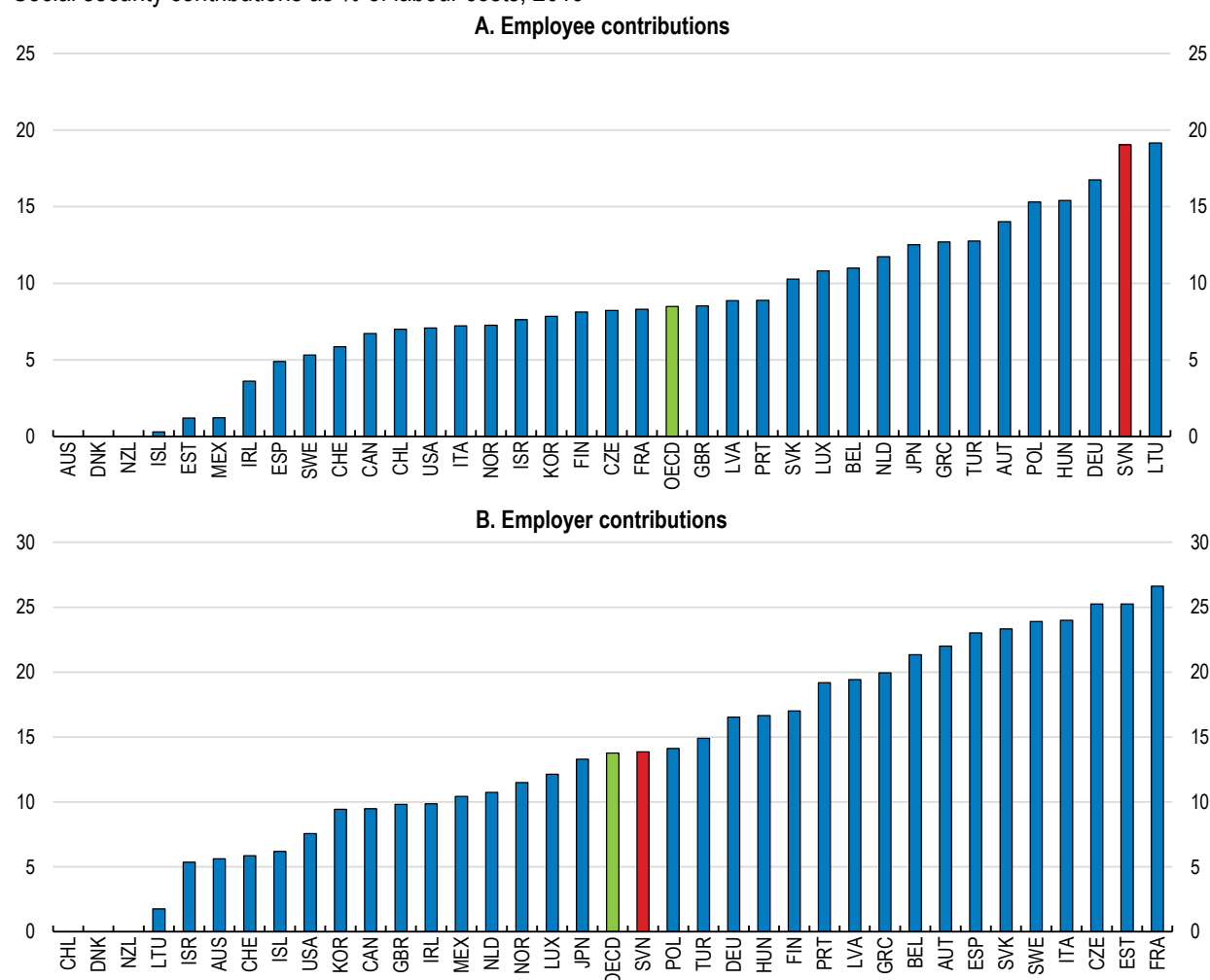
25. The contribution bases for SSCs and PITs are narrowed by generous tax credits and tax exemptions. These include holiday allowances (a mandatory lump-sum payment every July) and commuting allowances (a mandatory monthly compensation for commuting expenses), for example. Therefore, high contribution rates, paid mostly by employees, must compensate to obtain high tax revenues (Figure 11). This creates a large gap between net and gross wages and reduces labour market participation incentives (OECD, 2018f).

26. A relatively high top bracket PIT rate and a steep PIT rate structure reduce incentives to up-skill, increase work efforts and move to more productive jobs. (Figure 12; IMF, 2019). In particular, strong personal income tax progressivity negatively affects labour supply for the highest skilled workers and investments in individual skills (Badel and Huggett, 2014).

27. Broadening the SSC and PIT tax bases could allow for lower rates and improved labour supply incentives, within a revenue neutral framework. Previous OECD research, using Slovenian tax records, shows that lowering the top PIT rate by 5 percentage points while broadening the PIT tax base through reducing tax allowances by 5% would even have slightly positive revenue effects (OECD, 2018d).

Figure 11. Social security rates for employees are high in Slovenia

Social security contributions as % of labour costs, 2019



Source: OECD Taxing Wages database.

28. Rates could also be lowered by relying more on less growth distortive taxes, such as recurrent taxes on immovable property (Blöchliger, 2015). Revenues from property taxes are well below the OECD average (Figure 13). Shifting the tax burden away from labour to less growth distortive taxes (such as consumption or property taxes) would increase aggregate labour and Slovenia's output by 0.5 percent in the medium to long term, within a revenue neutral framework (IMF, 2019). Increasing the use of recurrent taxes on immovable property from the current 0.6% of GDP to the levels collected among the best OECD performers of 2% of GDP would raise revenues by EUR 670 million, more than offsetting the impact of a 5¼-percentage points reduction in the SSC rates (OECD, 2018d).

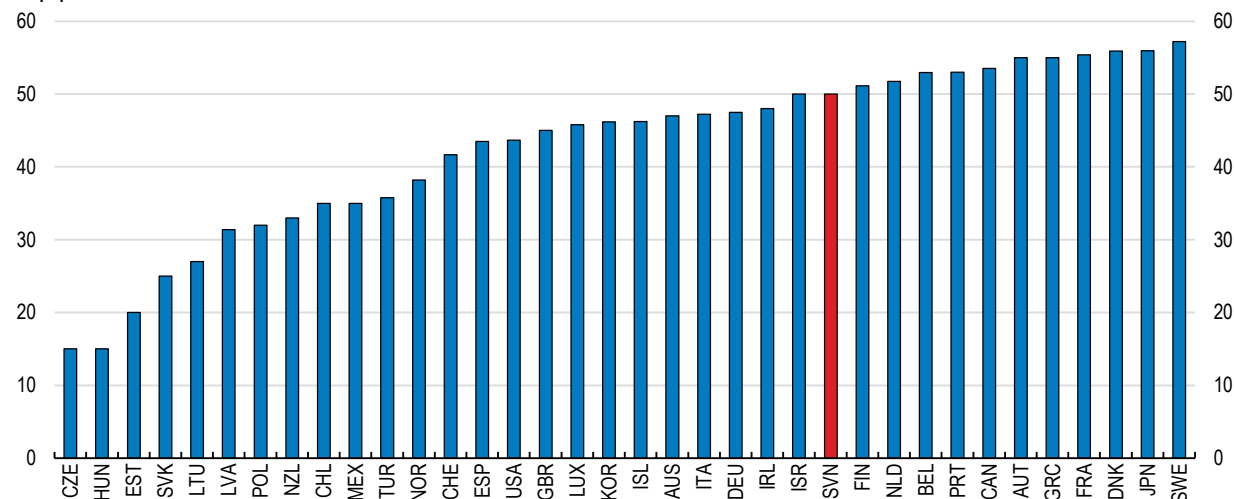
29. Another problem is the lack of a market-based valuation system for property taxes. Currently, property taxation is based on a system of points reflecting the characteristics of the properties, with municipalities setting the value of a point for their area each year. In the absence of adjustments that take market values into account, highly desirable properties can end up paying the same taxes as undesirable properties (Almy, 2014).

30. Linking the assessment of property value for tax purposes to the market value will also increase incentives to develop vacant land and rent out empty dwellings, as market prices reflect the land development and housing potential (Andrews, Caldera Sánchez and Johansson, 2011). This would

increase housing supply responsiveness and contribute for the development of the private rental market, with positive spill over effects on labour market dynamics, as discussed below (Box 3 and Box 4).

Figure 12. Slovenia is one of the countries with the highest top personal income tax rate

Top personal income tax rates, 2019

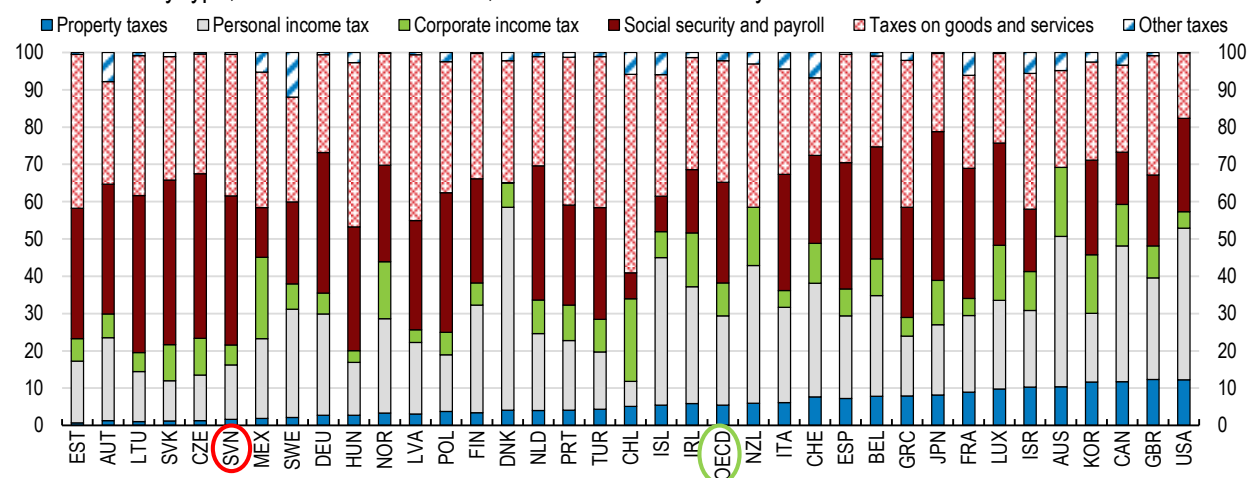


Note: Includes central government and local taxes

Source: OECD Taxing Wages database.

Figure 13. Revenue from property tax is low

Tax revenue by type, % of total tax revenues, 2018 or latest available year¹



1. 2017 for Australia and Greece.

Source: OECD Global Revenue Statistics database.

3. Maximising long-term potential growth requires a more efficient allocation of labour

31. In addition to labour supply constraints, ageing poses other significant challenges that need to be addressed to sustain growth in the medium- to long-run. Existing labour market institutions need to be adapted to handle persistent labour shortages, make the most of the existing workforce, and to continue to provide decent living standards to a longer living population. During the recovery and in the long run sustaining growth will increasingly hinge on optimising the allocation of labour across firms, occupations

and regions. Ensuring that resources can be reallocated to more productive uses while fostering continuous learning and innovation at the workplace is one of the main challenges in preparing to rapidly changing labour markets, as acknowledged in the new OECD Jobs Strategy (OECD, 2018i).

3.1. The rigid wage-setting system contributes to lower labour market mobility

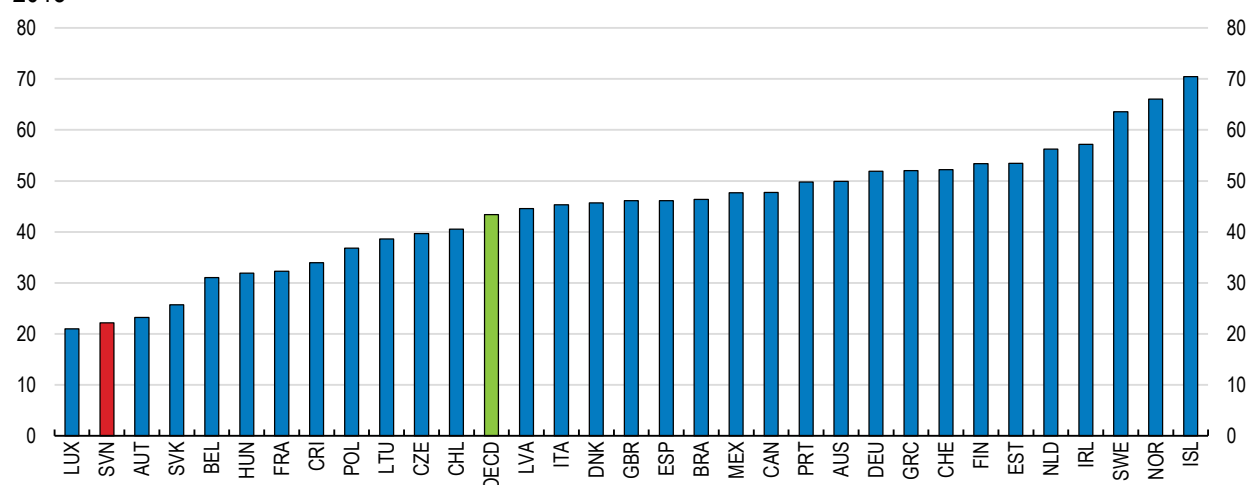
32. Legal requirements are reducing wage flexibility. For example, paying automatic seniority bonuses lower older workers' incentives to increase productivity. These bonuses are usually 0.5% of the baseline wage for each year of experience. In some sectors, stakeholders have agreed that mandated seniority bonuses are to be based on tenure rather than working experience. Tenure-based automatic bonuses also lock older workers into their current job, limiting job-to-job mobility and thus inhibiting the allocation of workers to jobs and higher productivity (Gautier, Teulings and van Vuuren, 2010; Adalet McGowan and Andrews, 2015).

33. This may lead firms having to pay wages to older workers above their productivity, harming their employment prospects. This is reflected in the low retention rate of older workers (Figure 14). Mandatory seniority bonuses also contribute to the low re-employment rates of older unemployed workers, increasing their risk of long-term unemployment (OECD, 2006a; Vodopivec and Dolenc, 2007).

34. Seniority bonuses determined centrally (by law) should be replaced by experience-based premiums determined individually or as part of the wage bargaining process with social partners. Firm-level agreements would help ensure that wage improvements remain aligned with firm productivity growth. This would benefit older workers' employment prospect, give employers the tools for attracting and retaining talent, and employees the incentives to increase work and training efforts, boosting the economy's growth potential.

Figure 14. The retention rate of older workers is low in Slovenia

2015



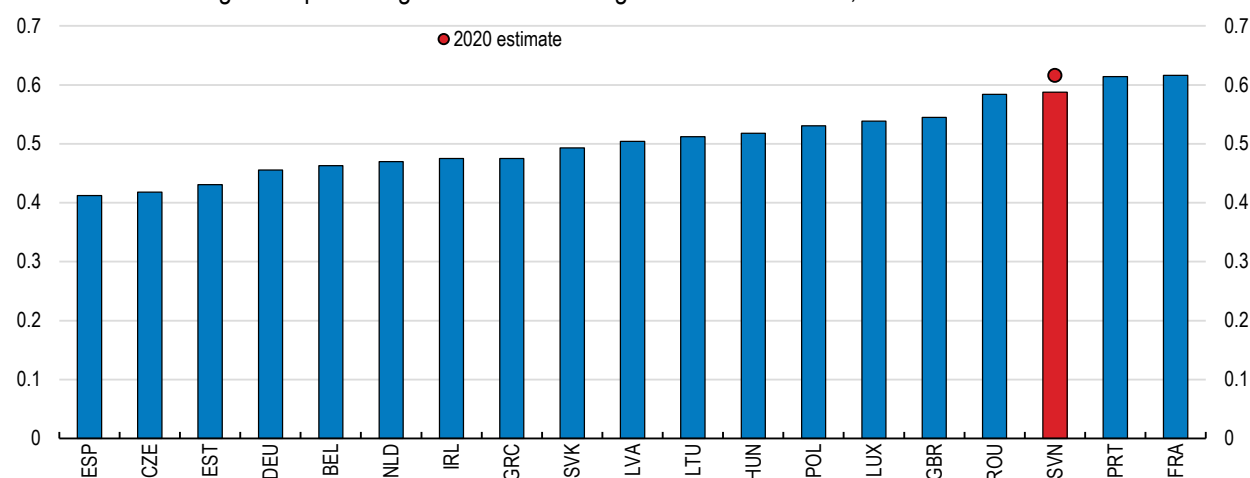
Note: Total number of 60-64 year olds with a job tenure longer than 5 years divided by all the employed 55-59 year old 5 years earlier.

Source: OECD Labour Force Survey database.

35. The wage formation process is also constrained by the relatively high legal minimum wage (Figure 15). After a five-year period with modest growth in the minimum wage, it was raised by 5.2% in 2019 and 6.1% in 2020, faster than overall wage growth in the same period. The high minimum wage is intended to benefit poor and low-income families. However, earlier increases induced firms to hire fewer workers than otherwise, increasing the unemployment of low-skilled workers and the risk of long-term unemployment (Todorovič Jemec and Vodopivec, 2016; Ministry of Labour, Family, Social Affairs and Equal Opportunities, 2017a).

Figure 15. The minimum wage is high relative to the median wage

Gross minimum wage as a percentage of the median wage of full-time workers, 2018



Source: OECD Labour Earnings database.

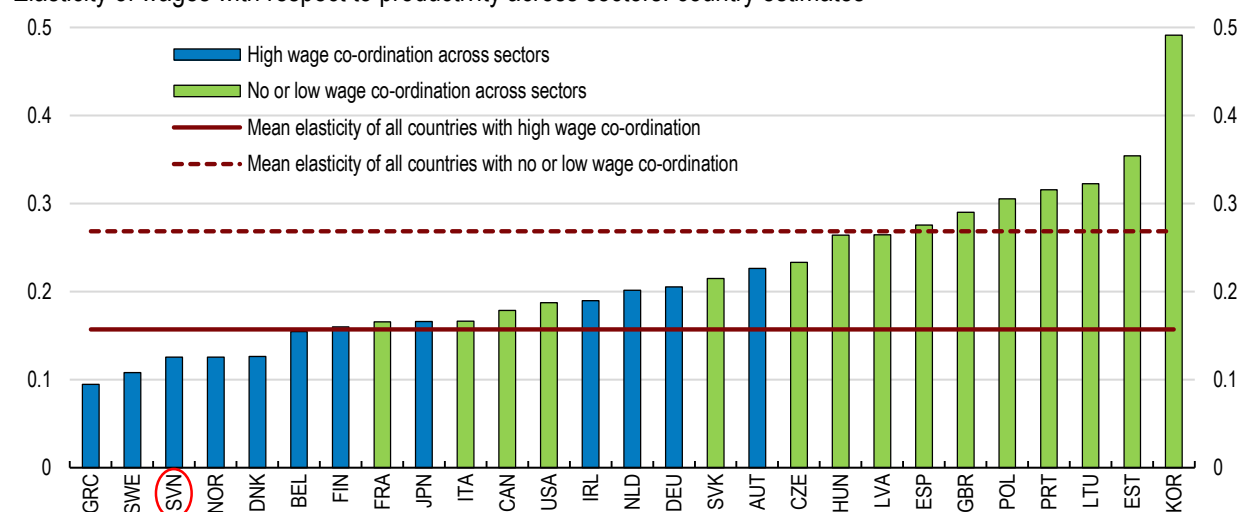
36. High minimum wages can also lock low-skilled workers in low-paying jobs as they reduce flexibility at the lower end of the wage scale. This reduces the incentives for employers to provide on-the-job training to low-paid workers. In fact, employers tend to pay lower wages while providing training to their employees, who are later compensated with steeper wage growth as their productivity increases. Evidence from other OECD countries shows that by increasing the minimum wage floor, the cost of training can no longer be passed on to low-paid workers, which may deter firms from up-skilling them (Neumark and Wascher, 2001).

37. Slower increases in the minimum wage relative to the median wage would help improve employment opportunities for low-skilled workers and the long-term unemployed. It could also improve on-the-job training opportunities for the lowest paid. Alternative reform options include introducing a reduced minimum wages for new labour market entrants and long-term unemployed, following the example in some OECD countries, such as Germany and Japan, or let social partners determine the appropriate level of minimum wage (Neumark and Wascher, 2004).

38. Collective bargaining takes place predominantly at the sectoral level. This results in a high level of wage coordination, even in the private sector. Firm level agreements can only offer more favourable terms than sectoral agreements. Administrative extensions, to ensure that an agreement covers all of the industry, are common, reducing the scope for differentiated wage developments across firms (OECD, 2017a). Despite the law permitting temporary deviations from sector agreements in cases of economic difficulties, in practice, few employers deviate (OECD, 2017a).

39. The highly co-ordinated wage determination system has led to a compressed wage structure and a disconnect between individual productivity and wage developments (Figure 16). OECD research shows that countries with a high level of wage coordination across sectors have a lower elasticity of wages with respect to productivity (OECD, 2018h). Consequently, workers have little incentives to increase effort and training or to change jobs. This can lead to a sub-optimal allocation of workers that reduces the economy's growth potential.

Figure 16. There is a disconnect between wages and productivity
Elasticity of wages with respect to productivity across sectors: country estimates



Note: A country has high wage coordination across sectors if in the majority of the years considered between 1980 and 2014, cross-sectoral agreements predominated.

Source: OECD Employment Outlook 2018; and ICTWSS database.

40. The compressed wage structure has contributed to low overall levels of inequality. However, at the same time it has contributed to a geographical misallocation of labour (Boeri et al., 2019). Wage rates do not reflect large differences in productivity across regions. This can partly explain the higher unemployment rates in low-productivity areas in Eastern Slovenia, as discussed below.

41. Moving to a system where firms have more flexibility to set wages in line with their productivity, would dismantle these obstacles to mobility and improve incentives to effort and training. The government should continue to reduce its involvement in wage determination, limiting the possibility for automatic extensions, as well as increasing the possibility for derogations and opt-out clauses. Social partners could be given more responsibilities in the wage bargaining process by negotiating at the sectoral level framework conditions, such as vacation and pensions, as well as seniority bonuses and minimum wage levels.

42. A highly coordinated wage bargaining system, in fact, reduces the need for using the legal statutory minimum wage as an instrument to prevent undesirably low pay. For example, Germany recently introduced a statutory minimum wage to increase the protection of workers because collective bargaining coverage and union membership declined. Austria, Denmark, Italy and Norway, on the other hand, do not have, nor plan to implement, a national minimum wage, since their collective bargaining systems are still strong and cover a large share of workers formally and informally (European Commission, 2015). At the same time, the prospects of persistent labour shortages in Slovenia means upwards pressure on wages, limiting the risk of undesirably low pay. Recent increases in public sector pay also influences the minimum wage floor that can be set in the private sector, especially at a time where public and private sector compete for similar types of workers.

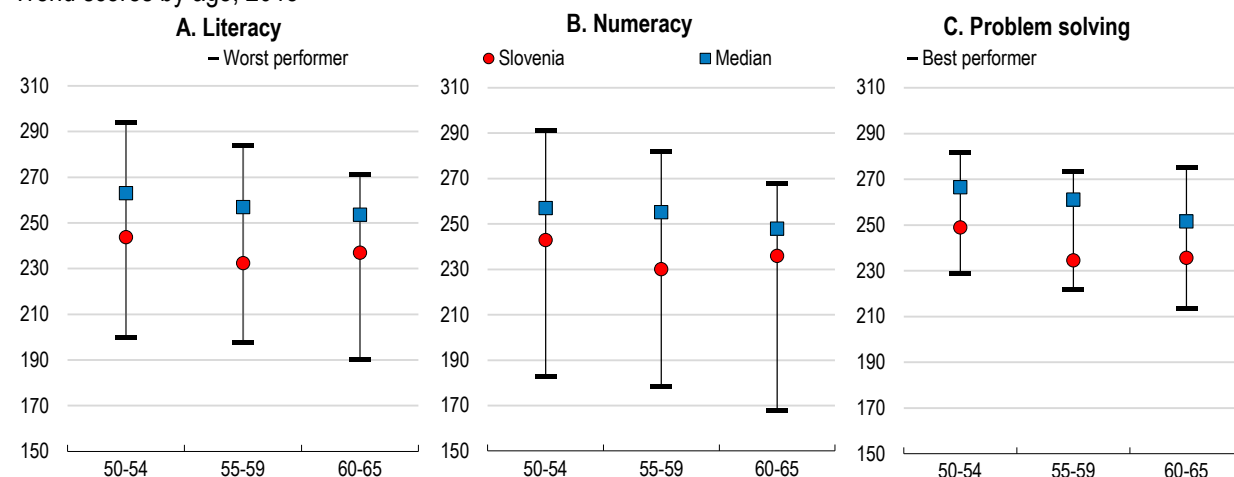
3.2. Skills demanded and skills supplied are often misaligned

43. Participation in adult education becomes increasingly important to maintain the employability of older workers as they are required to remain active for longer. Given the relatively high share of older adults with low literacy, numeracy and problem solving skills, upskilling senior workers is already a matter of urgency (Figure 17). Lack of basic literacy, numeracy and problem-solving skills represent an obstacle

to continuing learning. Younger cohorts have relatively better general basic skills than older workers, which should help to improve participation in lifelong learning in the future (Figure 18).

Figure 17. Older workers lack important skills

Trend scores by age, 2015

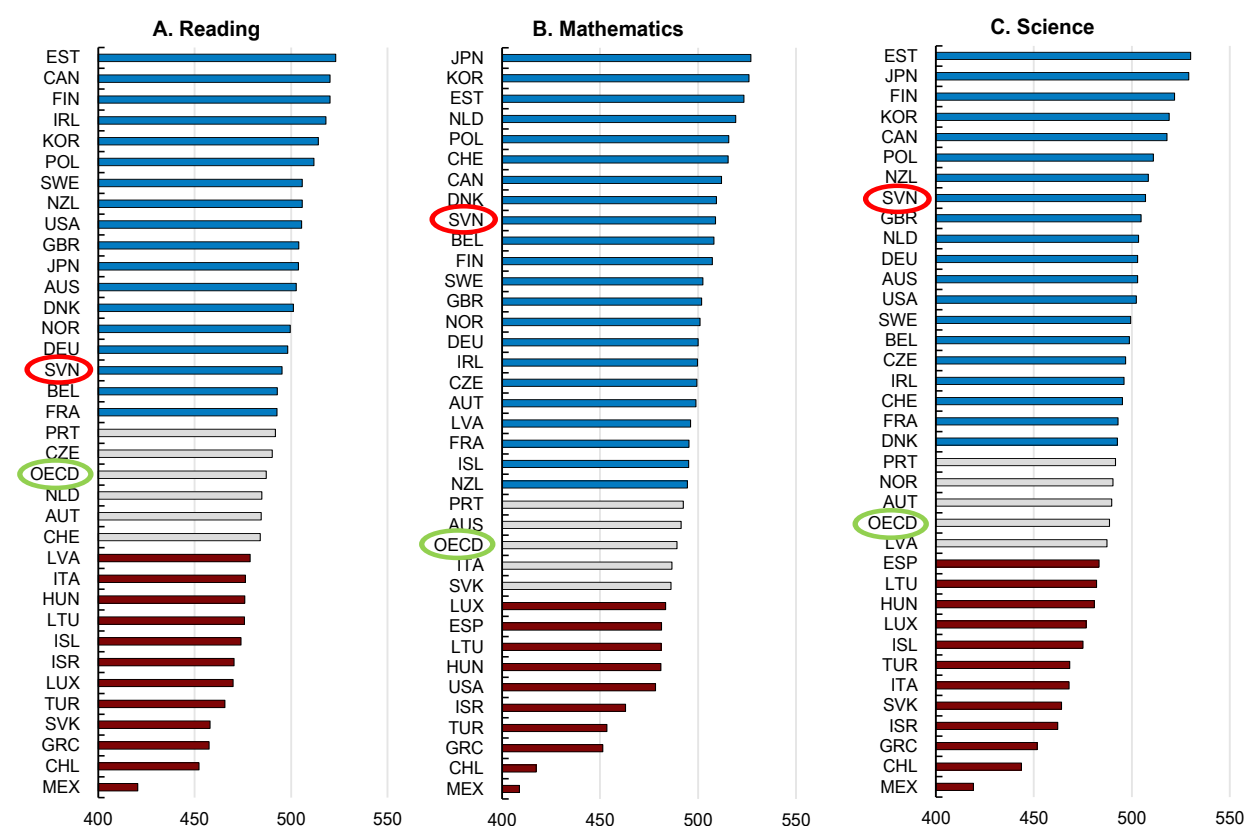


Note: Average score per country computed using PIAAC final sample weights.

Source: OECD Survey of Adult Skills (PIAAC).

Figure 18. Younger cohorts are doing better with basic skills

Mean score in PISA 2018



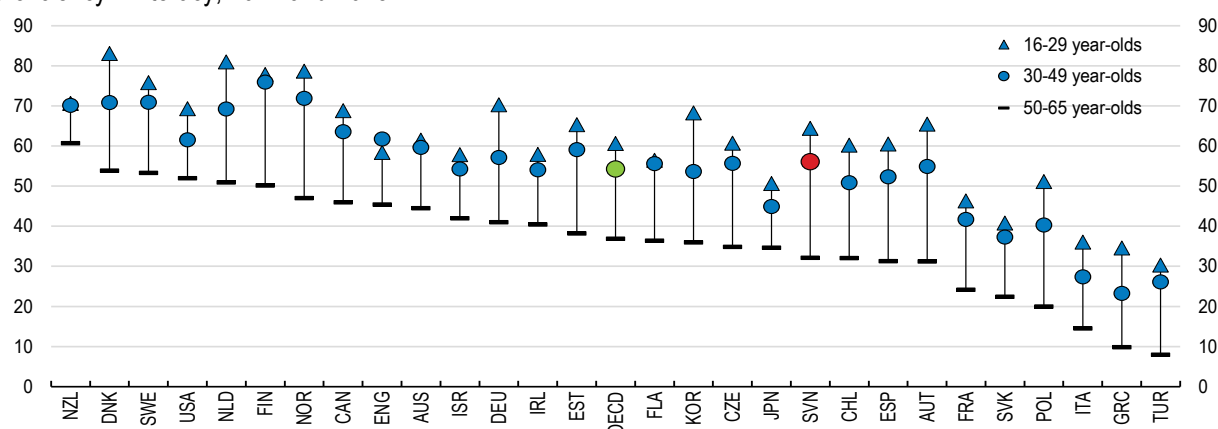
Note: Blue bars denote countries with a mean performance above the OECD average; grey bars denote countries with a mean performance not significantly different from the OECD average; brown bars denote countries with a mean performance below the OECD average.

Source: OECD (2019), PISA 2018 Results (Volume I): What Students Know and Can Do, PISA, OECD Publishing, Paris.

44. Financial constraints are a key barrier to lifelong learning participation among the low skilled and older workers, who are less likely to enrol in adult education programmes (Figure 19; OECD, 2019a). Slovenia has the second highest share of workers who claim they wanted to participate in training, but did not because of lack of financial resources (PIAAC, 2012, 2015). Slovenia is also the European country with the third lowest investment in adult education and the share of firms receiving some sort of training subsidy or support is also among the lowest. There are no tax incentives to provide on-the-job training (OECD, 2019a).

Figure 19. Older workers are less likely to participate in adult education

Percentage of adults who participated in adult education and training during year prior to the survey, by level of proficiency in literacy, 2012 and 2015¹



1. Year 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey; for all other countries, 2012. ENG refers to England (UK) and FLA to Flanders (Belgium).

Source: OECD Survey of Adult Skills (PIAAC).

45. Other OECD countries, such as Italy, have introduced training funds, associations run by social partners that finance workers' training through a levy imposed on employers (OECD, 2019d). Financial incentives for individuals are also increasingly used, such as income-contingent loans (Finland, Sweden and the UK, for example) and individual learning accounts (Austria and France, for example) (OECD, 2017b; OECD, 2019e).

46. Another obstacle for the development of lifelong learning is that there is no reliable data on skills needs. The compressed wage structure means that skill imbalances are not reflected in wages. Employment variation across sectors and occupations will become a weaker market signal as labour shortages persist. Even the existing vacancy data per occupation, which is collected by the ESS, has limited information content in terms of skills needed, as employers also advertise jobs elsewhere (OECD, 2016b; OECD, 2017b). Moreover, the task content of occupations is changing continuously, implying that vacancy data do not convey information about which skills are in growing demand.

47. Lifelong learning will be increasingly important to facilitate occupational mobility. Currently, Slovenia is one of the European countries with the lowest job mobility rate (Figure 20). However, with new technologies permeating the workplace, there will be further churning of jobs, with new different jobs replacing those that are being destroyed (OECD, 2019b). Lack of reliable data on skills needs also means that workers with obsolete skills may not realise that their job is at risk and fail to seek lifelong training. Developing robust systems and tools for assessing and anticipating skills needs is one of the main recommendations from the new OECD Jobs Strategy (OECD, 2018i).

Box 1. Policies to improve working conditions for older workers

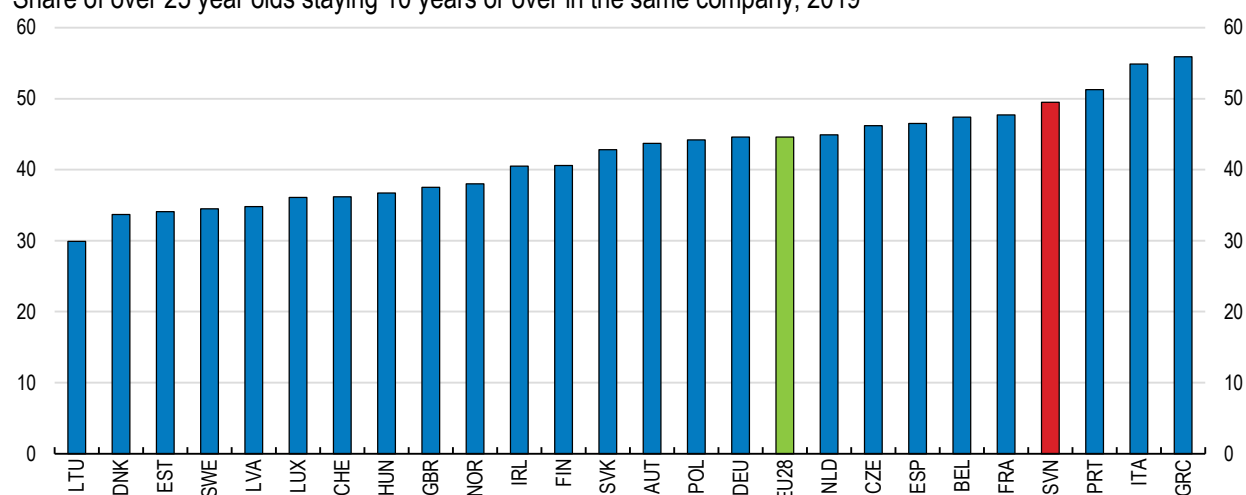
Longer working lives require adapted working conditions for older workers. According to the new OECD Jobs Strategy, Slovenia performs worse than other OECD countries concerning job quality, in particular, regarding job strain, which can be a major obstacle for older workers to prolong their work activity (OECD, 2018g; OECD, 2018i).

The Slovenian programme “*Comprehensive Support for Companies for Active Ageing of Employees*” has developed a guide for employers with strategies for better managing older workers. Capacity building workshops have been developed for managers to increase their competencies in dealing with an ageing workforce (OECD, 2017c).

Age management policies at the company level have also been implemented in other countries. Finland, for example, has implemented flexible working hour schemes for older workers. In Sweden, job rotation schemes were developed, to tailor tasks to the personal circumstances of senior workers, avoid repetitive work, static and awkward postures, and reduce prolonged exposure to hazards (European Foundation for the Improvement of Living and Working Conditions, 2012).

Figure 20. Workers stay in the same job for long

Share of over 25 year olds staying 10 years or over in the same company, 2019



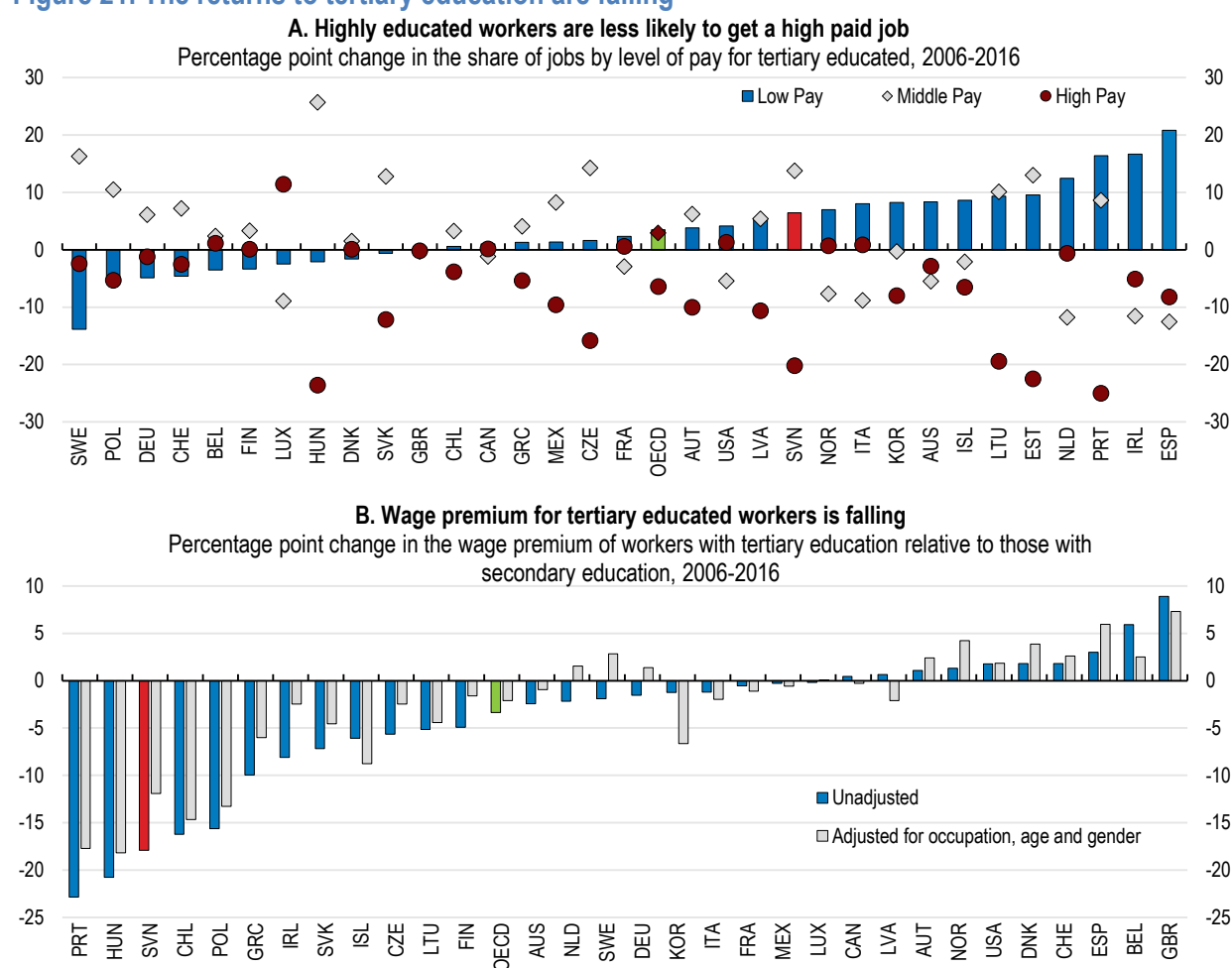
Source: Eurostat.

48. The increasing mismatch between educational attainment levels and labour demand has contributed to the migration of tertiary graduates (Bank of Slovenia, 2019). Tertiary enrolment has substantially increased to 57% of the population at the age of 20, well above the OECD average of 39%. However, the economy remains largely based on activities with low value-added per employee. Indeed, the occupations most in demand are those requiring medium or low skill levels, such as drivers of heavy goods vehicles and tractor units, labourers in manufacturing and sales staff. Consequently, young highly educated people are now more likely to be in low-paid jobs. Between 2006 and 2016, the wage premium for workers with tertiary education, relative to those with secondary education, fell by more than 15 percentage points (Figure 21) (OECD, 2019b). The compressed wage distribution (see above) also contributes to reduce the tertiary education premium, creating incentives for tertiary graduates to migrate.

49. Employer surveys should be used to collect information on skills needs and should be combined with graduate surveys to shed light on the employment opportunities for different educational programmes.

These are extensively used in other OECD countries, such as Australia, Canada or the UK (OECD, 2016b; OECD, 2017b; Box 2). The collected information should be shared across ministries, employment services, schools, parents and the wider public to enable adjustment of both supply of and demand for education (OECD, 2017b). This information could also be used by career counselling services for students and to guide the development of lifelong learning programmes that respond to labour market needs. Better alignment between wage increases and individual productivity would also enhance lifelong learning incentives and increase labour market mobility, leading to a better use and allocation of labour resources.

Figure 21. The returns to tertiary education are falling



Note: The OECD average is the unweighted average of all countries shown. Low-paid jobs are those paying less than two thirds of the median wage, while high-paid jobs are those paying more than 1.5 times the median wage. The time period covered is 2006-16, except for Korea (2006-14), Australia (2006-15), Greece, Portugal and Latvia (2007-16), Italy (2007-15), Switzerland (2008-15). Chile, Canada, Ireland and Luxembourg (2006-15), and Iceland (2006-13).

In panel B, the reported values are approximate changes in percentage points obtained from country-specific regressions of log of wages on the relevant covariates.

Source: OECD, "The Future of Work: Employment Outlook 2019".

Box 2. The UK Employer Skills Survey (ESS)

The Employer Skills Survey (ESS) has been conducted biennially since 2011 under the responsibility of the Department for Education. More than 87 000 establishments are surveyed across the UK, covering all sectors of the economy, and with the condition that they have at least two employees. The information is collected through telephone interviews with the most senior person at the site with human resources management responsibilities.

The questionnaire covers information on the demographics of the firms, recruitment activity and difficulties filling vacancies. Employers are specifically asked about the extent and nature of skills gaps with their current workforce and in the available pool of candidates in the labour market. The questionnaires also covers employers' strategies to overcome these skills gaps.

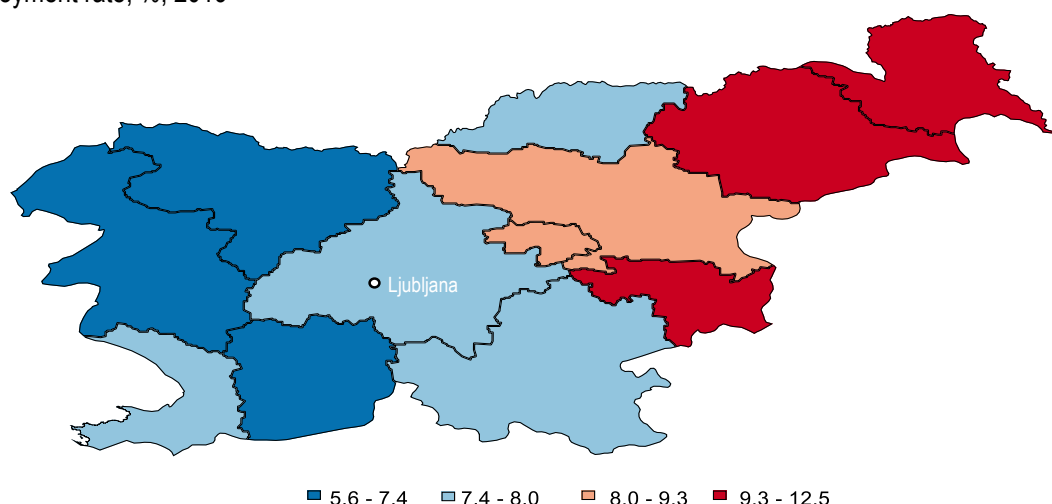
The survey also collects information about specific occupations by grouping them into "high-skill occupations", "middle-skill occupations", "service-intensive occupations" and "labour-intensive occupations". The full questionnaire, as well as further information on the questionnaire design, can be found at: <https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report>.

3.1. Lack of spatial mobility hampers the optimal allocation of workers to jobs

50. Unemployed workers in Eastern Slovenia are not seeking opportunities in the Western regions (Figure 22). This cannot be explained by educational mismatch. Notably, although educational attainment is lower in the Eastern regions of the country, there is a shortage of low-skilled workers in the services industries in the Western parts of the country (Statistical Office, 2018). Geographical mobility is low, both in terms of regional migration and in terms of inter-regional commuting (Statistical Office, 2018).

Figure 22. Unemployment is higher in Eastern Slovenia than Western Slovenia

Unemployment rate, %, 2019



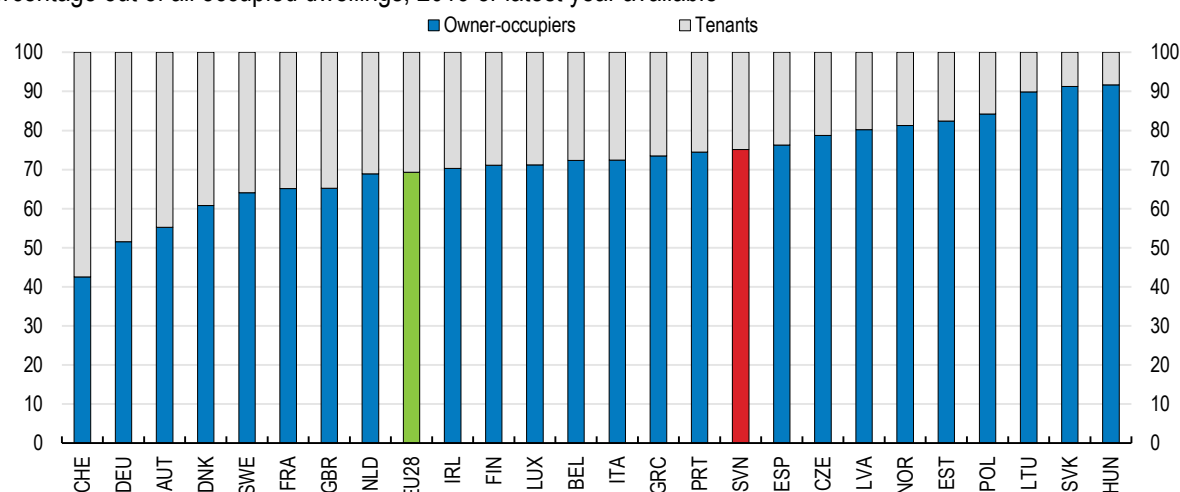
Source: Statistical Office of Slovenia.

51. Residential mobility is much lower than in other OECD countries (Caldera Sánchez and Andrews, 2011). In 2019, less than 4% of households changed residence within the last 2 years as compared with more than 20% in countries like Australia, Sweden or the United States (Causa and Woloszko, 2019). This low residential mobility is linked to relatively high and widespread home ownership (Figure 23). This is partly the result of the privatisation process of public housing in 1991, where average selling prices were

approximately 10 per cent of market values (Sendi, 2018; Stanovnik, 1994). Tax favouring of owner-occupied housing is another contributing factor (OECD, 2018e). Owner-occupied housing should be taxed as other assets to remove investment bias.

Figure 23. Slovenia has a high home-ownership rate

Percentage out of all occupied dwellings, 2019 or latest year available



Source: Eurostat, European Union Statistics on Income and Living Conditions (EU-SILC) database.

52. Large geographical differences in house prices make it difficult for residents in low house price areas (for example, in the East) to afford properties in high price areas (such as in the capital Ljubljana and its surroundings). Geographical house price differences are being widened by a slow housing supply responsiveness to demand increases (Bank of Slovenia, 2018). To improve geographical mobility and the spatial allocation of workers to jobs, several measures should be taken to increase housing supply responsiveness, such as lowering the regulatory burden on construction permits and the number of regulated professions in the construction industry (Box 3).

53. Younger workers are often locked in where their parents live, which prevents them from moving to areas with better employment opportunities. The high share of temporary employment among the youth complicates their access to housing loans, often forcing them to rely on intergenerational transfers (Cirman, 2008). Those who cannot rely on family loans often continue to live with parents or relatives. In fact, the share of young couples sharing household with parents has increased over time to become one of the highest in the EU (Cirman, 2006; Iacovou and Skew, 2011). Continued efforts to lower strictness of Employment Protection Legislation, as discussed, would also help in this area.

54. Labour market mobility is also hindered by a largely unregulated and underdeveloped private rental market (Sendi, 2016; Box 4). Housing policy should promote the private rental market as an alternative to home-ownership. Housing rental provides greater career flexibility, with lower reallocation costs when accepting an employment opportunity elsewhere. This can lead to more dynamic labour markets, lower mismatches and higher productivity (Oswald, 2019). Renting also provides higher financial flexibility (Banks, Blundell, Oldfield and Smith, 2012). Collecting systematic information about rental activity would reduce information asymmetries, while adequate regulation on rent termination of contracts, sharing of maintenance responsibilities and limiting potential rent increases, would reduce uncertainty, ease negotiations and make renting a more attractive option.

55.

Box 3. Policies to encourage housing supply responsiveness

Housing construction activity remains below its 2008 levels despite rapid house price increases, particularly in the capital. Construction of residential dwellings fell by more than 40% between 2010 and 2016 (European Commission, 2019).

To improve housing affordability and labour mobility, Slovenia could consider tackling several factors that restrict housing supply responsiveness.

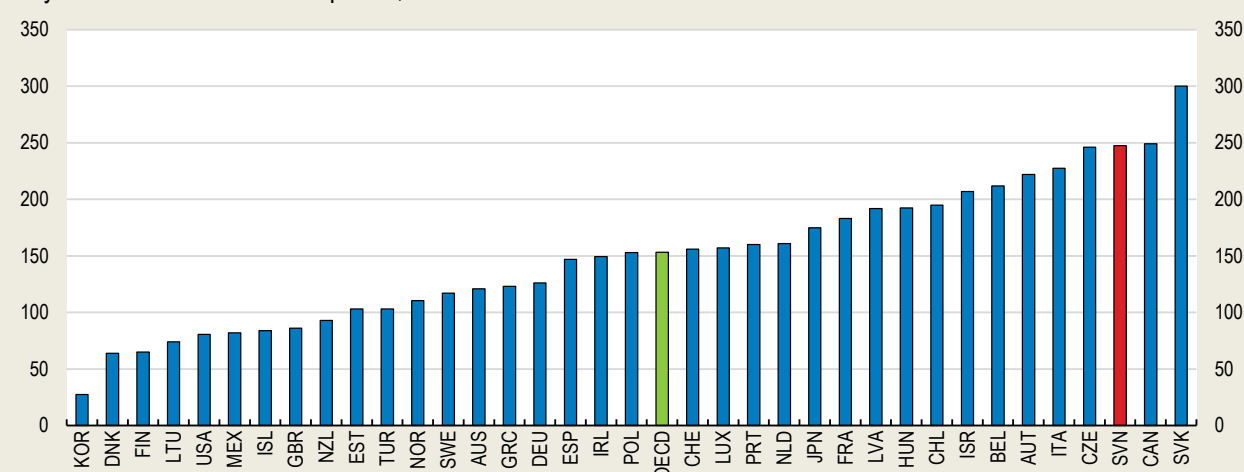
Construction permits. The activity of foreign companies in the construction sector is considerably lower in Slovenia than peer countries (OECD Globalisation Database, 2014). The high regulatory burden could explain the lack of entry by foreign firms. Obtaining a building permission takes on average 247.5 days which is among the highest in the OECD (Figure 24). Some changes have been recently implemented, such as issuing environmental and construction permits together to accelerate the procedure (European Commission, 2018).

Regulated professions. Overall, Slovenia still has 262 regulated professions. In the best performing OECD countries, for example, there are as little as 40 regulated occupations (EU Database on regulated professions). As recommended in previous *surveys*, the government should consider significantly lowering the number of regulated professions (OECD, 2017a). In particular, there is still a high number of regulated professions in the construction industry. Access to the profession of civil engineer, for example, which is currently in shortage, is still highly regulated (OECD, 2017a).

Public procurement. The public procurement system is not promoting competition in the construction sector. A high proportion of contracts is awarded with only one bidder (European Commission, 2019). Procurement related complaints are common, mostly driven by the perception of tailor-made tenders (European Commission, 2016). Other irregularities have been identified, such as access to technical specification before publication of the tender, provision of false statements in the bid or excessive additional expenses for “unforeseen works” (European Commission, 2016). Recent improvements in e-procurement will help strengthening oversight of public procurement procedures and controls over above-normal expenses (OECD, 2019c).

Figure 24. It takes long time to get a construction permit

Days to obtain a construction permit, 2018



Source: World Bank Doing Business.

Box 4. Policies to promote the development of a private rental market

The private rental sector is largely unregulated and there is no official data collection of market rental prices (Sendi, 2016). Inadequate inspection and non-existing registers mean that most of the rental activity is unofficial (Petrovič and Meznar, 2015). Poor information makes it difficult for the renter and the landlord to determine a market based rent, deterring the development of a private rental market.

There are no rules on rent increases, removing rent predictability and reducing incentives for renting. Property owners also face disincentives to let properties in the absence of adequate legislation on deposits to cover potential claims after the contract termination, and responsibilities of parties regarding maintenance works.

Property owners are also deterred by lengthy court procedures for tenancy disputes. The average length of proceedings is 13.2 months with another average of 4.6 months for appeals (Petrovič and Meznar, 2015).

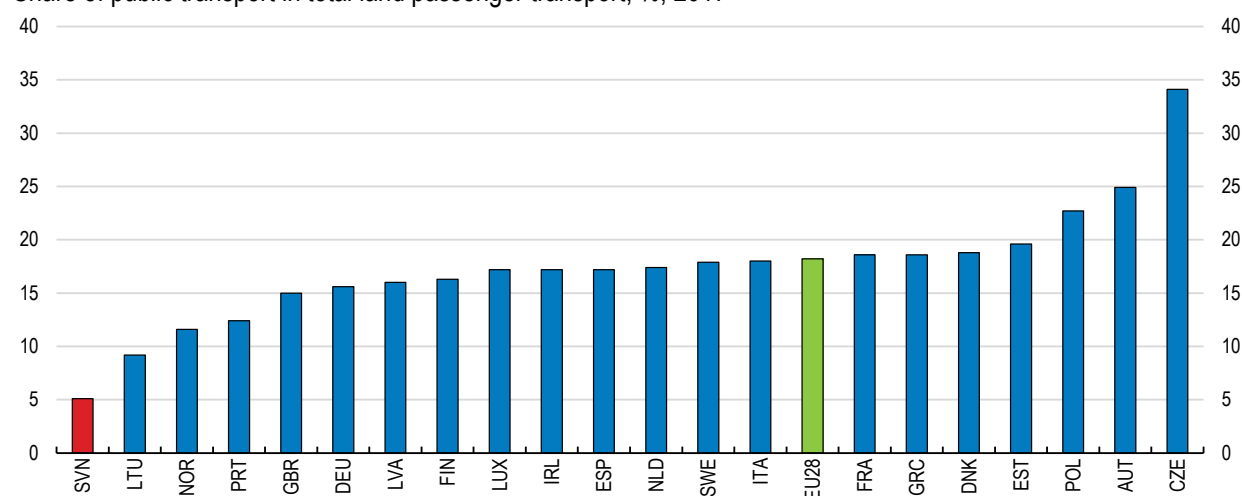
Tenants face high uncertainty with respect to lease renewal. Almost all rental contracts are fixed-term with no tacit renewal. Tenants must explicitly demand the contract prolongation and new terms can be agreed every time. This creates additional incentives for short-term rental contracts, adding to uncertainty. The law also specifies that energy performance certificates are only needed for owners who rent their dwelling for more than one year.

Adequate regulation could boost the development of the private rental market. Collecting information and keeping records of rental activity would reduce asymmetric information problems. The regulation should allow landlords to terminate indefinite contracts should any justifiable need arise, such as for own occupation, for example. Rules limiting rent increases during tenancy, assigning maintenance responsibilities and clarifying deposit requirements should also be considered to reduce uncertainty, ease negotiations and make renting a more attractive option. Energy performance certificates should be required regardless of the rental contract duration.

56. Labour force participation and mobility would also benefit from further development of public transportation. The share of public transport in the total land passenger transport is the lowest in Europe (Figure 25). Among the reasons why public transportation is so unpopular in Slovenia, 26.7% of inhabitants blame the sub-optimal design of itineraries and an additional 16.6% point out to the lack of accessibility of the public network, i.e. distance from residence to stations or connectivity between different modes of transportation (Eurostat, 2019). There is international evidence that better public transportation accessibility increases labour force participation and lowers labour mismatches, by widening the range of opportunities for employment (Atiullah Saif, Maghrour Zefreh and Torok, 2018).

Figure 25. Public transport is little used in Slovenia

Share of public transport in total land passenger transport, %, 2017



Source: Odyssee database.

57. A factor behind the poorly developed public transportation is lack of competition in the road and railway sectors. Regulation is extensive compared to other OECD countries, discouraging the entry of new operators and reducing the supply of public road and rail transportation services (Figure 26). In the road sector, despite the high number of private bus operators, mostly within cities and between municipalities, the development is hindered by high licensing requirements to create new fast-lane and long-distance routes.

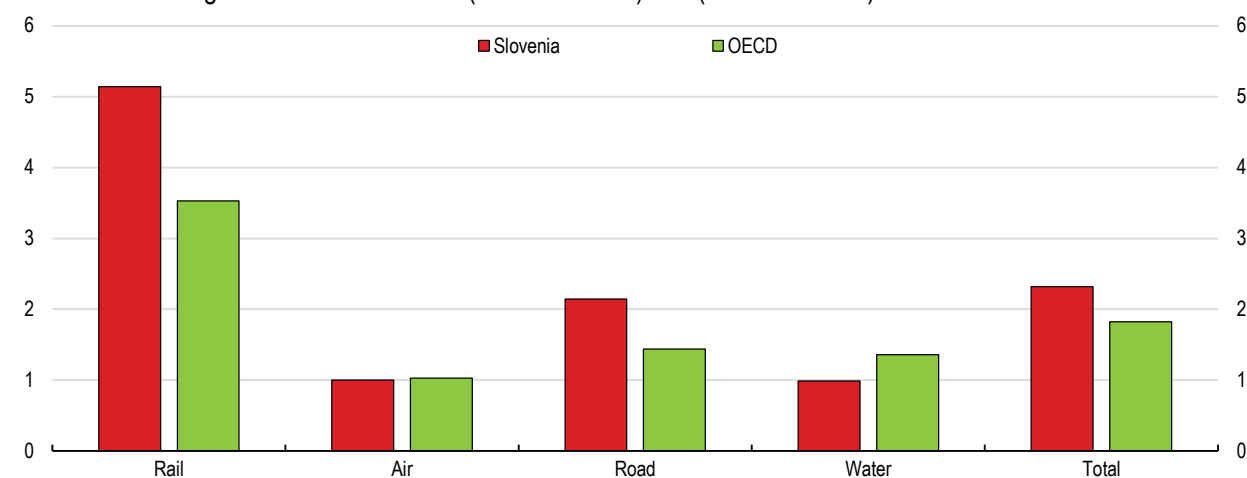
58. The heavy state involvement limits the entry of other operators in the railway sector. There are only two rail operators in Slovenia: one large publicly owned company that enjoys a quasi-monopoly and a small private firm. The state-owned company that develops the rail infrastructure is also the main rail operator. Adding to the issue, there is no independent system operator to guarantee non-discriminated access to the infrastructure for other potential operators.

59. Increasing competition in the rail and road sectors could help improve the quality and the accessibility of the public transportation network, with positive effects on cross-regional commuting. This can be achieved through privatisations, attributing public service contracts through tenders that abide to international standards, and streamlining entry procedures.

60. The tax-free commuting allowance creates a disincentive for residential mobility, while also failing to promote commuting using public transports. This allowance is calculated as the equivalent to the price of public transportation from the place of living to the place of work. The further away individuals live from their place of work, the higher the amount received in commuting allowance. In total, commuting allowances amount to an average of 4.3% of gross earnings (Statistical Office of the Republic of Slovenia, 2019). As it comes with no requirement to use the public transportation network, it promotes the use of private cars instead.

Figure 26. Regulation for rail and road transport is high in Slovenia

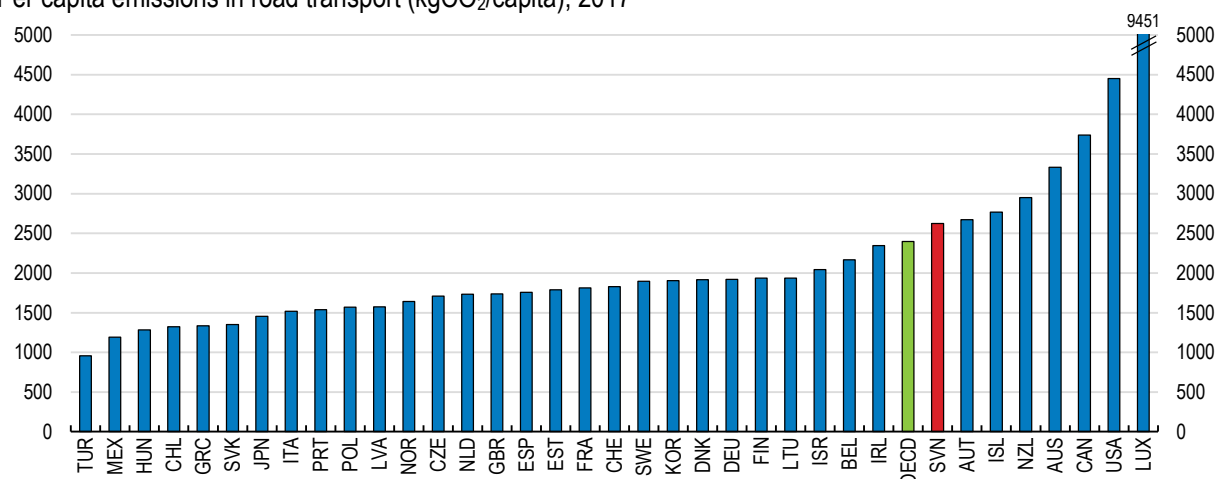
Product market regulation indicator from 1 (least restrictive) to 6 (most restrictive)



Source: OECD Product Market Regulation (PMR) Indicators.

61. The rigid housing market and the lack of a well-developed public transportation system have contributed to widespread commuting by car. High reliance on private cars for commuting has negative environmental consequences. More than 80% of individuals use private cars for their work commute (Ministry of Infrastructure, 2016). Together with the high volume of transit traffic, this means that Slovenia has the second highest CO₂ emissions per capita in road transport among the European OECD countries (Figure 27).

62. The flat-rate vignette for motorway use also contributes to high CO₂ emissions from road transport, as it creates no incentives to limit car use. Distance-based road charges could be considered again. Preferably, this should include the use of the secondary and tertiary road networks to avoid substitution effects away from motorways. However, such technology remains to be developed and until then, Slovenia could consider implementing congestion charges.

Figure 27. Slovenia's road traffic is a high CO₂ emitterPer capita emissions in road transport (kgCO₂/capita), 2017

Source: OECD Energy database.

63. Taxing the commuting allowance together with other personal income would increase the basis for personal income taxation, as discussed earlier. It would also reduce disincentives for residential mobility, as a lower fraction of net income would come from the commuting allowance. Eligibility could be

limited to unemployed workers who accept a position in another region and its duration could be limited in time (for example, to one year after starting the new position). This should provide sufficient incentives for geographical reallocation, without hindering residential mobility or promoting car use.

64. There is scope to raise fuel taxation to moderate road traffic emissions, in particular, the carbon tax on diesel. Transport fuels are subject to a fuel specific excise duty and a carbon tax. Adding excise duty and carbon tax together, less tax is paid per litre of diesel than gasoline. Although fuel taxes are relatively high compared with neighbouring countries, except Italy, aligning effective tax rates on different forms of energy to reflect their environmental damage could reduce emissions from road transport (OECD/ITF, 2019).

3.2. SOEs retain workers that could be redirected to more productive activities

65. SOEs account for a large share of employees in the non-financial sector. The national accounts statistics show that 7% of all employees in the non-financial sector work in SOEs, while other studies have provided estimates of 23%, when considering SOEs where the government has at least a 25% stake (OECD, 2017a; Ivanc, 2015; Domadenik et al, 2018). In recent years, the share is likely to have fallen due to fast private sector employment growth and privatisation. Nonetheless, compared to other emerging Eastern European countries, Slovenia has the second highest share of employment in SOEs, only after Bulgaria (Böwer and Baqir, 2017). Accelerating the privatisation process could liberate labour resources for the benefits of firms experiencing severe labour shortages. Indeed, previous privatisation experiences in OECD countries were associated with restructuring procedures leading to substantial declines in SOEs' employment (OECD, 2003).

66. State-Owned Enterprises (SOEs) are largely overstaffed. In fact, SOEs have a higher average cost of labour per unit of output produced than private firms in the same sector of activity (Böwer and Baqir, 2017). In the transportation sector, for example, the average cost of labour per unit of output produced in SOEs was more than twice that of private firms. Overstaffing of SOEs represents an inefficient allocation of labour. Liberating labour resources from low-productivity SOEs to more productive firms would contribute to raising the efficiency of labour market allocation and long-term potential economic growth.

Table 2. Main findings and recommendations on the labour market

FINDINGS (main findings in bold)	RECOMMENDATIONS (key recommendations in bold)
Underutilised labour resources need to be mobilised to sustain economic growth	
Harder-to-place workers receive insufficient support.	Redirect employment and training subsidies to job-seekers with high assistance needs. Implement statistical profiling to identify unemployed persons requiring intense support. Regularly assess the impact of all ALMPs to redirect spending towards the most effective programmes and improve evidence-based policy-making.
Unemployment, inactivity and low-wage traps are high.	Introduce “in-work” benefits. Continue to reduce labour tax rates by broadening their bases and bolstering property taxation. Tighten the “reasonable job offer” definition in the unemployment benefit eligibility criteria regarding the distance between job offer and residency.
	Tax owner-occupied housing as other assets to remove investment bias. Rely more on less growth-distortive taxes, such as recurrent taxes on immovable property that use the market value as basis for taxation.
Social benefits are used as pathways to early-retirement.	Reduce favourable treatment of older workers in unemployment benefit, disability and social assistance systems by curtailing age-dependent rules. Ensure that all individuals with partial disability who retain some work capacity are referred to occupational rehabilitation. Tighten disability insurance eligibility and consider work capacity for a broader set of occupations
Maximising long-term potential growth entails an efficient allocation of labour	
Co-ordinated wage bargaining hampers labour re-allocation.	Determine more of the framework conditions at the sectoral level, such as seniority bonuses and minimum wage levels. Give social partners greater responsibility in the wage bargaining process at the firm level. Limit the use of automatic extensions to all firms and increase the possibility for derogations and opt-out clauses.
Participation in lifelong learning is low	Increase financial incentives to individuals and employers for lifelong learning by introducing tax incentives, training levy funds, income-contingent loans or individual learning accounts.
Students lack information about returns to education	Develop a system to collect and spread reliable data on skills needs, and use it to develop lifelong education programmes that respond to labour market needs.
Labour mobility is low.	Tax owner-occupied housing as other assets to remove investment bias. Promote spatial mobility by taxing property based on market value. Increase housing supply responsiveness by streamlining procedures to obtain a construction permit and reduce the number of regulated professions in the construction industry. Promote the private rental market by introducing regulation that better balance the interest of landlords and tenants. Promote cross-regional commuting through public transportation by reducing state involvement in the road and railway sectors, streamlining regulation and licensing procedures.
SOEs are overstaffed and could liberate labour resources to higher-productivity activities	Accelerate the process of privatisations, for example, in the public transportation sector.

References

- Adalet McGowan, M. and D. Andrews (2015), "Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data", OECD Economics Department Working Papers, No. 1209, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5js1pzx1r2kb-en>.
- Almy, R. (2014), "Valuation and Assessment of Immovable Property", OECD Working Papers on Fiscal Federalism, No. 19, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5jz5pzvr28hk-en>.
- Andrews, D., A. Caldera Sánchez and Å. Johansson (2011), "Housing Markets and Structural Policies in OECD Countries", OECD Economics Department Working Papers, No. 836, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5kgk8t2k9vf3-en>.
- Atiullah Saif, M., M.M. Zefreh, and A. Torok (2018), "Public Transport Accessibility: A Literature Review", Periodica Polytechnica Transportation Engineering, <https://doi.org/10.3311/PPtr.12072>
- Badel, A. and M. Huggett (2014), "Taxing Top Earners: A Human Capital Perspective", mimeo.
- Banerjee, B., M. Jesenko and K. Grm (2012), "Regional Disparities in Slovenia", Bank of Slovenia, Vol. 2, <http://www.bsi.si/iskalniki/raziskave.asp?Mapald=234>.
- Bank of Slovenia (2018), Financial Stability Review, Bank of Slovenia, Ljubljana.
- Bank of Slovenia (2019), Economic and Financial Developments January 2019.
- Banks, J., R. Blundell, Z. Oldfield and J. Smith (2012), "Housing Mobility and Downsizing at Older Ages in Britain and the USA", *Economica*, 79, pp. 1-26.
- Bassanini, A. and R. Duval (2006), "Employment Patterns in OECD Countries: Reassessing the Role of Policies and Institutions", OECD Social, Employment and Migration Working Papers, <http://www.oecd.org/els/workingpapers>.
- Blöchliger, H. (2015), "Reforming the Tax on Immovable Property: Taking Care of the Unloved", Economic Department Working Paper, Vol. 1205, <http://www.oecd.org/eco/workingpapers>.
- Boeri, T. et al. (2019), "Wage Equalization and Regional Misallocation: Evidence from Italian and German Provinces", CEPR Discussion Paper No. DP13545, <http://www.nber.org/papers/w25612>.
- Böwer, U. and R. Baqir (2017), "State-Owned Enterprises in Emerging Europe: The Good, the Bad, and the Ugly Authorized for distribution", IMF Working Paper, Vol. WP/17/221.
- Caldera Sánchez, A. and D. Andrews (2011), "To Move or not to Move: What Drives Residential Mobility Rates in the OECD?", OECD Economics Department Working Papers, No. 846, OECD Publishing, Paris, <https://dx.doi.org/10.1787/5kghtc7kzx21-en>.
- Causa, O. and N. Woloszko (2019), "Housing Wealth Accumulation and Wealth Distribution", OECD Economics Department Working Papers, Vol. Forthcoming.
- Cirman, A. (2006), "Housing tenure preferences in the post-privatisation period: The case of Slovenia", *Housing Studies*, Vol. 21/1, pp. 113-134, <http://dx.doi.org/10.1080/02673030500391213>.
- Cirman, A. (2008), "Intergenerational transfers as a response to changes in the housing market in Slovenia", *European Journal of Housing Policy*, Vol. 8/3, pp. 303-315, <http://dx.doi.org/10.1080/14616710802256710>.
- Crépon, B. and G. van den Berg (2016), "Active Labor Market Policies", IZA Discussion Paper 10321.
- Desiere, S., K. Langenbucher and L. Struyven (2019), "Statistical profiling in public employment services: An international comparison", OECD Social, Employment and Migration Working Papers, No. 224, OECD Publishing, Paris, <https://dx.doi.org/10.1787/b5e5f16e-en>.
- Djankov, S. and P. Murrell (2002), "Enterprise Restructuring in Transition: A Quantitative Survey", *Journal of Economic Literature*, Vol. 40, No. 3, pp. 739-792, <https://www.jstor.org/stable/3217109>.
- Domadenik, P., B. Ivanc, D. Marinsek (2018) Productivity of Slovenian Firms, , European Economy, Discussion paper 078 – March 2018, European Commission, European Union.

- European Commission (2015), Mutual Learning Programme, Learning Exchange on "Minimum wages in the framework of collective bargaining systems", 11 September 2015, London, United Kingdom.
- European Commission (2016), Public procurement: Study on administrative capacity in the EU. Slovenia Country Profile, <http://www.e-narocanje.si/?podrocje=portal>.
- European Commission (2018), European Construction Sector Observatory: Country Fact Sheet Slovenia.
- European Commission (2019), "European Construction Sector Observatory: Country Fact Sheet Slovenia".
- European Foundation for the Improvement of Living and Working Conditions (2012), "Employment trends and policies for older workers in the recession", European Commission Publications Office, EF/12/35/EN
- Gautier, P.A, C.N. Teulings and A. van Vuuren (2010), "On-the-job Search, Mismatch and Efficiency", Review of Economic Studies, 77, pp. 245-272.
- Govender, P. and L. Kalra (2007), "Benefits of occupational therapy in stroke rehabilitation", Expert Rev Neurother, August 2007, Vol. 8, pp. 1013-1019.
- Guner, N., M. Lopez-Daneri and G. Ventura (2014), "Heterogeneity and Government Revenues: Higher Taxes at the Top?", CEPR Discussion Paper 10071.
- Hoynes, H. and R. Blundell (2013), "Has "In-Work" Benefit Reform Helped the Labor Market?", NBER Working Paper, Vol. 8546, <http://dx.doi.org/10.7208/chicago/9780226092904.003.0011>.
- Iacovou, M. and A. Skew (2011), "Household composition across the new Europe: Where do the new Member States fit in?", Demographic Research, Vol. 25, pp. 465-490, <http://dx.doi.org/10.4054/DemRes.2011.25.14>.
- IMAD (2018a), "Active Ageing Strategy", IMAD Publishing.
- IMAD (2018b), "Autumn Forecast of Economic Trends 2018", IMAD Publishing.
- IMAD (2019), "Slovenian Economic Mirror", IMAD Publishing, Vol. 1/2019.
- IMF (2019), Country Report for Slovenia, No. 19/58, February 2019.
- Immervoll, H. and M. Pearson (2009), "A Good Time for Making Work Pay? Taking Stock of In-Work Benefits and Related Measures across the OECD", IZA Policy Paper, Vol. 3.
- Ivanc, B. (2015), "The role of state-owned and state controlled enterprises in the Slovenian economy and the costs to the state", Chamber of Commerce and Industry of Slovenia, March 2015.
- Jenkins, S. P. and J.A. Rigg (2004), "Disability and Disadvantage: Selection, Onset and Duration Effects", Journal of Social Policy, Vol. 33, No. 3, pp. 479-501.
- Joss, M. (2002), "Occupational Therapy and Rehabilitation for Work", British Journal of Occupational Therapy, March 2002, Vol. 65, No. 3.
- Kyyrä, T. and R.A. Wilke (2007), "Reduction in the long-term unemployment of the elderly: A success story from Finland", Journal of the European Economic Association, Vol 5, No. 1, pp. 154-182.
- Legg, L.A., A.E. Drummond and P. Langhorne (2006), "Occupational Therapy for patients with problems in activities of daily living after stroke", The Cochrane Database of Systematic Reviews, Issue 4.
- Le Saout, R. and E. Coudin (2015), "How do internships improve student major choices and early labor market outcomes?", Working Paper.
- Martin, J. (2015), "Activation and active labour market policies in OECD countries: stylised facts and evidence on their effectiveness", IZA Journal of Labor Policy, Vol. 4/1, <http://dx.doi.org/10.1186/s40173-015-0032-y>.
- Meager, N. and S. Speckesser (2011), "Wages, productivity and employment: A review of theory and international data", European Employment Observatory Thematic expert ad-hoc paper, Institute for Employment Studies, Brighton, United Kingdom

- Meggison, W. and J. Netter (2001), "From State to Market: A Survey of Empirical Studies on Privatization", *Journal of Economics Literature*, 39(2), pp. 321-389.
- Melkersson, M. (1999), "Unemployment duration and heterogeneous search behavior among Swedish disabled workers", Working Paper No. 5, Leibniz Information Centre for Economics.
- Ministry of Labour, Family, Social Affairs and Equal Opportunities (2017a), Social and economic effects of the minimum wage increase in Slovenia, Republika Slovenija, Ljubljana, <http://www.mddsz.gov.si>.
- Ministry of Labour, Family, Social Affairs and Equal Opportunities (2017b), Impact Evaluation of Key Employment Programmes in Slovenia, Republika Slovenija, Ljubljana, <http://www.mddsz.gov.si>.
- Moorhouse, E. (2017), "Sex segregation by field of study and the influence of labor markets: Evidence from 39 countries", *International Journal of Comparative Sociology*, Vol. 58/1, pp. 3-32, <http://dx.doi.org/10.1177/0020715216689294>.
- Musset, P. and L. Kureková (2018), "Working it out: career guidance and employer engagement", OECD Education Working Paper No. 175, <http://www.oecd.org/edu/workingpapers>.
- Neumark, D. and W. Wascher (2001), "Minimum Wages and Training Revisited", *Journal of Labor Economics*, vol. 19, no. 3.
- Neumark, D. and W. Wascher (2004), "Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis", *Industrial and Labour Relations Review*, Vol. 57/2, pp. 223-248.
- OECD (2003), *Privatising state-owned enterprises: an overview of policies and practices in OECD countries*, OECD Publishing, Paris.
- OECD (2005), *Housing Finance Markets in Transition Economies: Trends and Challenges*, Chapter 8: *Housing Finance in Slovenia*, OECD Publishing, Paris
- OECD (2006), *Live longer, work longer*, OECD Publishing, Paris.
- OECD (2015a), *Economic Surveys: Slovenia 2015*, OECD Publishing, Paris.
- OECD (2015b), *Minimum wages after the crisis: Making them pay*, OECD Publishing, Paris, http://stats.oecd.org/Index.aspx?DataSetCode=SNA_TABLE4.
- OECD (2016a), *Connecting people with jobs: the labour market, activation policies and disadvantaged workers in Slovenia*, OECD Publishing, Paris.
- OECD (2016b), *Getting Skills Right: Assessing and Anticipating Changing Skill Needs*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264252073-en>.
- OECD (2017a), *OECD Economic Surveys: Slovenia 2017*, OECD Publishing, Paris.
- OECD (2017b), *Getting Skills Right: Good Practice in Adapting to Changing Skill Needs: A Perspective on France, Italy, Spain, South Africa and the United Kingdom*, OECD Publishing, <http://dx.doi.org/10.1787/9789264277892-en>
- OECD (2017c), *Employment and Skills Strategies in Slovenia*, OECD Reviews on Local Job Creation, OECD Publishing, Paris, <https://doi.org/10.1787/9789264278929-en>.
- OECD (2017d), *Financial Incentives for Steering Education and Training, Getting Skills Right*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272415-en>.
- OECD (2018a), "Profiling tools for early identification of jobseekers who need extra support", Policy Brief on Activation Policies, <http://www.oecd.org/employment/connecting-people-with-good-jobs.htm>.
- OECD (2018b), *Education at a Glance 2018: OECD Indicators*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/eag-2018-en>.
- OECD (2018c), *OECD Skills Strategy Diagnostic Report Slovenia*, OECD Publishing, Paris.
- OECD (2018d), *OECD Tax Policy Reviews Slovenia 2018*, OECD Publishing, Paris.
- OECD (2018e), *Taxation of Household Savings*, OECD Publishing, Paris.

- OECD (2018f), Taxing Wages: Slovenia, OECD Policy Brief, Paris.
- OECD (2018g), The new OECD Jobs Strategy: Good jobs for all in a changing world of work: How does Slovenia compare?, OECD Policy Brief, Paris.
- OECD (2018h), OECD Employment Outlook 2018, OECD Publishing, Paris, https://doi.org/10.1787/empl_outlook-2018-en.
- OECD (2018i), Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy, OECD Publishing, Paris, <https://doi.org/10.1787/9789264308817-en>.
- OECD (2019a), Getting Skills Right: Future-Ready Adult Learning Systems, Getting Skills Right, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264311756-en>.
- OECD (2019b), OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/9ee00155-en>.
- OECD (2019c), OECD Government at a Glance 2019, Country Fact Sheet: Slovenia, OECD Policy Briefs, OECD Publishing, Paris.
- OECD (2019d), Adult Learning in Italy: What Role for Training Funds?, Getting Skills Right, OECD Publishing, Paris, <https://doi.org/10.1787/9789264311978-en>.
- OECD (2019e), Financial Incentives to Promote Adult Learning in Australia, Getting Skills Right, OECD Publishing, Paris, <https://doi.org/10.1787/c79badcc-en>.
- OECD/ITF (2019), Tax Revenue Implications of Decarbonising Road Transport: Scenarios for Slovenia, OECD Publishing, Paris, <https://dx.doi.org/10.1787/87b39a2f-en>.
- Oswald, F. (2019), The Effect of Homeownership on the option value of regional migration, Quantitative Economics, Vol. 10, No. 4, pp. 1453-1493, May 2019.
- Petrovič, T. and S. Mežnar (2015), Tenancy Law and Housing Policy in Slovenia, ToKnow Press.
- Pignatti, C. and E. van Belle (2018), "Better together: Active and passive labour market policies in developed and developing economies", International Labour Office, Research Department Working Paper No. 37.
- Sendi, R. (2016), "Is the private rented sector desirable in Slovenia? Examining the role of the state in the development of the sector", Urbani Izziv, Vol. 27/2, pp. 112-124, <http://dx.doi.org/10.5379/urbani-izziv-en-2016-27-02-003>.
- Sendi, R. (2018), "Slovenia: Untapped potential", in J. Hegedüs et al (ed.), Private Rental Housing in Transition Countries: An Alternative to Owner Occupation?, http://dx.doi.org/10.1057/978-1-137-50710-5_13.
- Stanovnik, T. (1994), "The Sale of the Social Housing Stock in Slovenia: What Happened and Why", Urban Studies, Vol. 31/9, pp. 1559-1570, <http://dx.doi.org/10.1080/00420989420081431>.
- Statistical Office (2018), Regions in Figures: Statistical Portrait of Slovene Regions 2018, Republic of Slovenia, Ljubljana, <http://www.stat.si/eng>.
- Todorovič Jemec, N. and M. Vodopivec (2016), Labour Market Adjustment during the crisis in Slovenia: Firm-level evidence from the WDN survey, Bank of Slovenia, Ljubljana.
- Vodopivec, M. and P. Dolenc (2007), Live Longer, Work Longer: Making It Happen in the Labor Market, The World Bank, Washington.
- Vodopivec, M., S. Laporsek, P. Dolenc and M. Vodopivec (2015), "The Effect of Unemployment Benefit Generosity on Unemployment Duration: Quasi-Experimental Evidence from Slovenia", IZA Discussion Paper, Vol. 9548.