

## Employment

### ENHANCING JOB QUALITY

- ▶ Sustained growth and job creation have helped increase Indonesian living standards significantly, but the quality of available jobs remains low, which is a major drag on well-being.
- ▶ In particular, a high incidence of informal jobs in Indonesia means that a large number of workers face the risk of persistent poverty.
- ▶ Achieving progress to increase the quality of jobs requires a policy package built on three pillars: reducing labour market insecurity through an effective social protection system, curbing informality, and helping workers to find quality jobs early in their careers.

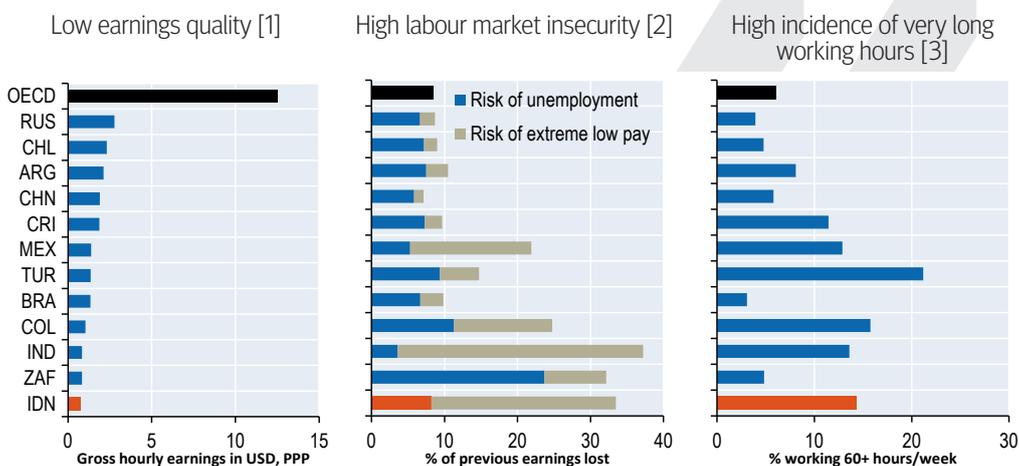
#### What's the issue?

Over the past three decades, per capita GDP growth in Indonesia has averaged around 3.5% annually. This, in combination with specific poverty-reduction programmes, has led to an admirable decrease in absolute poverty. The \$1.90 (2011 PPP) per day poverty rate has dropped from 72% in 1984 to 16% in 2010. At the same time, social and economic outcomes have improved steadily, including in healthcare and literacy. The female literacy rate increased from 58% in 1980 to 94% in 2015. Job creation has played a crucial role in improving living standards, since labour is often the only asset owned by the poor.

However, many of the existing jobs are of low quality, which constitutes a major drag on workers' wellbeing. A comparison with selected emerging economies and OECD countries across the three dimensions of the OECD's Jobs Quality Framework (see Figure) shows that

job quality in Indonesia is on average still very low relative to both the OECD average and the levels in other emerging economies. Indonesia has the lowest earnings quality among comparator countries, reflecting both a gap in average earnings and substantially higher levels of earnings inequality. Although labour market insecurity due to the risk of becoming unemployed is similar to the OECD average, the risk of falling into extreme low pay while employed is highest in Indonesia, along with India. The quality of the working environment is also very low, which reflects a high incidence of very long working hours. Job quality is particularly poor for young people and low-skilled workers. These two groups cumulate poor outcomes along the three dimensions of job quality, together with low employment rates. Women also face some clear disadvantages, as captured by the risk of extreme low pay.

#### Job quality is lower in Indonesia than in other emerging markets



Note: The OECD Job Quality Framework identifies three pillars of job quality: [1] gross hourly earnings in USD, adjusted for inequality; [2] expected monetary loss associated with becoming and staying unemployed, share of previous earnings; [3] incidence of very long working hours, measured as the percentage of employed people working more than 60 hours in an average week. CHN refers to urban China. Source: OECD (2015), OECD Employment Outlook, Chapter 5. Data are for 2010, or the latest year available

Job quality is substantially lower for workers in informal jobs, compared to those in formal employment. Workers with informal jobs tend to do poorly in all dimensions of job quality. Given the high incidence of informality in Indonesia (above 70% of all employees), there is a significant risk of persistent poverty for a large number of workers. The likelihood of being trapped in undesirable jobs with limited career prospects is particularly important for low-skilled workers. Through effective policies to promote the transition to the formal economy, Indonesia could help reduce the incidence of low quality jobs. Workers in informal jobs also have lower access to training and health coverage, and are also less likely to pay taxes. The current mix of social programmes, including cash transfers conditional upon school attendance and a subsidised rice programme, are not well targeted, although greater use of the single registry of vulnerable households should help to address this problem.

### Why is this important for Indonesia?

OECD work shows that focusing exclusively on how many jobs an economy generates delivers a very partial picture of the state of the labour market, since workers' well-being also depends crucially on how good their jobs are. Further, insofar as workers in safer, healthier, engaging and rewarding jobs feel more motivated and can invest more in their own skills, job quality may also have positive effects on productivity and growth. These observations appear all the more important in the context of Indonesia, where the government has put heavy emphasis on the promotion of a competitive, innovative and dynamic business sector.



### Further reading

OECD (2016), *How Good is Your Job? Measuring and Assessing Job Quality*. <http://www.oecd.org/std/labour-stats/Job-quality-OECD.pdf>

OECD (2015), *Enhancing Job Quality in Emerging Economies*, OECD Employment Outlook 2015, OECD Publishing. <https://one.oecd.org/document/344467/en/pdf>

OECD (2014), *Non Regular Employment, Job Security and the Labour Market Divide*, OECD Employment Outlook 2014, OECD Publishing. [http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2014\\_empl\\_outlook-2014-en#page143](http://www.keepeek.com/Digital-Asset-Management/oecd/employment/oecd-employment-outlook-2014_empl_outlook-2014-en#page143)

### What should policy makers do?

- ▶ Develop an adequate and effective social protection system to reduce labour market insecurity, including unemployment compensation and social assistance, such as cash transfers and health care benefits.
- ▶ Ensure an adequate balance between workers' protection and workers' incentives to participate in the labour market and, crucially, to choose formal over informal employment.
- ▶ Follow a comprehensive approach to curb informality, based on three pillars: increasing the benefits of formality, decreasing the costs of formalisation and improving enforcement methods.
- ▶ Support workers in finding high quality jobs early in their careers, making use of a variety of instruments such as strengthened academic and vocational education, quality training and apprenticeship programmes, as well as active labour market policies.

