FUTURE OF SOCIAL DEMOCRACY 28.05.2026 | Veronica Nilsson

Fewer rights, bigger profits

Flexible labour markets often mean fragile lives — and weaker economies

In a growing number of OECD countries, 'simplifying' employment protection is back on the political agenda – from the EU's competitiveness drive to the OECD's 2025 Economic Outlook. The argument is familiar: weaken protection, boost productivity, and growth will follow. It is a seductive argument. It is also wrong.

One need only look to Italy, where in 2015, the country executed exactly what 'simplification' advocates recommend: it passed the Jobs Act, making it easier and cheaper for firms to dismiss workers. Employers who dismissed workers unfairly no longer had to reinstate them — just pay a few months' compensation. The promise was that flexibility would deliver growth that would benefit everyone. Instead, workers' share of national income fell, and the gains went to employers' profits rather than workers' pay packets. By weakening employment protection, Italy broke the link between economic performance and workers' pay. But the connection between protection and productivity runs deeper than the case for deregulation assumes.

Stronger protection is associated with a higher proportion of national income going to workers, while deregulation is associated with a declining labour share and rising inequality.

Employment protection is part of the institutional architecture, alongside collective bargaining, the right to organise and adequate wage floors, through which economies grow and workers benefit, and for good reason. A worker who knows they will be in a job next year invests in learning it — the systems, the machinery, the people. Their employer invests in them, knowing the training won't walk out the door. Over time, this builds the knowledge and capability that allow firms to adopt new technologies and improve how they work. Security also changes what workers are willing to do: a worker who cannot easily be dismissed is more likely to report unsafe conditions, negotiate for higher pay and exercise their rights — all of which improve conditions and drive productivity. Without that security, employers lose the feedback, the engagement and the institutional knowledge that make workplaces productive. Weaken protection, and you undermine both: the conditions that generate productivity, and the way it translates into higher wages.

Spain tells the other side of the story. In 2021, it significantly tightened rules on temporary contracts, moving in the opposite direction. The OECD's own assessment confirmed that the excessive use of temporary contracts before the reform had been damaging job quality, skills development and productivity. Restricting their use was, in the OECD's view, a step in the right direction. The problem was never strong protection for permanent workers — it was the gap between permanent and temporary. Spain narrowed that gap. The share of workers on temporary contracts fell from 21 per cent to less than 15 per cent, while permanent employment surged and the overall employment rate reached a record high. TUAC (Trade Union Advisory Committee) analysis of OECD data finds this pattern holds consistently across countries: stronger protection is associated with a higher proportion of national income going to workers, while deregulation is associated with a declining labour share and rising inequality.

A recent study of 19 European countries found that stronger employment protection supports fertility, while labour market duality undermines it.

OECD employment research reinforces this point – voluntary job-to-job transitions, where workers choose to move to better opportunities, drive productivity growth. Involuntary job loss, which is what weaker protection produces, largely offsets those gains, as workers cycle through unstable employment, losing accumulated skills and facing sustained income losses. A worker laid off at 55 does not seamlessly move to a better opportunity. They face months of searching, take a pay cut when they do find work, and rarely recover their previous trajectory. The effects fall disproportionately on older and more vulnerable workers. Stronger protection, by contrast, is what keeps downturns from turning into waves of mass layoffs – and in an uncertain global economy, that matters more than ever.

The economic case for employment protection extends well beyond the labour market. The stability that comes with secure employment – better health, less reliance on social safety nets, and trust in institutions – underpins the social fabric on which economies depend. It also shapes whether people feel secure enough to have children. Research consistently links job insecurity to lower fertility. A recent study of 19 European countries found that stronger employment protection supports fertility, while labour market duality undermines it. Across advanced economies, falling birth rates are no longer a social issue alone. They are a fiscal and economic one, as ageing populations and shrinking workforces put pressure on pension systems, public services and growth. An economy that makes it harder for working people to start families is undermining its own future workforce – and with it, its own long-term productive capacity.

Weakening employment protection does not just hurt workers. It undermines the skills, stability and productivity that employers depend on too. The decisions being taken now – in Brussels, in Paris, and in national capitals – will shape labour markets for a generation. The route to sustainable productivity growth runs through stronger protection, not weaker. Employment protection is not an obstacle to growth. It is a condition for growth that is shared – and governments should be strengthening it, not dismantling it.

Veronica Nilsson

Veronica Nilsson was appointed General Secretary of the Trade Union Advisory Committee to the OECD (TUAC) in June 2023, having served as Acting General Secretary since May 2022. Previously she was Head of the Global Deal Support Unit in the Directorate for Employment, Labour and Social Affairs at the OECD.

-