Good Jobs for All in a Changing World of Work

THE OECD JOBS STRATEGY

FOREWORD AND OVERVIEW

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Foreword

Times were very different when the Reassessed OECD Job Strategy was launched in 2006. We had just witnessed more than a decade of sustained growth, record low unemployment rates, and relatively robust wage growth. Then the global financial crisis hit, and ten years later, the world has once again changed. While the global economy has been recovering from the financial crisis for several years now, wage growth remains sluggish in most OECD countries. Additionally, productivity growth has fallen from about 2.5% before the crisis to about half this rate over the past five years, and inequalities have reached unprecedentedly high levels: the average disposable income of the richest 10% of the population is now around nine and a half times that of the poorest 10% across the OECD, up from seven times three decades ago. Rapid digital transformation, globalisation and population ageing, are deeply rooted trends changing the very nature of jobs and the functioning of the labour market, thus raising new policy challenges.

In this context, in January 2016, OECD Employment and Labour Ministers called for a new OECD Jobs Strategy that fully reflects this new reality. The result is a profoundly revised OECD Jobs Strategy. While the 2006 Reassessed Strategy already recognised that good labour market performance could be achieved with different models, the new OECD Jobs Strategy goes beyond job quantity and considers job quality and inclusiveness as central policy priorities. It is an essential part of our broader strategy for Inclusive Growth, and seeks to address the fact that some groups, including the low income and the low skilled, youth and older workers, are even more at risk of exclusion now than a decade ago. This is not just unfair, but also economically and politically very challenging. The new Jobs Strategy recognises that flexibility-enhancing policies in product and labour markets are important but certainly not sufficient. It stresses the need for policies and constructive social dialogue that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing challenges and opportunities. The Strategy also emphasises that, in a fast changing world of work, we need to foster resilience and adaptability of the labour market to achieve good economic and labour market performance.

The key policy recommendations of the new OECD Jobs Strategy are organised around three broad principles that provide guidance on reforms across a broad range of public policy areas:

i. ***Promoting an environment in which high-quality jobs can thrive.*** Good labour market performance requires a sound macroeconomic framework, a growth-friendly environment and skills evolving in line with market needs. Adaptability in product and labour markets is also needed, and the costs and benefits of this should be fairly shared between workers and firms, as well as among workers on different contracts by avoiding an over-reliance on temporary (often precarious) contracts through balanced employment protection schemes.

ii. ***Preventing labour market exclusion and protecting individuals against labour market risks.*** Supporting the quick (re)integration of job seekers in employment remains a top priority, but the new strategy also highlights the importance of addressing challenges *before* they arise by promoting equality of opportunities and preventing the accumulation of disadvantages over the life-course.

iii. ***Preparing for future opportunities and challenges in a rapidly changing economy and labour market.*** People will need to be equipped with the right skills in a context of rapidly changing skills demands. Workers also need to remain protected against labour market risks in a world where new forms of work may arise.

The big challenge now is to translate these general policy prescriptions into actionable policy packages that can promote better jobs for everyone in a fast-changing world of work. The OECD is committed to assisting countries in this process by developing solid diagnoses, well-tailored recommendations and by providing guidance for their effective implementation through the *OECD Economic Surveys*. We look forward to working with OECD member and partner countries on the implementation of the new OECD Jobs Strategy.

Angel Gurría,
Secretary-General,
Organisation for Economic Co-operation
and Development

Chapter 1. Key messages and recommendations

The new OECD Jobs Strategy provides guidance to policy makers on policies that enable workers and firms to make the most of emerging challenges and opportunities and ensure that the fruits of growth are broadly shared. The key policy recommendations are organised around three broad principles: i) promote an environment in which high-quality jobs can flourish; ii) prevent labour market exclusion and protect individuals against labour market risks; iii) prepare for future opportunities and challenges in a rapidly changing labour market. To support countries in building stronger and more inclusive labour markets, the new OECD Jobs Strategy goes beyond general policy recommendations by providing guidance on the implementation of reforms.

Introduction

Since the publication of the OECD's *Reassessed Jobs Strategy* in 2006 (OECD, 2006[1]), OECD and emerging economies have undergone major structural changes and faced deep shocks: the worst financial and economic crisis since the Great Depression and continued weak productivity growth; unprecedentedly high levels of income inequality in many countries; and substantial upheaval linked to technological progress, globalisation, and demographic change. In light of these major changes, and the central role of labour policies in addressing them, OECD Employment and Labour Ministers in January 2016 called for a new Jobs Strategy that fully reflects new challenges and opportunities to continue to provide an effective tool to guide policy makers.

The new OECD Jobs Strategy is more comprehensive in scope and forward looking in outlook than previous OECD Jobs Strategies, putting a well-functioning labour market at the centre stage of inclusive growth. The original OECD Jobs Strategy of 1994 (OECD, 1994[2]) emphasised the role of flexible labour and product markets for tackling high and persistent unemployment – the main policy concern at the time. Providing a growth-friendly environment, including through flexible product and labour markets, was seen as the key to promoting job creation and good labour market performance more generally. The 2006 Reassessed Jobs Strategy placed more emphasis on promoting labour force participation and improving job quality. The main message was that there are "several roads to Rome", i.e. good labour market performance is consistent with more market-reliant models that emphasise labour and product market flexibility, but also with models that involve a stronger role of public policies, generally coupled with strong social dialogue and a combination of stronger protection for workers with flexibility for firms.

Building on these previous jobs strategies, the new OECD Jobs Strategy provides guidance to policy makers on labour market and other policies that enable workers and firms to harness the opportunities provided by new technologies and markets, while helping them to cope with the required adjustments and ensuring that the fruits of growth are broadly shared. The new Jobs Strategy continues to stress the links between strong and sustained economic growth and the quantity of jobs, but also recognises job quality, in terms of both wage and non-wage working conditions, and labour market inclusiveness as central policy priorities. Resilience and adaptability are placed at the heart of the new Jobs Strategy as in a rapidly evolving economy and labour market, policy needs to foster economic dynamism and be forward-looking to allow individuals and firms to absorb, adapt and make the most of challenges and opportunities related to changes in macroeconomic conditions and the megatrends affecting the future of work.

The main message of the new OECD Jobs Strategy is that while policies to support flexibility in product and labour markets are needed for growth, they are not sufficient to simultaneously deliver good outcomes in terms of job quantity, job quality and inclusiveness. This also requires policies and institutions to promote job quality and inclusiveness, which are often more effective when supported by the social partners. In this sense, the new OECD Jobs Strategy represents a significant evolution from the 2006 strategy, and even more from the original 1994 strategy. It is based on new evidence that shows that countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing (or preserving) market flexibility. In other words, it is necessary to combine policies that encourage economic growth with policies and work practices agreed by the social partners that foster inclusiveness and protect workers. Thus, a whole-of-government approach is needed, embedding the new OECD Jobs Strategy in the OECD Inclusive Growth Initiative and making appropriate linkages to other OECD strategies.[1]

1.1. Key policy principles

The key policy recommendations of the new OECD Jobs Strategy are organised around three broad principles: i) promote an environment in which high-quality jobs can flourish; ii) prevent labour market exclusion and protect individuals against labour market risks; iii) prepare for future opportunities and challenges in a rapidly changing labour market.

Promote an environment in which high-quality jobs can flourish

High-quality employment requires a sound macroeconomic policy framework, a growth-friendly environment and skills evolving in line with market needs. This is broadly consistent with previous strategies, but with some important nuances.

- The recent global economic and financial crisis was a stark reminder of the importance of counter-cyclical macroeconomic policies for stabilising economic and labour market outcomes and preventing temporary downturns in activity from turning into low-growth traps. When monetary policy is constrained, letting automatic fiscal stabilisers operate freely and complementing them with additional fiscal measures in response to large economic shocks becomes particularly effective. This requires a fiscal policy framework that creates sufficient fiscal space during upturns to allow for a stimulating fiscal policy response during downturns and rapidly scaling up income support and active labour market programmes as needed. An important nuance with respect to the Jobs Strategy of 2006 is that the new strategy recognises that it can be useful during sharp economic downturns to channel fiscal resources to well-designed short-time work programmes that seek to preserve vulnerable jobs that are viable in the long term, while scaling them down quickly as conditions return to normal.
- Flexibility in product and labour markets is essential to create high-quality jobs in an ever more dynamic environment. Barriers in product and labour markets to the entry of new firms, the expansion of high-performing firms and the orderly exit of underperforming firms need to be reduced. However, some forms of flexibility are better than others. For example, 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. This can result in an excessive use of temporary contracts, leading to low overall job quality, high levels of inequality and low resilience, without a clear benefit for the overall number of jobs. Similar issues can arise in emerging economies where overly strict employment protection for employees in the formal sector, alongside a range of other factors such as high non-wage labour costs, contribute to high levels of informal work without providing effective protection to workers.
- Moreover, policies need to strike the right balance between employment flexibility and stability. The challenge is to ensure that resources can be reallocated to more productive uses while providing a level of employment stability that fosters learning and innovation in the workplace. Employment stability can be promoted by having moderate and predictable employment protection provisions that provide security to all workers and by strengthening the

link between employers' unemployment insurance contributions and the cost of unemployment insurance benefits for displaced workers (e.g. partially experience-rated contributions). Moreover, by facilitating flexibility in earnings, in particular through adjustments in working time, collective bargaining and social dialogue can also support employment stability by helping to preserve good-quality jobs during difficult times.

- High-quality employment also depends crucially on having an effective education and training system, which equips workers with the skills needed by employers and offers opportunities and incentives for education and training throughout their working lives. To better match skills with labour market needs, it is important to develop stronger links between the world of education and the world of work and have robust systems and tools for assessing and anticipating skills needs.

Prevent labour market exclusion and protect individuals against labour market risks

The best way of promoting an inclusive labour market is by addressing problems before they arise. This means that a shift in emphasis is required from remedial to preventive policies. This enables workers to avoid many of the social and financial costs associated with labour market risks (such as unemployment, sickness and disability); it contributes directly to economic growth by expanding opportunities for workers; and alleviates fiscal pressures by reducing the overall costs of social programmes. Such an approach could therefore boost efficiency and equity at the same time.

- The core of a preventive approach to labour market inclusiveness is to strengthen equality of opportunities so that socio-economic background does not act as a key determinant of success in the labour market. This key policy priority crucially hinges on tackling barriers to the acquisition of adequate levels of education and labour market skills by individuals from disadvantaged backgrounds, through targeted interventions during (pre-)school years and in the transition from school to work.
- A preventive approach also requires a life-course perspective, to avoid an accumulation of individual disadvantages that require costly interventions at a later stage. To reduce the risk of workers becoming trapped in low-quality jobs or joblessness, they should have continuous opportunities to develop, maintain and upgrade skills through learning and training at all ages. This would help them navigate a labour market that will increasingly require frequent changes of jobs and activities throughout a career. Similarly, working conditions should be adapted to workers' needs over the life course. By making it easier to combine work, care and social responsibilities and preventing the development of work-related health problems, this increases labour force participation over a working life among both men and women, narrows gender gaps and reduces the risk of poverty and exclusion. But, as new forms of work are emerging, such policy instruments must be extended beyond those in dependent employment.
- A preventive approach cannot avoid that some people fall through the cracks. As suggested by the 2006 OECD Jobs Strategy, activation measures, wage-setting rules and the tax-and-benefits system can be combined to make work pay and handle individual shocks by protecting workers rather than jobs, so that the required adaptability of the labour market is not jeopardised. In this way, the

protection of workers against labour market risks and exclusion can be achieved by supporting and accompanying job-seekers towards new economic activities, conditional on individual commitment and job-search efforts (the so-called "mutual-obligations" framework).

- Previous *Jobs Strategies* have pointed to the need to ensure that unemployment, disability and other social benefits do not unduly discourage active job search. Recent evidence suggests, however, that reaching a high coverage of unemployment, disability and social assistance benefits, conditional on the rigorous enforcement of mutual obligations, plays a pivotal role in the success of activation strategies: by providing a key instrument for connecting with jobless people it allows addressing barriers to employment related to the employability of workers, the availability of suitable job opportunities and worker motivation. This also means extending the reach of social protection to new forms of work as much as possible.

Prepare for future opportunities and challenges in a rapidly changing labour market

Product and labour market dynamism will be essential to deal with the rapid transformation of economies resulting from technological progress, globalisation and demographic change. However, helping workers move from declining businesses, industries and regions to those with the highest growth prospects should be accompanied by policies to help individuals maintain and upgrade their skills, assist lagging regions, strengthen social safety nets and enhance the role of social dialogue in shaping the future world of work. Skills policies, social protection and labour market regulations will need to be adapted to the new world of work to achieve greater job quality and inclusiveness. In some cases, this may require a fundamental rethink of current policies and institutions.

- A first challenge is to equip workers with the right skills in a context where the demand for skills is likely to evolve rapidly and people continue working at a higher age, with an increased emphasis on Science, Technology, Engineering and Mathematics (STEM) as well as soft skills, and incentives for the acquisition of non-transferable skills may be eroded. The increased fragmentation of production processes and the likelihood that workers will move between jobs more frequently may reduce incentives for firms and workers to invest in firm-specific skills. The policy challenge lies in: i) designing novel tools that reduce barriers to lifelong learning by linking education and training to individuals rather than jobs, while updating existing ones like grants and loans to make them more accessible to all adults; ii) strengthening work-based learning programmes (e.g. apprenticeships). More generally, existing infrastructures for lifelong learning may need to be scaled up, for example by fully exploiting the opportunities afforded by new technologies.
- A further challenge is to ensure that workers remain protected against labour market risks in a world where flexible forms of work may increase. This includes ensuring that everybody has access to social protection and is covered by basic labour market regulations**.** Workers on 'flexible' labour contracts often have limited or no access to certain forms of social protection, such as workplace accident and unemployment insurance, and they may not be covered by basic labour market regulations. To some extent, it might be possible to address this concern by extending or adapting existing social security schemes and by

clarifying and effectively enforcing existing labour market regulations. In other cases, innovative solutions need to be found to ensure adequate wages and working conditions.

- Possible approaches for extending social protection coverage include: creating new, specially designed benefit schemes; expanding the role of non-contributory schemes; implementing minimum floors to social benefits; and making social protection more portable. A more radical solution would be to introduce a universal basic income (UBI), although it is unlikely that such a scheme could provide effective protection to all workers without significantly raising fiscal pressure or making some people worse off because of the need to cut other, well-targeted benefits to finance the UBI. In terms of labour market policies and institutions, policy makers should experiment with new instruments to fight in-work poverty and put in place a legal framework that allows labour relations to adapt to new emerging challenges.

1.2. Policy implementation

To support countries in building stronger and more inclusive labour markets, the new OECD Jobs Strategy goes beyond general policy recommendations by providing guidance for the implementation of reforms:

- Policy reform strategies need to be adapted to a country's specific characteristics in terms of its institutional set-up, social preferences, administrative capacity and social capital. While sub-par performance in an area of the labour market suggests the need for policy reform, countries should adapt their reform strategies to their specific situation. For instance, where social capital is low and administrative capacity lacking, policy action should aim at being simple, transparent and easily accountable.
- Policies are also often more effective when combined into coherent packages that enhance synergies and limit the potential cost of reforms in the short-run or for specific groups. For example, interventions targeted at specific groups should simultaneously address all barriers to employment through co-ordinated actions concerning the design of tax-and-benefits policies and the provision of employment, health and social services.
- Packaging and sequencing reforms in effective ways – acting first on those that are a prerequisite for the success of others – minimises trade-offs between individual policies and can broaden support among the electorate. For example, product market and employment protection reforms tend to be less costly in the short term when the former precede the latter.
- Building support for reforms is vital for their success. This requires winning a mandate for reform, effective communication including through the use of new technologies, and complementary reforms and policy actions to cushion short-term costs, including appropriate use of macroeconomic policy levers.
- Once reforms are passed, ensure that they are fully implemented, effectively enforced and rigorously evaluated. This requires investing in data collection if suitable data for monitoring compliance and outcomes are not available and strengthening evaluation mechanisms into policy actions to allow assessing their effects.

- Building strong and inclusive labour markets also requires proactive policy making. This requires innovative systems that help identifying potential challenges and opportunities ahead of time, rather than firefighting problems when they arise and recognising opportunities when they have long been missed. Anticipating future challenges and opportunities, finding solutions, managing change proactively, and shaping the future world of work can be achieved more easily and effectively if employers, workers and their representatives work closely together with the government in a spirit of co-operation and mutual trust.

1.3. Roadmap

Part I of this volume provides an overview of the new OECD Jobs Strategy. Chapter 2 presents the main motivation as the dual challenge of reviving productivity growth and making labour markets more inclusive in a rapidly changing world of work. Chapter 3 introduces the OECD Jobs Strategy framework for assessing labour market performance that focuses on three key dimensions through which the labour market contributes to inclusive growth and well-being: i) the quantity and quality of jobs; ii) labour market inclusiveness; and iii) resilience and adaptability. It is operationalised by the OECD Jobs Strategy dashboard that can be used to assess labour market performance and identify country-specific reform priorities. Chapter 4 provides an overview of the role of policies and institutions in promoting good labour market performance, with the underlying evidence and background analysis being discussed in Parts II – IV of this Volume. Going beyond the general policy principles of the Jobs Strategy, Chapter 5 provides concrete guidance to countries regarding implementation based on Part V of this Volume. Chapter 6 presents the detailed policy recommendations of the new OECD Jobs Strategy.

Part II of the Volume discusses in depth how policies and institutions can contribute to the **quantity and quality of jobs**. Since productivity growth is a pre-condition for better wages and working conditions in the long-term, Chapter 7 provides a comprehensive discussion of the role of policies and institution for worker productivity. However, productivity growth does not automatically translate into higher wages, better working conditions and sufficient job opportunities. Chapter 8, therefore, discusses the role of wage-setting institutions and labour taxes in ensuring that productivity gains translate into higher wages and better working conditions while maintaining high employment. Chapter 9 emphasises the need to combine high-quality job creation with measures to support labour supply by ensuring that work is accessible, attractive and sustainable over the life-course.

Part III focuses on promoting **labour market inclusiveness** so that everybody benefits from increased prosperity. The OECD Jobs Strategy emphasises the importance of promoting equal opportunities, but also recognises that excessive inequalities in outcomes are incompatible with equal opportunities and could in many cases be reduced without unduly reducing employment and growth. Chapter 10 discusses how policies and institutions can tackle deep and persistent inequalities in the labour market by promoting equal opportunities and containing excessive income inequalities. A number of groups, e.g. workers with low skills, persons with caring responsibilities or disabilities and migrants, face particular barriers to accessing good quality jobs and require specific support. Chapter 11 discusses the role of measures tailored to the needs of each of these groups and distils a number of common lessons. Chapter 12 considers a range of policies that can help policy makers balance innovation in work arrangements with the concern that new forms of work – including those related to the emergence of the platform economy – may push vulnerable workers into jobs with limited worker protections.

Part IV of the Volume discusses the role of resilience and adaptability in ensuring good quality jobs in a rapidly changing world of work. Chapter 13 emphasises the role of labour market resilience in limiting the social costs of economic downturns, with a particular focus on the potential role of state-dependent employment and social policies to provide effective support to workers while reinforcing the stabilising role of social expenditures for aggregate demand. Chapter 14 discusses how labour markets can be made more adaptable to structural change by promoting: i) the efficient reallocation of workers across jobs, firms, industries and regions; ii) responsive, effective and worker-centred adult learning systems; and iii) effective employment and social policies to support displaced workers.

Part V of this Volume goes beyond the general policy principles of the new Jobs Strategy by providing concrete guidance to countries on the implementation of reforms. Chapter 15 discusses factors that make reform happen and support the reform process. Chapter 16 translates the general recommendations of the new Jobs Strategy to the specific context of emerging economies that need to address the challenge of broadly shared productivity gains with limited fiscal and administrative capacity. Chapter 17 identifies country-specific reform priorities and a range of contextual factors that need to be taken into account for developing country-specific recommendations using the OECD Jobs Strategy dashboard.

Box 1.1. The main policy recommendations of the new OECD Jobs Strategy

This Box summarises the main policy recommendations of the new OECD Jobs Strategy. The full policy recommendations can be found in Chapter 6 at the end of Part I "Overview" of this Volume. These policy recommendations are a key pillar of the OECD Inclusive Growth Initiative. In the implementation of the new Jobs Strategy, it will be important to exploit synergies among different policy areas and ensure consistency with the OECD Going for Growth recommendations, the OECD Skills Strategy, the OECD Innovation Strategy and the OECD Green Growth Strategy. Thus, a whole-of-government approach is necessary.

A. Promote an environment in which high-quality jobs can flourish

1. Implement a sound macroeconomic policy framework that ensures price stability and fiscal sustainability while allowing for an effective counter-cyclical monetary and fiscal policy response during economic downturns.
2. Boost investment and productivity growth, and promote quality job creation by removing barriers to the creation and expansion of successful businesses, the restructuring or exit of underperforming ones, and by creating an entrepreneurship-friendly environment.
3. Ensure that employment protection legislation generates dismissal costs that are predictable, balanced across contract types and not overly restrictive, while protecting workers against possible abuses and limit excessive turnover.
4. Facilitate the adoption of flexible working-time arrangements to help firms adjust to temporary changes in business conditions, while helping workers to reconcile work and personal life.

5. Reduce non-wage labour costs, especially for low-wage workers, and differences in fiscal treatment based on employment status.
6. Consider using a statutory minimum wage set at a moderate level as a tool to raise wages at the bottom of the wage ladder, while avoiding that it prices low-skilled workers out of jobs.
7. Promote the inclusiveness of collective bargaining systems while providing sufficient flexibility for firms to adapt to aggregate shocks and structural change.
8. Foster the development of suitable skills for labour market needs, while promoting the use of these skills and their adaptation during the working life to respond to evolving skills needs.
9. Promote formal employment by enhancing the enforcement of labour market rules, making formal work more attractive for firms and workers and promoting skills development to enhance worker productivity.

B. Prevent labour market exclusion and protect individuals against labour market risks

1. Promote equal opportunities to avoid that socio-economic background determines opportunities in the labour market through its influence on the acquisition of relevant labour market skills or as a source of discrimination.
2. Adopt a life-course perspective to prevent that individual disadvantages cumulate over time, requiring interventions at a later stage, which are usually less effective and involve larger fiscal costs.
3. Develop a comprehensive strategy to activate and protect workers, by combining adequate and widely accessible out-of-work benefits with active programmes in a mutual-obligations framework.
4. Adopt specific policies for underrepresented and disadvantaged groups, ensuring that they simultaneously address all barriers to employment.
5. Support lagging regions through coordinated policies at the national, regional and local levels that promote growth and competitiveness based on their specific assets and tackle social problems associated with local concentrations of labour market exclusion and poverty.

C. Prepare for future opportunities and challenges in a rapidly changing labour market

6. Promote the reallocation of workers between firms, industries and regions, while supporting displaced workers.
7. Enable displaced workers to move quickly into jobs, using a mixture of general and targeted income support and re-employment assistance, combined with prevention and early intervention measures.
8. Accompany innovation in new forms of employment with policies to safeguard job quality by avoiding abuse, creating a level-playing field between firms, and providing adequate protection for all workers regardless of employment contract.
9. Plan for the future by anticipating change; facilitating inclusive dialogue with the social partners and other relevant stakeholders on the future of work; and where necessary, adapting today's labour market, skills and social policies to the emerging needs in the changing world of work.

D. Implementation

10. Make reforms successful by adapting them to country specificities, carefully packaging and sequencing them to limit their potential cost in the short-run or for specific groups and building support for them.
11. Ensure that reforms are fully implemented effectively enforced and rigorously evaluated; invest in data collection if suitable data are not available.

Note

[1] The OECD Inclusive Growth Initiative was launched in 2012. It has resulted in the OECD Framework for Policy Action on Inclusive Growth as well as the development of Inclusive Growth dashboard (OECD, 2018[3]). The Framework is organised around four pillars: i) shared prosperity; ii) inclusive markets; iii) equality of opportunities; and iv) inclusive growth governance. For a discussion of the links between the Inclusive Growth Initiative and the new Jobs Strategy see Chapter 3 of this Volume.

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Part I. Overview

Chapter 2. The challenge: Broadly shared productivity gains

Reviving productivity growth and ensuring that productivity gains are broadly shared through higher wages and better employment opportunities are key to raising well-being for all members of society. This chapter discusses the role of the labour market as an engine of a dynamic economy sustained by strong productivity growth whose benefits are shared with all workers through enhanced employment opportunities, higher wages and better working conditions.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

A well-functioning labour market is crucial for sustaining gains in productivity which underpin high and inclusive growth and rising levels of well-being. Yet productivity growth has tended to slow in practically all advanced and emerging market economies over the past two decades. At the same time, median real wages have failed to keep up with even this diminished productivity growth in many countries, making growth less inclusive. Thus, not only have productivity gains become smaller, but the share transmitted to low-wage and middle-wage workers through real wage increases has also declined, resulting in real wage stagnation for workers in the bottom half of the wage distribution.

In this light, this chapter discusses how a well-functioning labour market can foster a dynamic economy sustained by strong productivity growth that benefits all workers through enhanced employment opportunities, higher wages and better working conditions. Labour markets are crucial for the efficient re-allocation of resources in the economy, providing workers with opportunities to acquire and upgrade their skills and ensuring decent working conditions for all workers, including those in a weak bargaining position. The tax and benefits system also has an important role to play in improving workers' well-being, but on its own it cannot raise living standards for all or provide the sense of gratification that work potentially offers through economic engagement, social interaction and personal accomplishment.

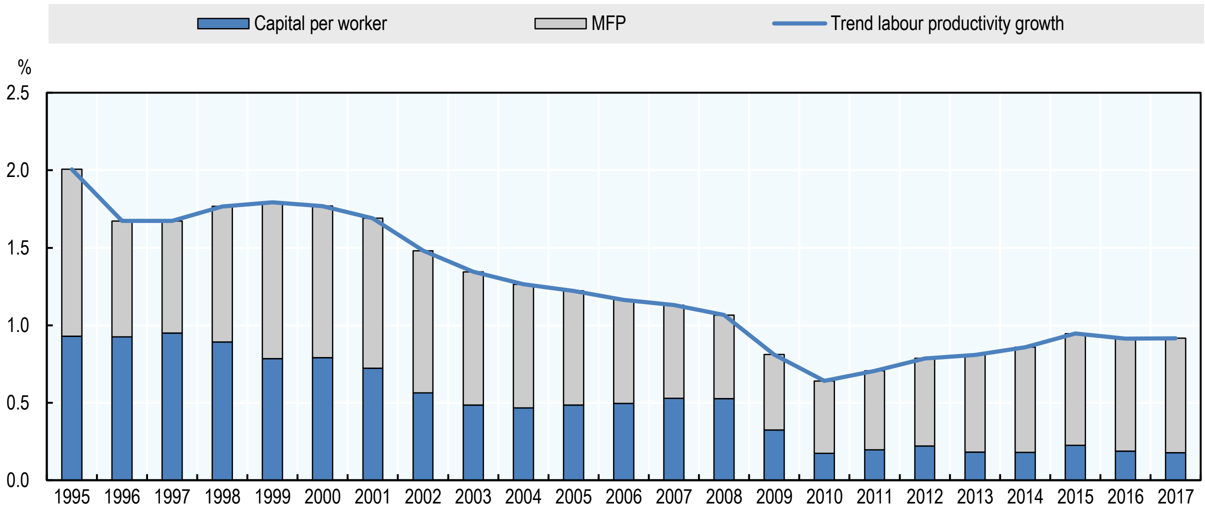
The remainder of this chapter is structured as follows. Section 2.1 describes the twin challenge of achieving high productivity growth and ensuring that the gains of productivity growth are transmitted to all workers through better employment opportunities and higher wages. It also outlines trends in productivity, wages and employment over the past two decades and links these trends to underlying drivers. Section 2.2 discusses the role of the labour market in promoting: high productivity growth; a good transmission from productivity to wages; and the availability and accessibility of good employment opportunities.

2.1. The challenge

Over the past two decades, productivity growth in the OECD has slowed, raising concerns about growth in living standards and the creation of high-quality job opportunities. The productivity slowdown reflects both slower capital deepening (growth in capital per worker) and lower multi-factor productivity growth (Figure 2.1). The slowdown in capital deepening was particularly pronounced after the global crisis of 2008-09, suggesting that economic downturns can have long-lasting effects. By contrast, low growth in multi-factor productivity appears to be a structural development that pre-dates the global crisis. In conjunction with the projected decline in overall labour force participation due to population ageing, a structural slowdown in productivity growth could significantly reduce growth in living standards (Guillemette and Turner, 2018[1]).

Figure 2.1. Productivity growth has declined over the past 20 years

OECD average



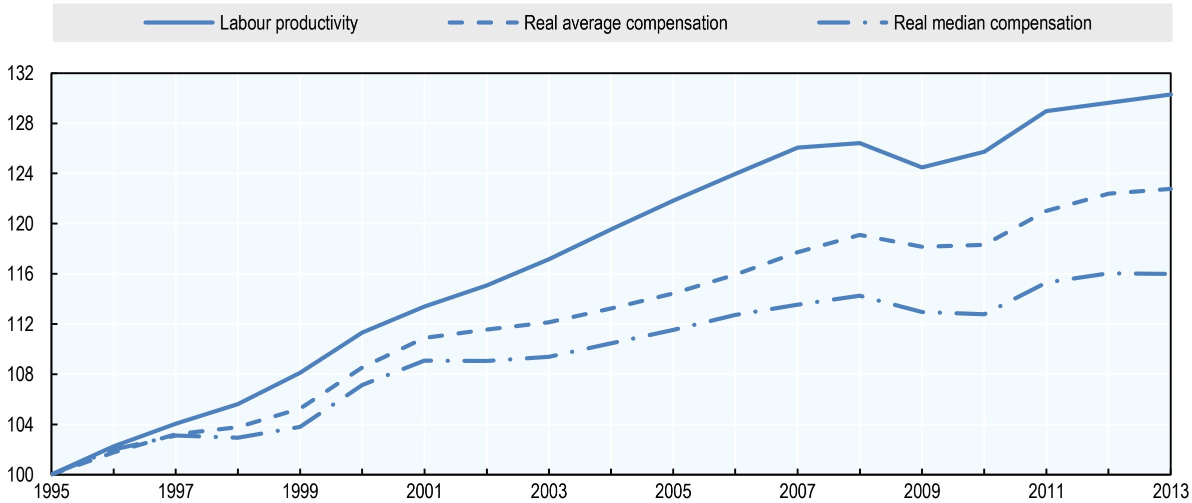
Source: OECD (2018), "OECD Economic Outlook No. 103" (Edition 2018/1), *OECD Economic Outlook: Statistics and Projections* (database), https://doi.org/10.1787/494f29a4-en (accessed on 22 November 2018).

StatLink http://dx.doi.org/10.1787/888933880945

In many OECD countries, real wage growth has been even lower than the growth in labour productivity (Figure 2.2). In many OECD countries, real average wages have decoupled from labour productivity, i.e. there has been a decline labour shares (the share of national income accounted for by labour compensation in the form of wages, salaries and other benefits).[1] Moreover, real median wages have grown at an even lower rate than real average wages in the overwhelming majority of OECD countries, which means that wage inequality has increased.[2] Consequently, in many OECD countries, productivity gains are no longer translating into broadly shared wage gains for all workers (OECD, 2018[2]; Schwellnus, Kappeler and Pionnier, 2017[3]; Sharpe and Uguccioni, 2017[4]).

Figure 2.2. Real median wages have decoupled from labour productivity

Total economy excluding primary, housing and non-market industries, 1995=100



Note: Employment weighted average of 24 countries (two-year moving averages ending in the indicated years). 1995-2013 for Finland, Germany, Japan, Korea, United States; 1995-2012 for France, Italy, Sweden; 1996-2013 for Austria, Belgium; United Kingdom; 1996-2012 for Australia, Spain; 1997-2013 for Czech Republic, Denmark, Hungary; 1997-2012 for Poland; 1996-2010 for Netherlands; 1998-2013 for Norway; 1998-2012 for Canada, New Zealand; 1999-2013 for Ireland; 2002-11 for Israel; 2003-13 for Slovak Republic. All series are deflated by the value added price index excluding the primary, housing and non-market industries. The industries excluded are the following (ISIC rev. 4 classification): (1) Agriculture, Forestry and Fishing (A), (2) Mining and quarrying (B), (3) Real estate activities (L), (4) Public administration and defence, compulsory social security (O), (5) Education (P), (6) Human health and social work activities (Q), (7) Activities of households as employers (T), and (8) Activities of extraterritorial organisations and bodies (U).
Source: OECD (2018[5]), "Decoupling of wages from productivity: What implications for public policies?", in *OECD Economic Outlook, Volume 2018 Issue 2*, https://doi.org/10.1787/eco_outlook-v2018-2-en.

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The slowdown in aggregate productivity growth and the decoupling of real median wages (the wages of "typical" workers) from productivity have gone hand in hand with growing divergences between firms in both productivity and wages (Box 2.1). While firms at the technological frontier (firms belonging to the global top 5% in terms of productivity) have recorded robust productivity growth since the early 2000s, the productivity of non-frontier firms has stagnated, weighing on aggregate productivity (Andrews, Criscuolo and Gal, 2016[6]). Divergence in productivity between firms in turn has been accompanied by divergence in wages (Berlingieri, Blanchenay and Criscuolo, 2017[7]), which in many countries explains a large part of developments in wage inequality.[3] Moreover, in a number of countries, there are growing signs that in firms at the technological frontier wages have decoupled from productivity while their market shares were increasing. Irrespective of whether decoupling at the technological frontier reflects increases in profit margins or higher capital intensity, these developments have contributed to the aggregate decoupling of wages from observed productivity.

Box 2.1. Productivity and wage dispersion: The role of "winner-takes-most" dynamics

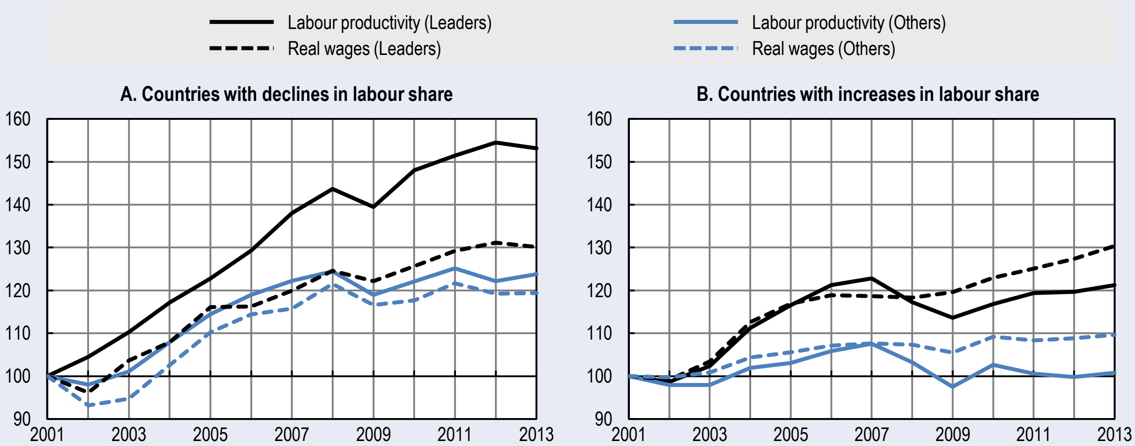
Growing productivity and wage divergence between firms could reflect "winner-takes-most" dynamics, in which a few firms reap outsized rewards. While the relevant market for the best manufacturing firms used to be primarily national or regional, the fall in transport costs and tariffs mean that these firms can now serve significant shares of the global market, strengthening economies of scale (Autor et al., 2017[8]; Frank and Cook, 1995[9]; Rosen, 1981[10]). The trend toward larger market size has been reinforced by rapid progress in information and communication technologies (ICT) that allow the matching of sellers and buyers across geographically distant locations. Rapid progress in ICT has also facilitated the emergence of markets with a global scale in a number of traditional services industries, such as retail and transport, as well as new ICT services for which the marginal cost of scaling up operations is near zero. In some of these industries, including ICT services, retail and transport, network externalities that favour the emergence of a dominant player have become more important. Consistent with "winner-takes-most" dynamics, emerging evidence suggests that trade integration and digitalisation have contributed to the divergence of wages between the most successful firms and the rest (Berlingieri, Blanchenay and Criscuolo, 2017[7]).

The aggregate decoupling of median wages from productivity partly reflects declines in labour shares at the technological frontier (defined as the top 5% of firms in terms of labour productivity within each country group in each industry and year). In countries where aggregate labour shares have declined, real wages in firms at the technological frontier have decoupled from productivity, whereas this has not been the case in the remaining firms (Figure 2.3). This could indicate the presence of "winner-takes-most" dynamics, as frontier firms take advantage of technology- or globalisation-related increases in economies of scale and scope to reduce the value added share of fixed labour costs (e.g. related to research and development, product design or marketing) and/or gain a dominant position that allows them to raise their mark-ups (Autor et al., 2017[11]; Calligaris, Criscuolo and Marcolin, 2018[12]; Philippon, 2018[13]) By contrast, there has been no such decoupling of wages from productivity in frontier firms in countries where labour shares have increased, which suggests that "winner-takes-most" dynamics have been less pronounced in these countries.

The decoupling of wages from productivity at the technological frontier coincides with increasing market shares of frontier firms. In principle, this could indicate a rise in anti-competitive forces as superstar firms increase their markups. However, the evidence thus far supports a more benign view that considers the rise in market concentration as a temporary development related to technological dynamism. Schwellnus et al. (2018[14]) find evidence that the decoupling of wages from productivity at the technological frontier primarily reflects the entry of firms with low labour shares into the technological frontier. Autor et al. (2017[8]) find evidence that growing market concentration in the United States occurs primarily in industries with rapid technological change. Nevertheless, there is a risk that over time incumbent technological leaders could hamper market entry through anti-competitive practices (Furman, 2018[15]).

Figure 2.3. Average wages and productivity for leading firms and others

(2001=100)



Note: Labour productivity and real wages are computed as the unweighted mean across firms of real value added per worker and real labour compensation per worker. Leaders are defined as the top 5% of firms in terms of labour productivity within each country group in each industry and year. The countries with a decline in the labour share excluding the primary, housing, financial and non-market industries over the period 2001-13 are: Belgium, Denmark, Germany, Ireland, Japan, Korea, Sweden, United Kingdom and United States. The countries with an increase are: Austria, Czech Republic, Estonia, Finland, France, Italy, Netherlands and Spain.

Source: Schwellnus et al. (2018[14]), "Labour share developments over the past two decades: The role of technological progress, globalisation and "winner-takes-most" dynamics", OECD Economics Department Working Papers, No. 1503, https://doi.org/10.1787/3eb9f9ed-en.

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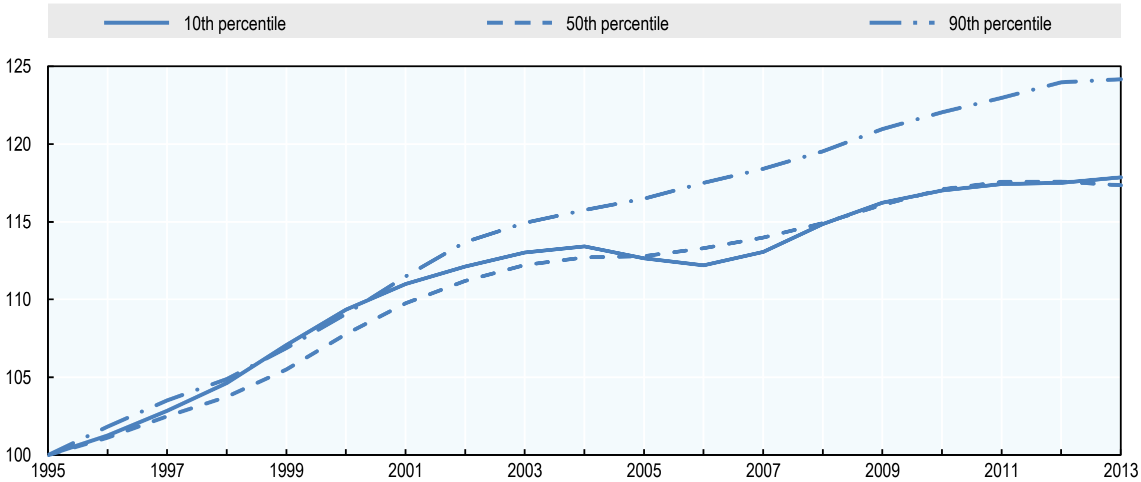
The decoupling of wages from productivity is not limited to the median worker but extends to all workers in the bottom half of the wage distribution (Figure 2.4). Low-wage workers at the 10th percentile of the wage distribution fared no better than workers in the middle of the distribution, whereas workers at the top of the distribution experienced high wage growth, with one of the most striking developments over the past two decades being the divergence of wages of the top 1% from the rest (Alvaredo et al., 2017[16]; Schwellnus, Kappeler and Pionnier, 2017[3]). This decoupling of low- and middle-wages from productivity has been accompanied by polarisation in terms of jobs, i.e. the gradual disappearance of middle-wage and middle-skill jobs (Box 2.2).

Figure 2.4. Wage growth in the bottom half of the distribution has decoupled from the top

(1995=100)



Note: GDP weighted average of 24 countries (two-year moving averages ending in the indicated years). 1995-2013 for Finland, Germany, Japan, Korea, United States; 1995-2012 for France, Italy, Sweden; 1996-2013 for Austria, Belgium; United Kingdom; 1996-2012 for Australia, Spain; 1997-2013 for Czech Republic, Denmark, Hungary; 1997-2012 for Poland; 1996-2010 for Netherlands; 1998-2013 for Norway; 1998-2012 for Canada, New Zealand; 1999-2013 for Ireland; 2002-11 for Israel; 2003-13 for Slovak Republic. All series are deflated by the same total economy value added price index.
Source: *OECD Earnings Distribution Database*, www.oecd.org/employment/emp/employmentdatabase-earningsandwages.htm.

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Box 2.2. Polarisation and automation

In recent decades, labour markets across the OECD have experienced profound transformations in their occupational and industrial structures. The process of de-industrialisation – involving significant shifts of employment from manufacturing to services – has been accompanied by job polarisation, whereby the number of middle-pay, middle-skill jobs has declined relative to the number of high-skilled and to a lesser extent low-skilled ones. Figure 2.5 shows that during the 1995-2015 period the employment share of middle-skilled jobs declined in all countries analysed by about 10 percentage points on average, while the shares of low-skilled and high-skilled employment increased.

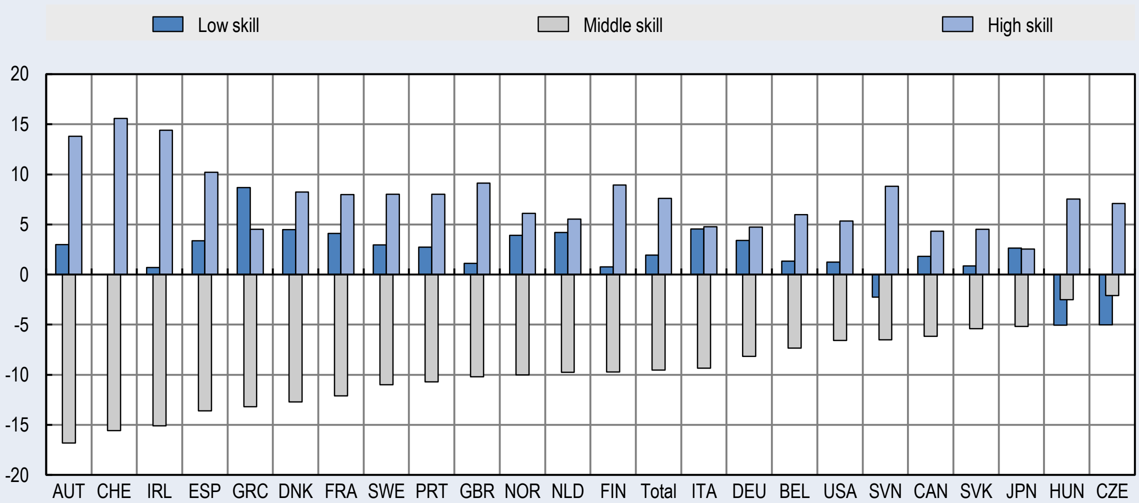
These changes can cause significant disruption in workers' lives and raise significant policy challenges. Employment is being reshuffled across occupations and industries, confronting workers with the risk of job loss followed by the possible need to make a difficult transition to a job in a different occupation or industry. Even workers who are able to stay in the same job are often faced with changing skill demands that require retraining (Battisti, Dustmann and Schönberg, 2017[17]). Moreover, different changes in skill demands, driven by changing industrial structures, can affect trends in wage inequality over time (Acemoglu and Autor, 2010[18]).

The increasing ability of technology to perform easy-to-codify routine tasks has been singled out as a key driver of job polarisation (Goos, Manning and Salomons, 2014[19]). At the same time, the offshoring of production to countries with lower labour costs has contributed to growing concerns about the negative impacts of globalisation in developed countries. The emergence of new players, including China's transition to a market economy and its entry into the World Trade Organization, has heightened these concerns and been linked to the decline in manufacturing employment in advanced economies (Autor, Dorn and Hanson, 2016[20]), and to job polarisation in particular (Keller and Utar, 2016[21]). Using industry-level data for 22 OECD countries over two decades, the OECD (2017[22]) shows that technology in the form of more widespread use of ICT contributed to job polarisation while no such evidence is found for globalisation, whether related to a country's involvement in global value chains or the penetration of imports from China.

Further progress in digitalisation and automation is likely to further widen job polarisation in advanced countries and has even raised concerns that the number of routine jobs destroyed could outweigh the non-routine ones created, resulting in technological unemployment (Acemoglu and Restrepo, 2018[23]; Brynjolfsson and McAfee, 2011[24]; Mokyr, Vickers and Ziebarth, 2015[25]). In their seminal contribution, Osborne and Frey (2017[26]) estimate that up to almost half of jobs in the United States could be subject to automation. Recent OECD research by Nedelkoska and Quintini (2018[27]) paints a less radical picture, suggesting that only one-in-seven jobs across the 32 OECD countries analysed are at risk of automation, but also that (OECD, 2015[28])about one-in-three are at risk of significant change. Whether jobs are destroyed altogether or their contents radically change, in both cases this presents significant challenges to policy and to lifelong learning and training systems in particular.

Figure 2.5. Jobs have become more polarised

Changes in employment shares by skill content of occupation (percentage points), 1995-2015



Note: High-skill occupations include jobs classified under the ISCO-88 major groups 1, 2, and 3. That is, legislators, senior officials, and managers (group 1), professionals (group 2), and technicians and associate professionals (group 3). Middle-skill occupations include jobs classified under the ISCO-88 major groups 4, 7, and 8 i.e. clerks (group 4), craft and related trades workers (group 7), and plant and machine operators and assemblers (group 8). Low-skill occupations include jobs classified under the ISCO-88 major groups 5 and 9: workers and shop and market sales workers (group 5), and elementary occupations (group 9).
Source: OECD (2017[22]), "How technology and globalisation are transforming the labour market", in *OECD Employment Outlook 2017*, https://doi.org/10.1787/empl_outlook-2017-7-en.

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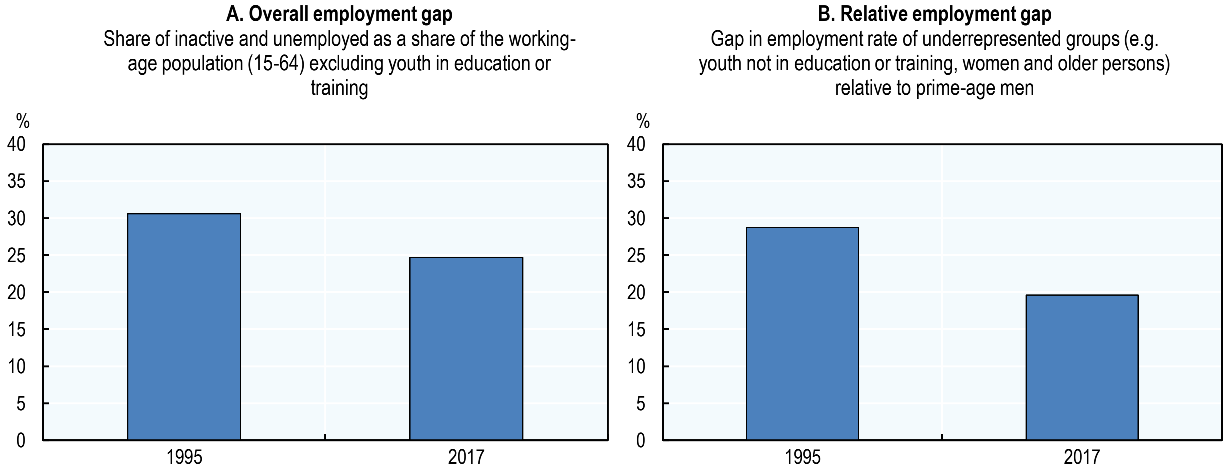
High employment can support the broad sharing of productivity gains by ensuring that wage gains benefit as many people as possible. While employment gaps (the share of jobless people among the working-age population) have tended to decline, more than a quarter of people not in education or training still do not have any paid form of employment (Figure 2.6), with employment gaps being particularly large for the young, women and older people. Moreover, in many countries, an important share of the workforce is underemployed, either working less than they would like to or not fully using their skills in their jobs (OECD, 2016[29]). Despite good progress in many countries, employment gaps remain particularly large for groups who are under-represented in the workforce (e.g. the young, women and older people): their employment rate is about 20 % lower than that of prime-age males. Integrating under-represented groups into the labour market is not only important to ensure that no groups are left behind but also represents a key way of improving overall employment performance, particularly in countries where employment rates for prime-age males are already very high.

Figure 2.6. Employment gaps remain large, particularly for underrepresented groups

1995-2017



Note: Unweighted average across 25 OECD countries (excluding Chile, Estonia, Finland, Iceland, Israel, Japan, Korea, Latvia, Lithuania, New Zealand and Slovenia). Panel B: Difference between the employment rate of prime age men (30-54) and the rest (women, youth men and older men), expressed as a percentage of the employment rate of prime age men (30-54).
Source: *OECD Employment Database* (www.oecd.org/employment/database); OECD (2018[30]), *Education at a Glance 2018: OECD Indicators*, https://doi.org/10.1787/eag-2018-en.

StatLink http://dx.doi.org/10.1787/888933881040

To some extent, the tax and benefits system can correct the market distribution of income and ensure that gains from productivity growth are broadly shared with workers and their families. However, recent OECD evidence shows that redistribution through the tax and benefits system has tended to become less effective since the mid-1990s. To an important extent this reflects a shift of income support from workless households to working households (OECD, 2015[28]; Causa and Hermansen, 2017[31]). As a result of growing inequalities in market income inequality (pre-tax income excluding income from government sources) and the weakening of redistribution, inequalities in households' disposable incomes have reached unprecedented levels in many OECD countries. This raises concerns about fairness, social cohesion and the sustainability of economic growth (OECD, 2015[28]; Cingano, 2014[32]).

Summing up, in most countries productivity gains from technological change and globalisation have not been broadly shared with workers. Productivity growth at the technological frontier remains high, suggesting that only a small group of innovative firms are able to fully take advantage of technological advances and globalisation, while many others trail further and further behind, weighing on aggregate productivity growth. At the same time, the distribution of income has become more tilted towards capital at the expense of labour income and the distribution of income and wealth has become increasingly unequal. Higher employment rates have mitigated but not prevented the rise in income inequality, and more remains to be done to better integrate those excluded from the labour market and to raise the effectiveness of redistribution through the tax and benefits system.

2.2. The central role of the labour market for broadly shared productivity gains

Alongside product and financial markets, the labour market is a central element of a well-functioning market economy that delivers: 1) high productivity growth; 2) a broad sharing of the gains from productivity growth through wages; and 3) ensuring accessible job opportunities for all.

The labour market as an engine of productivity growth

High productivity growth requires constant reallocation, in the sense that highly productive firms enter the market and expand while less productive ones downsize and eventually exit if they do not manage to upgrade their production processes. Empirical studies for OECD countries suggest that entry and exit alone contribute 15-45% to industry-level productivity growth (Bartelsman, Haltiwanger and Scarpetta, 2009[33]). The evidence also suggests that job reallocations between existing firms raise productivity growth further as firms with high initial productivity levels gain market shares at the expense of lower-productivity firms (OECD, 2009[34]).

The labour market is a key facilitator of productivity-enhancing reallocation that allows workers to move from downsizing firms to new and expanding ones. Empirical studies suggest that in OECD countries job reallocation – firm-level job creation and destruction – affects around 20% of employment every year (OECD, 2009[34]).[4] Worker reallocation – the sum of hires and separations – is even higher at around 30%. Although not all reallocation necessarily enhances productivity, these figures imply that small changes in net employment mask large gross worker flows between firms.

Achieving productive matches between workers and firms requires some degree of labour market fluidity, especially during periods of rapid structural change. Technological development, globalisation and demographic change require the reallocation of labour to its most productive uses while limiting transition costs. In a well-functioning labour market, workers are able to switch jobs to seize higher-paid job opportunities elsewhere while firms adopting new technologies and business models are able to rapidly expand employment, thereby raising aggregate productivity.

A fluid labour market may also support the diffusion of technological advances across firms, helping to improve productivity at firms that are lagging behind. The adoption of new general-purpose technologies for production typically requires workers with the relevant technical expertise and some degree of reorganisation (David, 1990[35]; Bresnahan, 2003[36]). The evidence suggests that one channel for the diffusion of this expertise is the movement of workers between firms, including job switchers and consultants (Draca, Sadun and Van Reenen, 2009[37]; Tambe and Hitt, 2014[38]).

High productivity growth also requires the constant development of workers' skills. Skills raise worker productivity by allowing them to produce more at a given level of technology (Lucas, 1988[39]) and promote innovation and the adoption of new technologies (Aghion et al., 1998[40]; Stokey, 2018[41]). Empirical studies suggest that there is a close causal link between cognitive skills and economic growth (Hanushek and Woessmann, 2015[42]) and that human capital is a key factor in influencing the speed of technology adoption (Andrews, Nicoletti and Timiliotis, 2018[43]).

The labour market is a key determinant of workers' skill development. While the education system lays the foundations for the acquisition of cognitive and non-cognitive skills, the labour market plays a crucial role in maintaining and developing them. A well-functioning labour market promotes the development of relevant skills by: providing strong incentives for investment in human capital; facilitating the school-to-work transition; and offering opportunities for lifelong learning. It also allows workers to seek out and develop their comparative advantage through job-to-job transitions.

Rapid structural change in the form of technological progress, globalisation and population ageing puts a premium on continuous skill development in the labour market. Automation, digitalisation and the rapid development of artificial intelligence broaden the range of tasks that can potentially be carried out by machines, while declines in the cost of offshoring will lead to changes in the mix of tasks carried out domestically. At the same time, population ageing is likely to lead to longer careers. Maintaining the skills acquired in youth will not be sufficient for workers to adapt to these developments. Instead, workers will need to acquire and develop skills in the labour market that will allow them to transition to new and more productive tasks throughout their (longer) working lives.

The labour market also plays an important role in providing strong incentives for innovation and the adoption of technology and high-performance management and work practices within firms. Firms' capacity to innovate depends on how much flexibility they have to adjust the organisation of work, including employment levels and the definition of tasks (Griffith and Macartney, 2014[44]; Bartelsman, Gautier and De Wind, 2016[45]). But high-performance work and management practices are to an important extent geared towards building long-term employer-employee relationships to foster learning and innovation. More generally, incentives for human capital accumulation and workers' propensity to innovate depend on job security, with higher job security implying a higher return on their innovation effort (Acharya, Baghai and Subramanian, 2013[46]). High rates of innovation and technology adoption within firms therefore require the right balance to be struck between sufficient flexibility for firms and sufficient job security for workers.

The labour market as a transmission channel of productivity gains to wages

By supporting workers' skills the labour market is not only crucial for raising productivity growth but also for determining the extent to which the benefits of technological developments are shared with workers. Automation and digitalisation are likely to have important implications for the kind of available jobs and the tasks required to perform them (see Box 2.2). For workers to make the most of these developments they will need to upgrade their skills, especially those required to carry out non-routine tasks that cannot easily be substituted by new technology.

The degree to which productivity gains are shared with workers also depends on their bargaining position. An emerging literature suggests that employer market power (labour market monopsony) is substantial and may be increasing (Dube et al., 2018[47]; Benmelech, Bergman and Kim, 2018[48]; Azar, Marinescu and Steinbaum, 2017[49]). Such employer market power may reflect high costs for workers of switching jobs because of natural barriers to job mobility (such as search costs or costs of geographical relocation) or regulation (e.g. limited portability of social security entitlements, professional licencing rules, non-compete clauses). The potential emergence of dominant players in industries with strong network effects could further re-inforce this tendency toward labour market monopsony (Autor et al., 2017[8]; Schwellnus et al., 2018[14]). In addition, the emergence of non-standard forms of work, declining trade union membership and weaker collective bargaining institutions can further reduce workers' voice and their bargaining position, and in doing so increase the role of monopsony in the labour market (OECD, 2018[50]).

The labour market as a transmission channel of productivity gains to employment

The broad sharing of productivity gains requires high employment, which in turn requires a good alignment of average wages and productivity to support labour demand, low barriers to employment to promote labour supply and an efficient matching process between firms and workers.

While a broad sharing of productivity gains requires that wage growth does not fall short of productivity growth, it is also important that in the medium term aggregate labour costs do not grow more quickly than productivity to avoid undermining job creation. A good alignment of average wages and productivity at the aggregate level does not preclude the use of statutory or collective agreed wage floors that can play a useful role in supporting the earnings of workers and ensuring minimum labour standards in firms. However, they should not be set so high that they price low-productivity workers out of the market.

The job opportunities that are available should also be accessible. Jobless people and those marginally attached to the labour market often face one or several barriers to labour force participation and quality employment (Fernandez et al., 2016[51]). They may have weak incentives to work because of a combination of poor job quality and ill-designed tax and benefit schemes. Alternatively, jobless people may simply lack the skills or experience needed for paid employment or may be unavailable for work because they have caring responsibilities, health and other social problems or because of weak hiring by employers. While some jobless people will be able to find work by themselves, many will need targeted support to overcome these specific barriers to paid employment. This highlights the importance of effective policies that connect people to work for a well-functioning labour market in which the gains from growing prosperity are shared as widely as possible.

An efficient matching process between job vacancies and jobseekers is also key for good employment performance. Systematic imbalances between jobseekers and vacancies in terms of educational qualifications and requirements (skills mismatch), the supply and demand for occupation-specific or industry-specific skills (occupational or sectoral mismatch), or the supply and demand for labour in different regions (geographical mismatch) reduces the efficiency of the matching process.

Mismatch results from barriers to job mobility due to cost of obtaining information on vacancies and jobseekers, the cost of moving between regions and the cost of retraining. It also may reflect deeper factors such as a disconnect between the world of education and the world of work or the lack of attention of country-wide policies and institutions for regional disparities.

Conclusions

Although it is conceptually useful to separate the labour market's roles in promoting high productivity growth, transmitting productivity gains to workers and strengthening economic inclusion, these objectives are closely interrelated. The key challenge is to develop a labour market that sustains high productivity growth and economic dynamism while at the same time fostering a broad sharing of productivity gains through higher wages and employment opportunities for all. Country evidence suggests that there can be synergies between high productivity growth and the broad sharing of productivity gains. For example, episodes of high productivity growth, such as the second half of the 1990s in the United States, have often been associated with increasing labour shares, declining wage inequality and growing employment (Stansbury and Summers, 2017[52]).

One mechanism through which the labour market can foster synergies between high and broadly shared productivity gains is the development of workers' skills. A labour market that provides opportunities for continual skill development not only raises productivity growth, but also contributes to a broader sharing of productivity gains. Increases in human capital contribute directly to productivity growth (Fernald and Jones, 2014[53]). But they also help to alleviate barriers to finding work and reduce the risk of being displaced and staying unemployed as a result of technological change and globalisation. Promoting the skill development of low-wage and middle-wage workers is particularly important since it improves their employment opportunities, wages and productivity and so contributes to a more inclusive labour market.

Labour market dynamism is another mechanism that supports both high productivity growth and a broad sharing of productivity gains in the form of higher wages and employment, especially for disadvantaged groups. The efficient allocation of workers to jobs, firms and regions contributes to high productivity and raises wages and employment, especially of relative outsiders in the labour market, by making job offers more abundant (Moscarini and Postel-Vinay, 2016[54]). Job switching is typically associated with significant increases in both wages and productivity as high-wage firms poach from low-wage firms (Haltiwanger et al., 2018[55]). This mechanism is particularly important for the wage progression of young workers as it is unlikely that workers will find the best possible match in their first job. A dynamic labour market thus prevents them from becoming trapped in low-productivity and low-wage firms (Haltiwanger, Hyatt and McEntarfer, 2018[56]) or lagging regions with limited prospects for career advancement.

Keeping the economy close to full employment is crucial to achieve high and broadly shared productivity growth. The experience of the global crisis of 2008-09 suggests that it contributed to a further slowing of productivity growth as weak business expectations reduced investment (Ollivaud, Guillemette and Turner, 2018[57]).This highlights the importance of stabilising aggregate demand and keeping the economy close to full employment for long-term productivity growth. At the same time, a vibrant labour market strengthens workers' bargaining position and allows workers to climb the job ladder within the same firm and by moving from low-wage to high-wage firms (Haltiwanger et al., 2018[55]).

Notes

[1] Algebraically, the labour share is equivalent to the ratio of labour productivity to the real wage, with the real wage expressed in terms of the value added deflator.

[2] The positive gap between average and median wage growth implies a widening of wage inequality since medium- and lower-paid workers have experience lower wage growth than those in the upper part of the wage distribution.

[3] Recent evidence on the role of cross-firm divergence in wages on overall wage inequality developments exists for Brazil (Helpman et al., 2017[56]), Denmark (Bagger, Sørensen and Vejlin, 2013[57]), Germany (Baumgarten, Felbermayr and Lehwald, 2016[58]; Card, Heining and Kline,

2013[59]; Goldschmidt and Schmieder, 2015[60]), Italy (Card, Devicienti and Maida, 2014[61]), Portugal (Card, Cardoso and Kline, 2016[62]), Sweden (Skans, Edin and Holmlund, 2009[66]), the United Kingdom (Faggio, Salvanes and Van Reenen, 2010[67]) and the United States (Dunne et al., 2004[63]; Barth et al., 2016[64]; Song et al., 2015[65]).

[4] Job creation is defined as the sum of net employment growth at all entering and expanding firms; job destruction as the total number of jobs lost at exiting and contracting firms; and job reallocation as the sum of job creation and destruction.

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Chapter 3. A new framework for assessing labour market performance

This chapter presents the conceptual and operational framework of the new OECD Jobs Strategy for assessing labour market performance. The conceptual framework distinguishes between three outcome dimensions through which the labour market contributes to inclusive growth and well-being: i) the quantity and quality of jobs; ii) labour market inclusiveness; and iii) resilience and adaptability. The framework is operationalised by means of a dashboard that allows an easy comparison of labour market performance along these different dimensions and the identification of possible reform priorities.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Introduction

A well-functioning labour market is a key condition for achieving inclusive growth – that is, a strong and sustained process of economic growth whose benefits are widely shared – and rising levels of well-being. As discussed in Chapter 2, the main challenge for policy makers is to reconcile the ability of an economy to sustain aggregate productivity gains with the capacity to generate jobs with good working conditions (both monetary and non-monetary) as well as ensuring that the gains from growth are fairly shared.

Since the publication of the OECD's *Reassessed Jobs Strategy* in 2006 (OECD, 2006[1]), the challenge of achieving inclusive growth has acquired renewed urgency: many OECD and emerging economies have experienced continued low productivity growth, unprecedentedly high levels of inequality and dislocations related to technological progress, globalisation, demographic change as well as the global economic and financial crisis of 2008-09.

In light of this, the new OECD Jobs Strategy develops a new conceptual and operational framework for assessing labour market performance. The conceptual framework distinguishes between three dimensions through which the labour market contributes to inclusive growth and well-being: i) the quantity and quality of jobs; ii) labour market inclusiveness; and iii) the resilience and adaptability of the labour market to absorb and adjust to economic shocks and make the most of new opportunities. The framework is put into operation through the new OECD Jobs Strategy dashboard that allows assessing labour market performance and identifying reform priorities based on a number of selected indicators for each of the dimensions of the framework.

The remainder of this chapter is structured as follows. Section 3.1 presents the new OECD Jobs Strategy's framework for assessing labour market performance. Section 0 puts the framework into practice by using selected indicators to provide a broad assessment of labour market performance in OECD countries and emerging economies.[1] The conclusions emphasise that a well-functioning labour market that promotes economic and social progress requires a combination of labour and non-labour market policies in a whole-of-government approach.

3.1. The OECD Jobs Strategy framework

A well-functioning labour market is a key condition for achieving inclusive growth and rising levels of well-being.[2] It promotes prosperity by matching workers to productive and rewarding jobs and facilitating the adoption of new technologies and new ways of organising work, including by providing workers with opportunities to acquire and update relevant skills in a rapidly changing economic environment. A well-functioning labour market further ensures that increased prosperity is reflected in increased well-being and job quality, in both monetary and non-monetary terms, by creating good job opportunities for all, ensuring productivity gains are transmitted to wages, and protecting and improving the living standards of the most vulnerable. Thus, the new OECD Jobs Strategy recognises that policies that improve the functioning of the labour market are crucial for raising economic growth and its inclusiveness in a socially sustainable way.

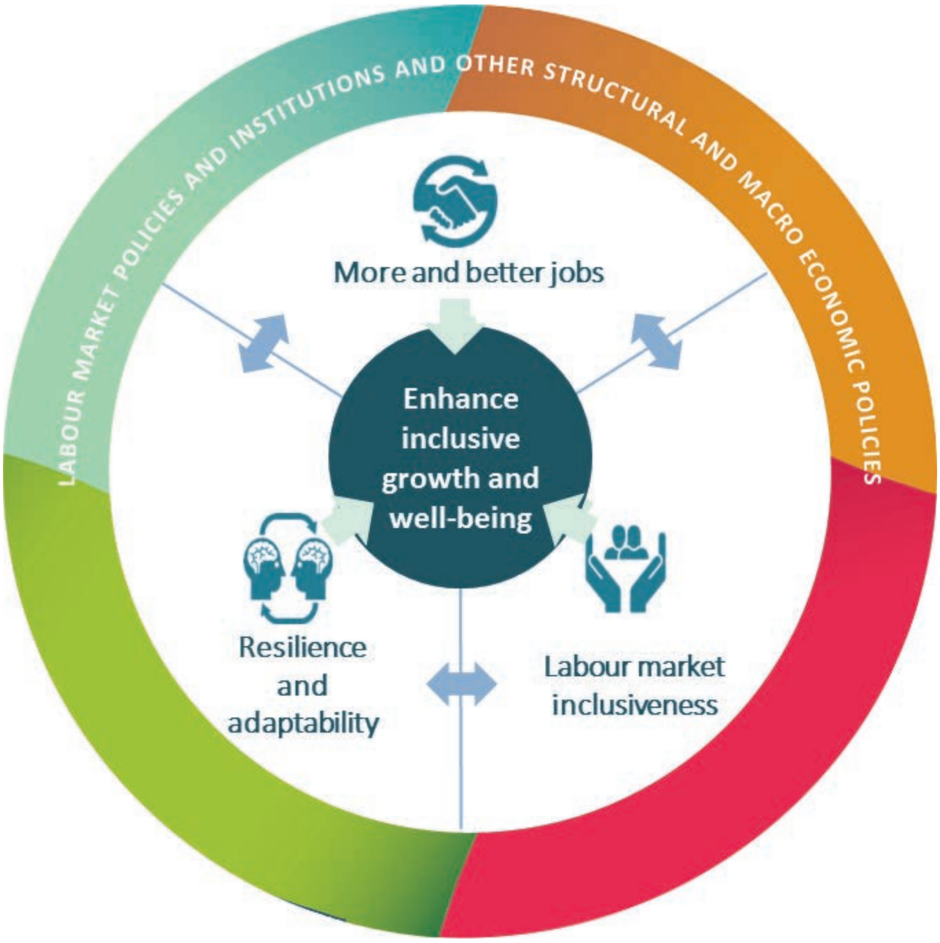
Recent policy concerns have focused on reconciling the ability of an economy to sustain aggregate productivity gains with the capacity to generate jobs that are fairly remunerated and associated with good non-wage working conditions as well as ensuring that the gains from growth are broadly shared (Chapter 2). In light of this, the framework of the new

Jobs Strategy has been broadened compared with previous versions of the OECD Jobs Strategy (1994, 2006) and now encompasses three over-arching policy objectives that together define good labour market performance and are each necessary for inclusive growth and well-being more generally (Figure 3.1):

- **More and better jobs.** This captures the labour market situation in terms of both the quantity of jobs (e.g. unemployment, labour force participation, working time) as well the quality of jobs by taking account of the three dimensions of the OECD Job Quality Framework that are key for worker well-being: i) earnings; ii) labour market security; and iii) the quality of the work environment.
- **Labour market inclusiveness**. This dimension focuses on the distribution of opportunities and outcomes across individuals. Ensuring equal opportunities to succeed in the labour market for all reduces the risk that people are excluded from fully participating in the labour market and fall into poverty. Labour market inclusiveness therefore relates to both dynamic aspects of inequality such as the prospects for social mobility and career advancement, as well as static ones such as the distribution of individual earnings and household incomes, and differences in access to quality jobs between different socio-economic groups.
- **Adaptability and resilience**. This dimension relates to the effectiveness with which individuals, institutions and societies absorb and adapt to economic shocks, and make the most out of the new opportunities arising from megatrends such as technological change (including automation and digitalisation), climate and demographic change and globalisation.

The first two dimensions focus on current outcomes of individuals and their distribution. The third dimension contains a forward-looking element that focuses on the ability of workers and labour markets to withstand future shocks and seize new opportunities. Adaptability and resilience are essential to ensure the sustainability of *good labour market* and *economic performance* in a constantly evolving world.

Figure 3.1. The conceptual framework of the OECD Jobs Strategy



Good labour market performance along these dimensions does not depend on labour market policies alone but also on a range of other policies, including sound macroeconomic and financial policies, productivity-enhancing policies in product, financial, and housing markets, education and skill policies, tax policies, entrepreneurship policies, regional policies, as well as the protection of property rights and the rule of law. In turn, labour market policies do not only affect labour market performance but also other dimensions of economic performance, well-being and social progress. Thus, a whole-of-government approach is needed to ensure that the new OECD Jobs Strategy is well embedded in the OECD Inclusive Growth Initiative (see Box 3.3 for details). Such whole-of-government approach recognises that there are synergies between effective labour market and social policies, a conducive macroeconomic environment and other key strategies of the Organisation, including *Going for Growth*, the OECD Skills Strategy, the OECD Innovation Strategy, the OECD Green Growth Strategy and the OECD *Recommendations on Gender Equality, Mental Health, and Ageing*.[3]

Box 3.3. The OECD Inclusive Growth Initiative

Persistently high inequalities of income, wealth and well-being and the slowdown in productivity growth are undermining social mobility, holding back progress in living standards and threatening political stability. The OECD is seeking to address these trends through the Inclusive Growth Initiative that was launched in 2012. The work on inclusive growth is organised along four pillars: i) shared prosperity; ii) inclusive markets; iii) equality of opportunities; and iv) inclusive growth governance. The new Jobs Strategy relates closely to each of these pillars:

- ***Shared prosperity recognises*** that the measurement of economic performance and social progress needs to go beyond gross domestic product (GDP) by taking account of both material and non-material living conditions as well as their distribution in society. This is reflected in the new Jobs Strategy which seeks to promote good quality jobs for all. This requires not only promoting the availability and access to jobs, but also ensuring that job quality is consistent with a healthy working life. It further emphasises the importance of labour market resilience and adaptability to ensure that labour market performance can be sustained in an uncertain future.
- ***Inclusive markets recognise*** the importance of well-functioning markets as well as the need for additional measures to ensure that everybody can participate fully in society. The new Jobs Strategy incorporates the key insight that inclusive markets require more than flexibility. It recognises that flexible markets are necessary to achieve good economic and labour market performance, but that supporting public policies are needed to promote more and better jobs for all.
- ***Equality of opportunities*** recognises equality of opportunity as the foundation of future prosperity. Similarly, the new Jobs Strategy emphasises the importance of equality of opportunity and social mobility for reducing the depth and persistence of economic inequalities, while raising long-term economic growth. Equality of opportunity is seen as a key component of the inclusiveness dimension of the new Jobs Strategy framework.
- ***Inclusive growth governance*** recognises the need for coordination and integration of policy actions using a whole-of-government approach. The new Jobs Strategy also recognises that winning the twin challenge of high inequality and low productivity growth requires comprehensive and integrated policy actions that reduce inequality while minimising potential adverse effects on economic growth, embedding the new Jobs Strategy as a key pillar of the Inclusive Growth Initiative.

Source: OECD (2018[21]) "The Framework for Policy Action on Inclusive Growth", Meeting of the Council at Ministerial Level, 30-31 May 2018, https://www.oecd.org/mcm/documents/C-MIN-2018-5-EN.pdf *(accessed 25 August 2018).*

3.2. The OECD Jobs Strategy dashboard

To what extent can policy improve labour market performance along each of the three dimensions of the new Jobs Strategy? Can synergies be developed or are trade-offs inevitable? How do policy priorities differ across countries? A good way of getting a first idea about the answers to these important questions is to review key indicators as presented in a dashboard that allows comparisons of labour market performance across OECD countries and major emerging market economies along each of its dimensions. Table 3.1, Panel A uses the employment rate, the unemployment rate, and the broad labour utilisation rate (defined as the share of inactive, unemployed and involuntary part-timers in the non-student working-age population) to measure job quantity; earnings quality, labour market security[4] and the incidence of job strain[5] for job quality; and the share of persons in low-income households, a general measure of gender inequality in the labour market and the typical employment gap of disadvantaged groups for inclusiveness (youth, older workers, mothers with children, people with disabilities and migrants).[6]

The main conclusion from the dashboard presented in Table 3.1, Panel A is that **policies can be combined into coherent packages that enhance synergies across policies and minimise possible trade-offs**. More specifically:

- *It is possible to combine good outcomes in terms of job quantity, job quality and inclusiveness*. Many countries that have relatively high employment rates tend to do relatively well with respect to the different components of job quality and inclusiveness. For example, the Nordic countries, such as Iceland, Denmark, Norway and Sweden, as well as Germany are among the best performing countries across at least two-thirds of the dimensions of the dashboard, while they are absent from the bottom third of low performers. At the other end of the spectrum, a number of Southern European and emerging economies score relatively low on the majority of indicators. This suggests that there are few systematic trade-offs, and crucially, that it is possible to design policies that simultaneously raise job quantity, job quality and inclusiveness. [7,8]
- *While more affluent countries tend to perform better along most outcomes, other factors – including sound employment and social policies – also play an important role.* After accounting for the role of economic development most Nordic countries, as well as Czech Republic, Estonia, Latvia, and New Zealand rank among the top performing countries in the OECD in terms of average performance (see Annex Table 3.A.3).9 By contrast, Mediterranean countries (except France and Israel), as well as Ireland and the United States are among the least performing countries in the OECD. These differences in average performance are likely to reflect the role of various factors, including that of policies, institutions and social capital.
- *Changes in performance over time reflect a combination of policy developments, structural changes and the legacy of the global financial crisis.* A decade after the onset of the global financial crisis labour market insecurity and low-income rate remain elevated in several countries compared with their levels in 2006. Earnings quality has remained more or less stable. At the same time, however, most countries managed to improve the quality of the work environment, narrow the gender labour income gap and better integrate disadvantaged groups into the labour market (cf. Table 3.1 and Annex Table 3.A.1). Moreover, most countries

have improved job quantity over the past two decades, largely thanks to the rise in female and older-worker employment rates (cf. Annex Table 3.A.2).

- *Performance has been uneven across countries.* Those European countries that were badly hit by the financial crisis and had to undergo significant fiscal restraint experienced worsening performance in many indicators over the past decade.[10] By contrast, Chile, Czech Republic, Germany, Japan, Israel and Poland stand out for having achieved significant improvements along at least four of the nine performance dimensions, while being stable along the other dimensions. Finally, many English-speaking countries are characterised by a striking stability of their performance over the past two decades, though often at intermediate-to-low levels of job quality and inclusiveness.[11]

Are countries prepared for the opportunities and challenges posed by the future of work? Table 3.1, Panel B provides descriptive evidence on these issues by comparing framework conditions for resilience and adaptability across OECD and a number of emerging market economies.[12] Resilience is measured by the estimated average increase in the unemployment rate in the three years following a negative shock to GDP of 1%, i.e. the capacity to limit fluctuations in unemployment and to quickly rebound in the wake of an aggregate shock.[13] Framework conditions for adaptability are measured by the following indicators:

- the *rate of labour productivity growth* as a key pre-condition for high growth of output, employment and wages;
- the *ability of productive firms to attract workers* and grow as a key component of labour productivity and therefore wages;
- the *decoupling or real median wage growth from productivity growth*, as a measure of the extent to which productivity gains are transmitted to the wages of the typical worker during periods of rapid structural change;
- *adult skills*, as higher skills promote learning, innovation and higher wages; *student skills*, as an indication of the readiness of the next generation to respond to future challenges; as well as the *share of non-standard workers in total employment* - defined in terms of self-employed and temporary workers - since non-standard work can contribute to adaptability by providing flexibility to workers and firms, but may pose challenges in terms job quality and inclusiveness;
- *regional disparities in unemployment rates* within countries as a measure of the extent to which countries adapt to the uneven regional impact of mega-trends such as technological change, globalisation and demographic change.

The key message from Table 3.1, Panel B is that framework conditions for resilience and adaptability are closely related to labour market outcomes in terms of job quantity, job quality and inclusiveness.[14] In most cases, framework conditions for resilience and adaptability are complementary to all dimensions of good labour market performance. However, in some cases there can be potential trade-offs in the sense that some framework conditions may raise labour market performance along some dimensions but reduce it along others.

- *Countries with more resilient labour markets and a higher share of skilled workers do better across all dimensions of labour market performance.*

  - Labour market resilience is crucial not only to contain the short-term social costs of economic downturns but also to support labour market and economic performance in the medium to long term by avoiding that cyclical downturns translate into structurally lower growth of output, employment and wages. In fact, the unemployment rate and the low-income rate are generally lower while labour market security is higher in countries with more resilient labour markets. Labour market resilience is high in countries such as Japan and a number of Nordic countries (Finland, Iceland, Norway and Sweden), whereas it is low in a number of Mediterranean countries and the United States.
  - A skilled workforce promotes innovation and the adoption of new technologies and work organisation practices, thereby boosting productivity, employment and wages. In fact, countries with a highly skilled workforce perform better across all dimensions of labour market performance. Countries with particularly low shares of low-skilled individuals include the Scandinavian countries, Germany, Japan and the Netherlands, but on average around one fifth of adults and one third of students in OECD countries do not have the basic skills required to succeed in a rapidly changing labour market.

- *Countries in which productive firms can more easily attract workers and grow also perform relatively better on job quantity.* A number of countries, such as Germany, the Netherlands and Norway, in which labour markets allocate workers efficiently – in the sense that employment growth is higher in more productive firms than in less productive ones – are also among the best-performing ones on most indicators of job quantity. However, a high ability of productive firms to attract workers is not sufficient to perform well on job quantity, as illustrated by a number of Mediterranean countries and the United States.
- *Countries in which real wage growth follow more closely labour productivity growth have generally done well on both job quantity and inclusiveness*. A large number of countries have experienced very low productivity growth over the past two decades, with productivity growth only partly transmitted to the real wage of the typical worker. Consequently, real median wages have stagnated in a large number of countries. Countries in which real median wage growth has closely tracked productivity growth, such as Denmark and New Zealand, have generally done well on both job quantity and inclusiveness. By contrast, countries in which real median wage growth has exceeded productivity growth, especially in the run-up to the crisis, such as Greece, Italy and Spain, have experienced large increases in unemployment. This suggests that large positive deviations of wage growth from productivity growth are unsustainable and may harm employment prospects in the long run. Countries in which real median wage growth has fallen short of productivity growth, such as Ireland, Poland and the United States, have typically experienced sub-par performance in terms of inclusiveness without any clear benefits in terms of job quantity.
- *Countries with high shares of non-standard workers and high regional disparities do worse than other countries on job quality and inclusiveness,* without apparent benefits in terms of job quantity. Around one fifth of workers in OECD countries are employed on non-standard contracts, which raises flexibility for employers and workers – including on working time – but may also pose challenges for skills development, job quality and inclusiveness. In fact, job quality and inclusiveness are lower in countries with high-shares of non-standard workers,

such as most Mediterranean countries. A similar pattern emerges for countries with high regional disparities that typically do worse than other countries in terms of job quality and inclusiveness but do not systematically do better on job quantity.

A whole-of-government approach is needed to make framework conditions for resilience and adaptability conducive to good overall economic and labour market performance. Labour market policies can influence most framework conditions for resilience and adaptability. For instance, well-designed and adequately funded education and training policies could improve adult skills and productivity growth while providing workers with the right tools to navigate change, thereby reducing skill mismatch and improving the ability of productive firms to attract qualified workers. However, labour market policies alone cannot achieve framework conditions for resilience and adaptability. Key non-labour market policies are:

- *Sound macroeconomic policies* smooth business cycle fluctuations in aggregate demand and can have longer-term effects by reducing the scope for hysteresis-type mechanisms that turn temporary downturns in activity into sustained periods of low economic activity. This may, for instance, happen if cyclical increases in unemployment translate into increases in structural unemployment or reduced labour force participation, or if cyclical declines in investment reduce growth expectations, resulting in a low-growth trap characterised by low investment and low growth in productivity and wages.
- *Productivity-enhancing policies and institutions* not directly related to the labour market are key to promote a vibrant economic environment that is conducive to innovation and the efficient re-allocation of factors of production. Business dynamism could be promoted by facilitating the entry of new firms, the reallocation of workers towards the most productive firms and the restructuring (or orderly exit) of the weakly productive ones. Raising the efficiency of tax systems; providing a sound legal and judicial infrastructure; enhancing the robustness of financial markets that serve the real economy; continuing efforts to strengthen the rule of law and fight corruption; and creating a level playing field and improving the governance of state-owned enterprises are other policy areas that will be key to sustainably raise productivity, employment and wages.
- In accordance with the OECD Skills Strategy, the challenge for ***skills policies*** is to provide learning opportunities from early childhood throughout the working life. A high-quality initial education and training system will be crucial to give individuals the best possible start in the labour market by providing them with strong basic skills, socio-emotional skills and specific skills required by employers, as well as the capacity for lifelong learning and to make education, training and occupational choices throughout their working lives.

Table 3.1. OECD Jobs Strategy dashboard for labour market performance

Panel A. Dashboard of job quantity, job quality and inclusiveness

	Quantity			Quality			Inclusiveness		
	Employment	Unemployment	Broad labour underutilisation	Earnings quality	Labour market insecurity	Quality of working environment	Low-income rate	Gender labour income gap	Employment gap for disadvantaged groups
	Share of working-age population (20-64 years) in employment (%) (2017)	Share of persons in the labour force (15-64 years) in unemployment (%) (2017)	Share of inactive, unemployed or involuntary part-timers (15-64) in population (%), excluding youth (15-29) in education and not in employment (2016)	Gross hourly earnings in USD adjusted for inequality (2015)	Expected monetary loss associated with becoming and staying unemployed as a share of previous earnings (%) (2016)	Share of workers experiencing job strain (%) (2015)	Poverty rate after taxes and transfers, poverty line 50%, working-age population (18-64) (%) (2015)	Difference between average annual earnings of men and women divided by average earnings of men (%) (2015)	Average employment gap as a percentage of the benchmark group (prime-age male workers) (2016)
OECD countries									
Iceland	87.2	2.9	12.6	22.7	2.2	23.8	6.5	35.3	9.2
Switzerland	82.1	5.0	18.3	28.4	1.7	..	6.4	48.3	14.6
Sweden	81.8	6.8	19.5	20.3	3.8	23.6	8.4	25.6	13.3
New Zealand	81.3	4.9	21.4	16.8	4.4	21.6	9.7	..	17.7
Japan	80.3	3.0	24.0	16.1	1.6	31.2	14.5	57.7	24.7
Germany	79.2	3.8	21.0	25.0	1.9	28.5	10.0	42.6	20.2
Estonia	78.7	5.9	21.9	7.5	5.2	23.0	12.9	30.4	22.1
Czech Republic	78.5	2.9	20.7	9.0	1.8	25.4	5.8	44.3	30.3
Norway	78.3	4.3	19.2	29.0	1.9	13.8	9.3	35.0	16.0
United Kingdom	78.1	4.5	23.5	17.7	2.7	20.7	10.1	42.6	22.9
Netherlands	78.0	4.9	22.9	28.7	1.9	23.4	8.8	46.2	22.2
Denmark	76.9	5.9	21.0	29.8	3.1	18.2	7.0	29.8	16.7
Canada	76.3	6.4	26.0	19.6	3.8	..	14.1	38.7	19.3
Lithuania	76.0	7.3	23.5	7.5	..	30.8	14.7	26.9	17.6
Australia	76.0	5.8	28.5	21.9	3.8	25.6	10.2	41.5	21.4
Israel	75.5	4.3	24.0	8.7	3.5	25.1	14.3	..	14.6
Austria	75.4	5.6	25.4	23.0	2.6	28.5	8.7	47.8	21.6
Latvia	74.7	8.9	26.8	6.4	..	30.3	13.0	24.9	17.7
Finland	74.3	8.8	26.6	21.2	2.0	16.3	6.8	21.4	18.6
United States	73.6	4.4	25.7	17.7	3.7	25.8	15.5	39.5	25.4
Slovenia	73.4	6.7	27.6	14.2	3.5	31.8	8.7	22.8	27.4
Portugal	73.4	9.2	29.8	8.7	7.0	33.2	12.3	29.0	22.0
Hungary	73.3	4.2	26.8	7.2	3.2	36.4	10.0	29.3	33.6
Ireland	72.7	7.0	33.5	19.3	3.1	23.9	9.9	39.9	26.3
Korea	71.6	3.8	..	9.9	2.4	..	8.5	61.0	31.8
Luxembourg	71.5	5.5	27.5	28.8	2.2	23.1	10.9	31.9	24.0
Slovak Republic	71.1	8.2	29.7	8.8	6.4	32.0	7.6	31.7	33.5
France	71.0	9.2	32.7	21.9	4.4	25.8	8.3	34.6	27.8
Poland	70.9	5.0	29.4	7.6	4.0	30.0	11.0	35.5	31.5
Chile	69.1	7.0	33.2	6.6	7.1	28.2	14.2	46.4	27.5
Belgium	68.5	7.1	30.0	29.3	2.4	25.8	9.5	33.3	30.0
Mexico	66.6	3.6	..	4.6	4.0	28.9	13.9	54.5	40.4
Spain	65.5	17.3	39.3	17.5	17.5	35.0	15.9	34.0	27.5
Italy	62.3	11.4	42.9	19.1	10.7	29.6	14.7	44.3	34.0
Greece	57.8	21.7	44.8	10.0	22.7	47.9	16.0	49.1	38.2
Turkey	55.3	11.2	44.2	5.8	13.0	42.9	13.5	..	47.1
OECD	**72.1**	**5.9**	**27.2**	**16.6**	**4.9**	**27.6**	**10.9**	**38.1**	**24.7**
Non-OECD countries									
Colombia	73.1	9.7	30.2	3.7	11.0	..	..	42.5	34.3
Costa Rica	66.6	9.2	37.8	5.5	7.2	..	17.5	48.5	44.9
Argentina	69.0	8.5	36.2	7.4	7.5	..	..	45.1	38.8
Brazil	65.9	13.0	32.7	4.8	6.6	..	17.3	48.2	39.2
China	79.0	2.9	..	..	5.8	28.9	26.0	..	32.0
India	59.5	3.7	..	2.7	3.6	30.7	17.1	78.1	50.1
Indonesia	72.6	5.6	29.6	1.6	8.2	..	..	62.7	40.1
Russian Federation	74.9	5.2	23.3	6.8	5.1	33.4	12.8	33.2	35.4
Saudi Arabia	60.0	5.7	..	..	..	..	..	..	..
South Africa	49.8	27.4	50.2	2.5	22.6	26.7	23.9	50.1	50.3

Above average performers (Top-third) | About average performers (Mid-third) | Below average performers (Bottom-third)

Note: Countries are ordered in descending order by the employment rate. Dark blue stands for better performance, light blue for worse one. Youth, aged 15-29 years, in education and not in employment are excluded from both the numerator and the denominator of broad labour underutilisation. The groups considered in the last columns are youth, older workers, mothers with children, people with disabilities and non-natives. Data refer to the latest available data for each group. Data on job quantity refer to 2017 (2016 for broad labour utilisation) except for China (2010), India (2011-12) and Saudi Arabia (2016). Data on earnings quality refer to 2015, except for Argentina, Japan and the Russian Federation (2013) and India (2011-12). Data on earnings quality for non-OECD countries are provisional estimates. Data on labour market insecurity refer to 2016 except for Israel (2015) and non-OECD countries (2013). Data for job strain are preliminary estimates for 2015. Data on low-income rate refer to 2015 except for Costa Rica, Finland, Israel, Latvia, the Netherlands, Sweden and the United States (2016); Australia, Hungary, Iceland, Mexico and New Zealand (2014); Brazil (2013); Japan (2012), China, India and the Russian Federation (2011). Data on labour income gap per capita refer to 2015 except for Argentina, Chile, Colombia, Indonesia and the United States (2016); Canada, Iceland, Ireland, Italy, Luxembourg, the Russian Federation and Switzerland (2014); Korea (2013) and India (2011-12).
Source: OECD (2016[3]), "Recent labour market developments and the short-term outlook", in *OECD Employment Outlook 2016*, https://dx.doi.org/10.1787/empl_outlook-2016-5-en; OECD (2017[4]) "How are we doing? A broad assessment of labour market performance", in *OECD Employment Outlook 2017*, https://doi.org/10.1787/empl_outlook-2017-5-en; OECD (2018[5]), "Still out of pocket: Recent labour market performance and wage developments", in *OECD Employment Outlook 2018*, https://doi.org/10.1787/empl_outlook-2018-5-en; *OECD Employment Database,* www.oecd.org/employment/database; *OECD Job Quality Database,* http://www.oecd.org/statistics/job-quality.htm and *OECD Income Distribution Database*, http://www.oecd.org/social/income-distribution-database.htm.

Panel B. Framework conditions for resilience and adaptability

	Resilience	Adaptability						
	Unemployment cost of a decline in GDP	Labour productivity growth	Ability of productive firms to attract workers	Wage-productivity decoupling	Adult skills	Student skills	Non-standard workers	Regional disparities
	Average increase in unemployment rate over three years after a negative shock to GDP of 1% (pp) (2000-16)	Average annual labour productivity growth (%) (2000-16)	Cross-firm employment growth differential associated with 10 pp productivity differential (2003-13)	Difference between annual real median wage growth and labour productivity growth (pp) (2000-13)	Share of adults with numeracy skills below level 2 in PIAAC (%) (2012, 2015)	Share of 15-year-olds not in secondary school or scoring below Level 2 in PISA (%) (2015)	Own-account self-employed and temporary workers in % of total employment (2013)	Coefficient of variation in regional unemployment rates (2000, 2016)
OECD countries								
Iceland	0.1	1.5 o	..	..	..	28.8	20.6	Low ↑
Switzerland	0.4	0.4 ↓	Low o	..	..	19.0	18.7	Low ↑
Sweden	0.3	1.3 o	Average o	0.4 ↑	14.7	25.9	19.0	Average ↓
New Zealand	0.4	0.7 o	..	0.3 o	18.9	29.3	..	Low o
Japan	0.2	0.7 ↑	Average ↑	-0.5 ↑	8.1	15.4	20.2	Low o
Germany	0.4	0.6 o	High o	-0.4 o	18.4	20.6	18.1	High ↓
Estonia	0.7	2.8 ↓	Average o	..	14.3	17.6	8.4	Average ↑
Czech Republic	0.3	2.1 o	..	0.3 o	12.9	26.8	21.2	High o
Norway	0.2	0.5 ↑	High o	-0.5 o	14.6	24.3	11.8	Low o
United Kingdom	0.4	0.8 o	Low o	-0.2 ↓	24.2	34.4	16.1	Average o
Netherlands	0.4	0.7 ↑	High ↓	-0.7 ..	13.2	20.8	25.9	Average o
Denmark	0.6	0.6 o	Low o	0.1 ↓	14.2	23.1	13.6	Low o
Canada	0.5	0.6 o	..	-0.6 o	22.4	28.5	21.2	High ↓
Lithuania	0.5	4.2 ↓	..	..	17.4	32.7	..	Low ↑
Australia	0.4	1.0 o	..	-1.0 ↑	20.1	29.3	32.1	High o
Israel	0.6	0.7 o	..	-0.6 ..	30.9	36.4	..	Low o
Austria	0.1	0.4 o	High o	-0.0 o	14.3	34.8	15.4	Average ↑
Latvia	0.8	3.9 ↓	High ↓	..	..	30.2	..	Low ↑
Finland	0.2	0.6 o	Average o	1.0 o	12.8	15.9	21.8	High ↓
United States	0.7	1.3 ↓	High ↑	-1.5 ↑	28.7	41.0	..	Average o
Slovenia	0.3	1.0 o	Average o	..	25.8	22.2	18.6	Low o
Portugal	0.3	0.8 ↓	Low o	0.5 ↓	..	33.2	31.0	High ↓
Hungary	0.3	1.7 ↓	Average o	-0.6 o	..	35.5	15.9	Average ↑
Ireland	0.3	3.0 ↑	Low o	-1.1 ↓	25.2	18.0	19.5	Average ↓
Korea	0.2	2.5 ↓	Average ↑	-1.1 ↑	18.9	22.5	32.7	Low o
Luxembourg	0.1	0.0 ↑	Low o	..	..	35.0	11.9	..
Slovak Republic	0.5	3.2 ↓	..	-0.8 ↑	13.8	35.5	22.3	High o
France	0.4	0.6 o	Average o	0.7 o	28.0	30.4	20.8	Average ↓
Poland	0.6	2.7 ↓	Average ↑	-1.3 ↓	23.5	24.7	37.4	Low o
Chile	0.3	1.4 ↓	..	..	61.9	59.6	..	Average o
Belgium	0.3	0.6 o	Low o	-0.2 ↑	13.4	25.7	16.9	High o
Mexico	0.2	0.2 ↑	..	..	..	73.2	..	Average o
Spain	0.9	0.7 o	High o	0.5 ↓	30.6	29.3	32.1	High ↓
Italy	0.5	-0.4 o	High ↓	1.0 ↓	31.7	38.4	27.9	High ↓
Greece	0.8	0.2 ↓	Low ↑	1.4 ↓	28.5	41.5	35.6	Average o
Turkey	0.2	2.6 o	..	..	50.2	66.0	30.2	High ↓
OECD	**0.4**	**1.2 o**		**-0.2 o**	**22.7**	**32.4**	**22.0**	
Non-OECD countries								
Colombia	0.2	1.9 o	..	..	..	**74.8**	..	Average o
Costa Rica	0.6	2.1 o	..	..	..	76.2	..	..
Argentina	..	0.7 o	..	..	..	75.9	..	..
Brazil	0.3	1.5 ↓	..	..	..	79.0	..	Average o
China	0.0	2.1 o	..	..	..	46.2	..	High -
India	..	6.5 o	..	..	..	..	..	..
Indonesia	..	3.7 o	..	..	..	78.6	..	..
Russian Federation	0.1	2.8 ↓	..	..	..	22.8	..	High ↑
Saudi Arabia	..	-1.8 ↓	..	..	..	..	..	..
South Africa	0.3	0.6 ↓	..	..	..	..	..	Low o

Note: Countries are ordered in descending order of the employment rate. OECD unweighted average. The signs ↑, o, ↓ indicate differences in the most recent period (see Annex Table 3.A.4 for the details) relative to the overall period, with ↑ denoting an increase, o indicating approximate stability and ↓ indicating a decline. For instance, ↑ for the decoupling indicator means that over 2010-13 real median wage growth accelerated relative to labour productivity growth. Changes in indicators are considered to be significant when they are at least as large as one-half of the standard deviation of that indicator across OECD countries.

Source: Resilience: OECD calculations based on OECD (2017[6]), *OECD Employment Outlook 2017*, http://dx.doi.org/10.1787/empl_outlook-2017-en; Labour productivity growth: OECD Economic Outlook database (labour productivity measured in per worker terms); Wage-productivity decoupling: OECD calculations based on OECD National Accounts Database and OECD Earnings Database (labour productivity measured in per hour terms); Ability of productive firms to attract workers: OECD calculations based on the 2013 ORBIS vintage; Low-skilled adults: OECD (2016[7]), *Skills Matter: Further Results from the Survey of Adult Skills*, http://dx.doi.org/10.1787/9789264258051-en; Low-performing students in mathematics: OECD (2016[8]), *PISA 2015 Results (Volume I): Excellence and Equity in Education*, http://dx.doi.org/10.1787/9789264266490-en. Non-standard workers: OECD (2015[9]), *In It Together - Why Less Inequality Benefits All*, http://dx.doi.org/10.1787/9789264232662-en. Regional disparities: OECD (2018), *OECD Regional Statistics Database*, https://dx.doi.org/10.1787/region-data-en.

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Conclusions

The conceptual framework of the new Jobs Strategy introduced in this chapter distinguishes between three broad performance areas: i) the quantity and quality of jobs; ii) labour market inclusiveness; and iii) the resilience and adaptability of the labour market. This framework is then applied by using the OECD Jobs Strategy dashboard to assess labour market performance and identify reform priorities.

The multidimensional approach to labour market performance adopted by the new Jobs Strategy potentially raises difficult questions for policy-makers as a result of possible trade-offs between different outcomes. Evaluating such trade-offs is difficult as social preferences may well differ significantly and across countries. In that sense, evaluating trade-off involves inherently political choices. The new OECD Jobs Strategy does not take a stance on the relative importance of the different dimensions beyond recognising that all are important in their own right.

A key insight of this chapter is that, while trade-offs between the performance areas of the framework are likely to be important in some cases, there are also important synergies. For instance, it is possible to design policy packages that simultaneously raise job quantity, job quality and inclusiveness. To some extent this reflects the role of economic development which not only tends to be associated with higher incomes, but also better public institutions and more resources for education, employment and social policies. However, it also suggests that coherent policy packages can go a long way towards mitigating possible trade-offs.

The remainder of Part I consists of three chapters that respectively consider the role of policies and institutions for labour market performance (Chapter 4), discuss their effective implementation in specific countries (Chapter 5), and contain the detailed policy recommendations of the new OECD Jobs Strategy (Chapter 6).

Notes

[1] Chapter 17 will develop this further to identify to challenges and priorities in specific countries.

[2] The OECD measures well-being as a multi-dimensional construct capturing material conditions, the quality of life and the sustainability of well-being in the future (OECD, 2017[10]).

3 Recommendation of the Council on Gender Equality in Public Life [C(2015)164], Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship [C/MIN(2013)5/FINAL], Recommendation of the Council on Integrated Mental Health, Skills and Work Policy [C(2015)173] and the Recommendation of the Council on Ageing and Employment Policies [C(2015)172].

[4] Because of data availability, the measure of labour market insecurity considered here – that is the expected monetary loss associated with becoming and staying unemployed as a percentage of previous earnings – does not incorporate the broader issue of "earnings insecurity" due to unpredictable hours or extremely low pay, which is equally important for economic security, particularly in emerging economies.

[5] Job strain measures the risk that work impairs peoples' health due to the combination of excessive job demands and insufficient job resources to meet work requirements. Job demands relate to physical demands, work intensity and the flexibility of working time. Job resources relate to task discretion and work autonomy, training and learning opportunities and scope for career advancement. For further details, please visit: http://www.oecd.org/statistics/job-quality.htm.

[6] More specifically, the three dimensions of inclusiveness considered in the scoreboard are: i) the share of the working-age population with disposable income substantially below that of a typical working-age person; ii) the gender gap in labour income per capita; and iii) the gap in employment rates between prime-age men and selected disadvantaged groups – youth, older workers, mothers with children, people with disabilities and migrants (i.e. the foreign-born). The reason for including these measures is threefold: i) labour income – along with out-of-work transfers and the taxation of employment-related income – is a key determinant of household disposable income for the working-age population, particularly in the lower range of the distribution, which implies that an economy with an inclusive labour market is one in which relatively few working-age persons have disposable income that lies far below the median income; ii) an inclusive labour market means that opportunities to develop a successful career should not differ by gender; and iii) an inclusive labour market should ensure that potentially disadvantaged groups are not left behind. A more exhaustive discussion of these choices and the robustness of the scoreboard to their measurement is available in OECD (2017[4]).

[7] While the tendency for performance to go together across different outcomes reflects to some extent the role of economic development, accounting for this does not change the message that it is possible to do well in terms of each of the dimensions of labour market performance at the same time.

[8] Of course, higher employment rates do not necessarily imply better quality jobs or greater inclusiveness and vice versa. Policy priorities and effectiveness can differ significantly across countries.

[9] The role of economic development is accounted for by regressing each of the indicators of labour market performance on GDP per capita across OECD countries (excluding Luxembourg), retrieving and standardising residuals and when necessary multiplying by minus one so that positive values are associated with better performance. The results are reported in Annex Table 3.A.3.

[10] A few of them have however significantly improved their job quantity performance in the past two decades (e.g. Ireland and Spain).

[11] The United States, where the employment rate has fallen by 1.7 percentage points and broad labour underutilisation has increased by 2.5 percentage points in the past decade, represents a notable exception to this pattern of stability.

[12] See Chapter 13 and 14 of this Volume for a detailed policy discussion of these issues and Annex Table 3.A.4 for further information on framework conditions for resilience and adaptability and their measurement.

[13] An alternative indicator using the employment rate instead of the unemployment rate has also been calculated and provides a qualitatively similar picture. The pairwise rank correlation between the indicators of unemployment and employment resilience is 0.7.

[14] The conclusions in this paragraph are based on rank correlations between the levels of the indicators in Panel B and the levels/changes of the indicators in Panel A. Changes of the indicators in Panel A are computed over the period 2006-16.

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Annex 3.A.

Annex Table 3.A.1. Dashboard of job quantity, job quality and inclusiveness, 2006 or closest available date

	Quantity			Quality			Inclusiveness		
	Employment	Unemployment	Broad labour underutilisation	Earnings quality	Labour market insecurity	Quality of working environment	Low-income rate	Gender labour income gap	Employment gap for disadvantaged groups
	Share of working-age population (20-64 years) in employment (%) (2006)	Share of persons in the labour force (15-64 years) in unemployment (%) (2006)	Share of inactive, unemployed or involuntary part-timers (15-64) in population (%), excluding youth (15-29) in education and not in employment (2007)	Gross hourly earnings in USD adjusted for inequality (2006)	Expected monetary loss associated with becoming and staying unemployed as a share of previous earnings (%) (2007)	Share of workers experiencing job strain (%) (2005)	Poverty rate after taxes and transfers, Poverty line 50% Working-age population (18-64) (%) (2006)	Difference between average annual earnings of men and women divided by average earnings of men (%) (2005)	Average employment gap as a percentage of the benchmark group (prime-age male workers) (2006)
OECD countries									
Iceland	87.0	3.0	10.6	21.2	1.1	..	5.2	41.2	10.4
Switzerland	80.5	4.1	18.6	26.6	1.4	..	..	..	18.8
Norway	79.6	3.5	17.5	25.3	0.7	21.8	8.6	38.6	20.0
Denmark	79.4	4.0	20.6	27.1	1.8	23.2	5.3	31.6	21.5
Sweden	78.8	7.1	23.1	18.5	2.5	21.2	7.5	32.3	16.8
New Zealand	78.4	3.9	21.8	14.9	3.1	24.8	8.3	..	21.1
Canada	75.8	6.4	24.6	16.9	3.2	30.1	12.8	41.2	20.8
Estonia	75.6	6.1	21.7	5.7	4.0	30.7	11.2	37.2	22.6
United States	75.3	4.7	23.2	18.0	3.4	28.1	14.1	44.2	26.0
United Kingdom	75.0	5.4	24.9	17.6	3.1	28.4	10.4	46.3	25.5
Ireland	74.7	5.0	24.4	16.4	1.8	27.6	9.4	49.3	29.7
Netherlands	74.6	4.3	22.8	27.5	1.1	27.8	6.6	56.0	28.8
Australia	74.5	4.9	27.3	20.1	2.7	27.3	10.7	46.7	24.3
Japan	74.5	4.3	26.0	15.0	1.8	37.8	13.4	64.3	29.5
Finland	74.0	7.7	24.5	19.9	2.6	20.3	7.1	27.5	19.4
Latvia	73.2	7.2	24.1	4.2	..	37.5	11.9	..	21.3
Portugal	72.6	8.1	27.1	8.6	5.5	46.8	10.5	..	23.0
Austria	71.6	5.3	26.7	20.9	2.1	31.0	..	50.3	28.6
Slovenia	71.5	6.1	24.6	13.4	2.1	41.1	5.9	23.3	25.4
Lithuania	71.3	5.8	27.6	6.1	..	46.1	10.4	27.2	22.7
Czech Republic	71.2	7.2	25.1	8.4	2.2	37.8	5.0	46.7	35.9
Germany	71.1	10.4	28.2	22.8	3.4	44.8	8.7	51.8	28.6
Korea	69.6	3.6	..	8.0	2.2	38.7	11.1	67.9	35.1
France	69.4	8.5	31.0	20.8	3.1	34.1	7.4	38.7	30.7
Luxembourg	69.1	4.7	27.0	28.3	1.3	29.1	..	58.3	30.7
Spain	69.0	8.5	30.8	15.6	5.5	49.2	11.3	..	28.4
Israel	68.1	10.8	34.0	8.6	5.4	35.8	14.4	..	21.6
Belgium	66.5	8.3	31.7	27.4	3.1	30.0	8.3	47.9	36.7
Mexico	66.1	3.7	..	4.8	3.8	31.5	15.2	..	41.1
Slovak Republic	66.0	13.3	30.4	7.3	8.1	37.4	5.3	34.7	39.2
Greece	65.6	9.1	32.6	11.4	7.5	49.8	11.3	..	35.2
Chile	64.0	9.2	..	4.1	8.1	..	16.3	59.0	37.9
Hungary	62.6	7.5	35.0	7.0	4.0	49.8	6.7	33.5	38.4
Italy	62.4	6.9	38.0	18.5	5.0	35.6	10.7	..	37.8
Poland	60.1	14.0	35.0	6.3	4.8	39.1	10.8	32.7	40.6
Turkey	48.2	10.5	51.8	6.0	9.7	57.2	12.2	..	52.3

OECD	**70.3**	**6.3**	**27.0**	**15.3**	**3.6**	**34.9**	**9.8**	**43.4**	**28.5**
Non-OECD countries									
Colombia	66.8	11.5	..	2.9	..	..	..	51.3	..
Costa Rica	69.3	5.8	..	..	..	..	..	..	..
Argentina	68.8	10.3	36.0	5.6	..	..	..	54.3	35.1
Brazil	71.9	8.6	31.7	3.5	..	..	17.6	54.2	36.8
China	83.8	3.7	..	..	..	..	..	..	..
India	63.4	4.5	..	..	..	..	17.4	..	46.4
Indonesia	67.5	10.6	..	..	..	..	..	..	43.6
Russian Federation	74.2	7.1	..	5.5	..	42.7	..	..	..
Saudi Arabia	56.9	5.8	..	..	..	..	..	..	..
South Africa	53.1	22.6	..	..	..	38.0	..	58.9	..

Above average performers (Top-third) | About average performers (Mid-third) | Below average performers (Bottom-third)

Note: Countries are ordered in descending order by the employment rate. Dark blue stands for better performance, light blue for worse one. The groups considered in the last columns are youth, older workers, mothers with children, people with disabilities and non-natives. Data on job quantity refer to 2006 except for Colombia and Saudi Arabia (2007); China (2000). Data on job strain are preliminary revised estimates for 2005. Data on low-income rate refer to 2006 except for Israel and the United States (2005); Hungary, Spain and Turkey (2007); Australia, Mexico, Norway, New Zealand and Sweden (2008); India (2004). Data on gender labour income gap refer to 2006 except for Japan (2005).

Source: OECD (2016[3]), "Recent labour market developments and the short-term outlook", in *OECD Employment Outlook 2016*, https://dx.doi.org/10.1787/empl_outlook-2016-5-en; OECD (2017[4]) "How are we doing? A broad assessment of labour market performance", in *OECD Employment Outlook 2017*, https://doi.org/10.1787/empl_outlook-2017-5-en; *OECD Employment Database,* www.oecd.org/employment/database; *OECD Job Quality Database,* http://www.oecd.org/statistics/job-quality.htm and *OECD Income Distribution Database*, http://www.oecd.org/social/income-distribution-database.htm.

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Annex Table 3.A.2. Dashboard of job quantity, 1995 or closest available date

	Quantity	
	Employment	Unemployment
	Share of working-age population (20-64 years) in employment (%) (1995)	Share of persons in the labour force (15-64 years)in unemployment (%) (1995)
OECD countries		
Iceland	86.0	5.0
Switzerland	79.4	3.4
Norway	77.0	5.0
Sweden	76.0	9.2
Czech Republic	75.6	4.0
Denmark	75.3	7.0
United States	75.2	5.6
Japan	75.1	3.3
New Zealand	72.6	6.5
Estonia	71.4	9.7
Austria	71.3	3.7
Korea	70.9	2.1
United Kingdom	70.7	8.7
Canada	70.5	9.6
Australia	70.1	8.6
Israel	68.3	8.9
Portugal	67.8	7.4
Netherlands	67.6	7.1
Germany	67.6	8.2
Slovak Republic	67.4	13.1
Finland	66.3	15.4
France	65.1	11.6
Poland	64.3	13.7
Luxembourg	62.4	2.9
Chile	62.2	7.5
Belgium	61.4	9.4
Mexico	61.1	7.1
Ireland	60.7	12.4
Greece	59.9	9.3
Hungary	58.9	10.2
Turkey	55.9	7.8
Italy	55.2	11.7
Spain	51.8	22.8
Latvia	..	..
Lithuania	..	..
Slovenia	..	..
OECD	**68.3**	**7.6**
Non-OECD countries		
Colombia	..	..
Costa Rica	63.6	5.2
Argentina	..	..
Brazil	..	..
China	..	..
India	..	..
Indonesia	..	..
Russian Federation	70.2	9.5
Saudi Arabia	57.2	4.4
South Africa	..	..

Above average performers (Top-third)	About average performers (Mid-third)	Below average performers (Bottom-third)

Note: Countries are ordered in descending order by the employment rate. Dark blue stands for better performance, light blue for worse one. Data refer to 1995 except for Chile (1996) and Saudi Arabia (1999).
Source: OECD Employment Database, www.oecd.org/employment/database.

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Annex Table 3.A.3. Dashboard of job quality, job quantity and inclusiveness after adjusting for the role of economic development

2017 or latest available year, taking in account GDP per capita using the residuals of regressing each indicator on GDP per capita, standardised

	Quantity			Quality			Inclusiveness		
	Employment	Unemployment	Broad labour underutilisation	Earnings quality	Labour market insecurity	Quality of working environment	Low-income rate	Gender labour income gap	Employment gap for disadvantaged groups
Iceland	1.9	0.8	1.8	0.3	0.3	0.1	1.2	0.3	1.7
New Zealand	1.4	0.6	1.0	0.4	0.2	1.2	0.5	..	1.1
Estonia	1.3	0.5	1.2	-0.7	0.4	1.4	-0.4	0.7	0.8
Japan	1.1	1.0	0.4	-0.1	0.8	-0.7	-1.3	-1.9	-0.1
Czech Republic	1.1	1.2	1.2	-0.9	1.0	0.7	2.0	-0.6	-0.5
Sweden	1.0	-0.2	0.8	-0.1	0.0	0.2	0.6	1.3	1.2
Lithuania	0.8	0.1	0.9	-0.8	..	0.0	-1.0	1.1	1.5
Latvia	0.8	-0.2	0.6	-0.5	..	0.3	-0.2	1.3	1.7
United Kingdom	0.6	0.6	0.5	0.1	0.5	1.1	0.2	-0.4	0.1
Germany	0.6	0.6	0.7	1.1	0.5	-0.6	0.1	-0.4	0.3
Switzerland	0.6	0.0	0.6	0.5	0.0	..	0.9	-0.9	0.5
Israel	0.5	0.8	0.7	-1.0	0.6	0.7	-1.0	..	1.7
Hungary	0.4	1.0	0.5	-0.5	0.9	-0.9	0.8	0.8	-0.6
Portugal	0.4	-0.4	0.0	-0.5	-0.1	-0.4	-0.1	0.9	0.9
Slovenia	0.2	0.2	0.2	0.4	0.7	-0.3	1.0	1.5	0.0
Netherlands	0.2	0.3	0.2	1.4	0.3	0.1	0.3	-0.8	-0.2
Canada	0.1	0.0	0.0	0.0	0.0	..	-1.4	0.0	0.4
Denmark	0.1	0.0	0.6	1.9	0.1	1.1	1.0	0.9	0.7
Poland	0.0	0.8	0.1	-0.5	0.7	0.3	0.4	0.2	-0.4
Australia	0.0	0.1	-0.5	0.2	0.0	-0.2	-0.1	-0.3	0.0
Finland	0.0	-0.6	0.0	0.8	0.6	1.8	1.4	1.7	0.7
Chile	0.0	0.4	-0.2	0.0	0.2	0.9	-0.5	-0.9	0.5
Austria	-0.1	0.2	0.0	0.6	0.3	-0.6	0.5	-0.9	0.1
Slovak Republic	-0.1	-0.2	-0.1	-0.7	0.0	-0.3	1.4	0.6	-0.8
Mexico	-0.3	1.4	..	0.0	1.1	1.0	-0.3	-1.7	-1.1
Korea	-0.3	0.8	..	-1.2	0.7	..	0.9	-2.3	-0.9
Norway	-0.3	0.1	0.3	-0.1	-0.2	0.9	-0.3	0.4	0.0
France	-0.5	-0.6	-0.8	1.2	0.1	0.3	0.9	0.4	-0.4
United States	-0.8	0.2	-0.4	-1.7	-0.4	-0.7	-2.3	-0.1	-0.9
Belgium	-1.1	-0.2	-0.6	2.3	0.4	0.0	0.3	0.5	-1.0
Spain	-1.2	-2.7	-1.6	0.7	-2.8	-1.1	-1.6	0.4	-0.2
Ireland	-1.6	-0.8	-2.0	-2.9	-0.8	-1.2	-0.8	0.0	-1.7
Italy	-1.8	-1.2	-2.1	1.0	-1.2	-0.2	-1.2	-0.6	-1.1
Greece	-2.1	-3.6	-2.0	0.3	-3.6	-2.8	-1.3	-1.1	-1.2
Turkey	-2.6	-0.8	-2.0	-0.7	-1.4	-2.0	-0.5	..	-2.5
Correlation with column (1)	**1.0**	**0.7**	**1.0**	**0.0**	**0.7**	**0.6**	**0.4**	**0.2**	**0.8**

Above average performers (Top-third) | About average performers (Mid-third) | Below average performers (Bottom-third)

Note: The role of economic development is accounted for by regressing each of the indicators of labour market performance on GDP per capita across OECD countries (excluding Luxembourg), retrieving and standardising residuals and, when necessary, multiplying by minus one so that positive values are associated with better performance. Countries are ordered in descending order by the employment rate. Dark blue stands for better performance, light blue for worse one. For details on variable definitions see Table 3.1.

Source: See Table 3.1.

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Annex Table 3.A.4. Extended information on framework conditions for resilience and adaptability

	Resilience	Adaptability										
	Unemployment cost of a decline in GDP	Labour productivity growth		Ability of productive firms to attract workers		Wage-productivity decoupling		Adult skills: low-skilled adults	Student skills	Non-standard workers	Regional disparities	
	Average increase in unemployment rate over three years after a negative shock to GDP of 1% (pp)	Average annual labour productivity growth (%)		Cross-firm employment growth differential associated with 10 pp productivity differential (%)		Difference between annual real median wage growth and labour productivity growth (pp)		Share of adults with numeracy skills below level 2 in PIAAC (%)	Share of 15-year-olds not in secondary school or scoring below Level 2 in PISA (%)	Share of Own-account self-employed and temporary workers in total employment (%)	Coefficient of variation in regional unemployment rates (%)	
	2000-16	2000-16	2010-16	2003-13	2010-13	2000-13	2010-13	2012, 2015	2015	2013	2000	2016
OECD countries												
Iceland	0.1	1.5	1.0	..	..	..	..	..	28.8	20.6	15.0	22.3
Switzerland	0.4	0.4	-0.2	0.1	0.1	..	..	..	19.0	18.7	23.6	31.7
Sweden	0.3	1.3	0.9	0.2	0.3	0.4	1.9	14.7	25.9	19.0	30.9	12.2
New Zealand	0.4	0.7	0.7	..	..	0.3	-0.4	18.9	29.3	.	19.2	24.3
Japan	0.2	0.7	0.5	0.3	0.4	-0.5	0.5	8.1	15.4	20.2	18.6	13.9
Germany	0.4	0.6	0.6	0.8	0.9	-0.4	0.1	18.4	20.6	18.1	51.7	30.1
Norway	0.2	0.5	0.5	0.6	0.5	-0.5	0.0	14.6	24.3	11.8	20.5	16.7
United Kingdom	0.4	0.8	0.6	0.1	0.0	-0.2	-1.0	24.2	34.4	16.1	28.9	20.2
Denmark	0.6	0.6	0.6	0.1	0.2	0.1	0.8	14.2	23.1	13.6	13.0	6.6
Netherlands	0.4	0.7	0.8	1.1	0.3	-0.7	..	13.2	20.8	25.9	26.5	20.0
Czech Republic	0.3	2.1	1.0	..	..	0.3	0.3	12.9	26.8	21.2	42.9	36.2
Estonia	0.7	2.8	1.0	0.4	0.4	..	..	14.3	17.6	8.4	26.2	38.5
Canada	0.5	0.6	1.0	..	..	-0.6	-0.5	22.4	28.5	21.2	42.3	29.3
Australia	0.4	1.0	1.3	..	..	-1.0	0.9	20.1	29.3	32.1	39.7	46.0
Israel	0.6	0.7	0.7	..	..	-0.6	..	30.9	36.4	..	15.1	17.3
Austria	0.1	0.4	0.2	0.7	0.7	0.0	0.4	14.3	34.8	15.4	32.8	46.3
Finland	0.2	0.6	0.0	0.2	0.3	1.0	0.7	12.8	15.9	21.8	62.2	13.1
Latvia	0.8	3.9	2.4	0.5	0.3	..	..	..	30.2	..	23.6	40.7
United States	0.7	1.3	0.4	0.5	0.7	-1.5	-1.0	28.7	41.0	..	23.9	21.1
Hungary	0.3	1.7	0.1	0.4	0.3	-0.6	-0.3	..	35.5	15.9	34.8	43.9
Korea	0.2	2.5	1.3	0.3	0.5	-1.1	0.8	18.9	22.5	32.7	23.7	20.1
Portugal	0.3	0.8	0.2	0.2	0.3	0.5	-1.2	..	33.2	31.0	36.0	15.0
Luxembourg	0.1	0.0	0.7	0.1	0.0	..	..	..	35.0	11.9	..	..
France	0.4	0.6	0.5	0.3	0.4	0.7	0.9	28.0	30.4	20.8	35.7	17.2
Slovenia	0.3	1.0	0.8	0.2	0.1	..	..	25.8	22.2	18.6	22.7	15.9
Ireland	0.3	3.0	4.8	0.1	0.1	-1.1	-3.1	25.2	18.0	19.5	26.5	13.6
Slovak Republic	0.5	3.1	1.5	..	..	-0.8	0.5	13.8	35.5	22.3	41.6	38.5
Poland	0.6	2.7	2.2	0.2	0.5	-1.3	-2.0	23.5	24.7	37.4	20.0	24.8
Chile	0.3	1.4	1.3	..	..	..	..	61.9	59.6	..	31.3	25.2
Belgium	0.3	0.6	0.3	0.1	0.0	-0.3	0.9	13.4	25.7	16.9	54.8	56.1
Mexico	0.2	0.2	1.1	..	..	..	..	..	73.2	..	29.6	28.7
Spain	0.9	0.7	0.9	0.5	0.4	0.5	-0.6	30.6	29.3	32.1	35.9	28.9
Italy	0.5	-0.4	-0.4	0.4	0.3	1.0	-0.4	31.7	38.4	27.9	73.6	46.8
Greece	0.8	0.2	-1.0	0.2	0.6	1.4	-1.4	28.5	41.5	35.6	26.3	19.7
Turkey	0.2	2.6	2.6	..	..	..	..	50.2	66.0	30.2	42.0	50.3
Lithuania	0.5	4.2	2.0	..	..	..	..	17.4	32.7	..	13.1	29.6
OECD	**0.4**	**1.3**	**0.9**	**0.3**	**0.3**	**-0.2**	**-0.1**	**22.5**	**31.3**	**22.0**	**31.6**	**27.4**
Non-OECD countries												
Colombia	0.2	1.9	1.7	..	..	..	..	..	74.8	..	29.7	21.9
Costa Rica	0.6	2.1	2.7	..	..	..	..	..	76.2	..	..	..
Argentina	..	0.7	-0.3	..	..	..	..	..	75.9	..	..	..
Brazil	0.3	1.5	-0.2	..	..	..	..	..	79.0	..	33.7	33.6
China	0.0	2.1	2.0	..	..	..	..	..	46.2	..	53.9	..
India	..	6.5	5.6	..	..	..	..	..	..	..	..	..
Indonesia	..	3.6	3.8	..	..	..	..	..	78.6	..	..	..
Russian Federation	0.1	2.8	0.6	..	..	..	..	..	22.8	..	38.2	63.2
Saudi Arabia	..	-1.8	-2.7	..	..	..	..	..	..	..	..	..
South Africa	0.3	0.6	-0.3	..	..	..	..	..	..	..	14.0	20.0

Note: OECD unweighted average. Resilience: The indicator of labour market resilience measures the estimated average increase in the unemployment rate over the three years following a 1% decline in GDP. The indicator is obtained from estimating the following model: $U_{t+s} - U_{t-1} = \beta_0^s + \beta_1^s dlnGDPV_t + \beta_2^s dU_{t-1} + \beta_3^s dlnGDPV_{t-1} + \beta_4^s dU_{t-2} + \beta_5^s dlnGDPV_{t-2} + \sum_{j=1}^{s} \beta_4^j \, dlnGDP_{t+j} + \varepsilon_{t+s}$, where U_t is the unemployment rate, $GDPV_t$ is real GDP in period t and s indicates the number of periods after the GDP shock. The model is estimated separately for each country and each s, with the estimated β_1^s denoting the impulse-response function of unemployment to a 1% increase in GDP. The average change in unemployment is computed as the average of β_1^s over the three years following a 1% reduction in GDP. Data refer to the period 2000-16 for all countries. Labour productivity growth: Labour productivity is measured in per worker terms. Data refer to the period 2000-16 for all countries except Colombia (2001-16). Ability of productive firms to attract workers: The efficiency of labour re-allocation measures the elasticity of firm-level employment growth to lagged labour productivity. The baseline estimated equation is: $\Delta lnL_{i,j,c,t} = \sum_{c=1}^{26} \beta_c \, C_c lnLP_{i,j,c,t-1} + \theta x'_{i,j,c,t-1} + \gamma_{jct} + \varepsilon_{ijct}$, where $\Delta lnL_{i,j,t}$ denotes employment growth in firm i, industry j and country c; C_c are country dummies; $lnLP_{i,j,c,t-1}$ is labour productivity in gross output terms; $x_{i,j,t-1}$ are employment and age of the firm; and γ_{jct} are industry-country-year fixed effects to control for unobserved time-varying country-industry specific determinants of employment growth. The country-specific β_c parameters provide a measure of dynamic allocative efficiency. Data refer to the period 2003-13 for all countries except Portugal (2006-08) and Hungary (2009-13). To control for effects of the business cycle on the efficiency of labour re-allocation, over the sample period 2003-2013 the baseline specification is augmented with an interaction term of lagged labour productivity with a dummy variable taking the value 1 if the lagged change in the output gap is below 0. Countries omitted from the table do not have sufficient coverage of firms in the ORBIS dataset. Wage-productivity decoupling: The indicator of decoupling measures the percentage point difference between real median wage growth and labour productivity growth. Using the notation $\Delta\% \, X$ to denote the per cent growth rate of X, macro-level decoupling is defined as follows: $Decoupling \equiv \Delta\% \left(\frac{W^{med}}{P^Y}\right) - \Delta\% \left(\frac{Y/P^Y}{L}\right)$, where W^{med} denotes the nominal median wage, Y denotes nominal value added, P^Y denotes the value added price and L denotes hours worked. Data refer to the period 2000-13 for all countries except Australia, Canada, France, Italy New Zealand, Poland, Spain and Sweden (2000-12); Greece and Portugal (2004-13); Israel (2001-11); the Slovak Republic (2001-12). Low skills adults: Data refer to 2012 for all countries except Chile, Greece, Israel, Lithuania, New Zealand, Slovenia, Turkey and Jakarta (Indonesia). Data for Belgium refer to Flanders; data for the United Kingdom are the weighted average (2/3 and 1/3) of the data for England and the Northern Ireland; data for Indonesia refer to Jakarta. Low-performing students in mathematics: Data for China refer to Beijing-Shanghai-Jiangsu-Guangdong. Argentina: Coverage is too small to guarantee comparability. Non-standard workers: Workers on temporary contracts and self-employed (own account) workers aged 15-64, excluding employers, student workers and apprentices. Regional disparities: Data refer to the Territorial Level 2 (TL2) classification except for Australia, Estonia, Latvia and Lithuania (TL3), and to 2000 and 2016 except for Denmark (2007, 2016); Estonia, Chile, Israel., Mexico and the Russian Federation (2000, 2014); Spain (2002, 2014); Latvia and Lithuania (2000, 2015); Slovenia (2001, 2016); Turkey (2004, 2016); Brazil (2004, 2013); China (2008); Colombia (2001, 2014) and South Africa (2008, 2014).

Source: Resilience: OECD calculations based on OECD (2017[6]), *OECD Employment Outlook 2017*, http://dx.doi.org/10.1787/empl_outlook-2017-en; Labour productivity growth: *OECD Economic Outlook Database* and WEO-IMF; Wage-productivity decoupling: OECD calculations based on *OECD National Accounts Database* and *OECD Earnings Database*; Ability of productive firms to attract workers: OECD calculations based on the 2013 ORBIS vintage; Low-skilled adults: OECD (2016[7]), *Skills Matter: Further Results from the Survey of Adult Skills*, http://dx.doi.org/10.1787/9789264258051-en; Low-performing students in mathematics: OECD (2016[8]), *PISA 2015 Results (Volume I): Excellence and Equity in Education*, http://dx.doi.org/10.1787/9789264266490-en; Non-standard workers: OECD (2015[9]), *In It Together - Why Less Inequality Benefits All*, http://dx.doi.org/10.1787/9789264232662-en; Regional disparities: OECD (2018), *OECD Regional Statistics Database*, https://dx.doi.org/10.1787/region-data-en.

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Chapter 4. Policies and institutions to enhance labour market performance

This chapter provides an overview of the role of policies and institutions for good labour market performance. The discussion is organised according to the three principal dimensions of the new Jobs Strategy framework: i) job quantity and quality; ii) labour market inclusiveness; and iii) resilience and adaptability. A more detailed discussion and the supporting evidence are presented in Parts II to IV of this Volume.

Introduction

Combining good labour market performance in terms of employment with good levels of job quality and inclusiveness is very important, but it is straightforward. A pre-condition for good performance along these dimensions is that labour markets are resilient (i.e. they limit employment losses during downturns and ensure a rapid rebound after economic shocks) and adapt to the challenges and opportunities resulting from mega-trends, such as rapid technological developments, globalisation and demographic change. It is also essential that policies and institutions are coherent so that the promotion of better outcomes along one specific dimension does not undermine other economic and labour market outcomes. A whole-of-government approach is therefore crucial.

This chapter provides an overview of the role played by policies and institutions in good labour market performance. The discussion is organised according to the three principal dimensions of the Jobs Strategy framework: i) job quantity and quality; ii) labour market inclusiveness; and iii) resilience and adaptability. In general, the discussion takes into account the broad impact of policy levers along different dimensions to avoid a fragmented approach and the drawing of misleading conclusions. A more detailed discussion along with the supporting evidence are presented in Parts II to IV of this Volume.

The remainder of the chapter is organised as follows. Section 4.1 discusses the roles of productivity growth, the broad sharing of productivity gains and access to work for in increasing the quantity and quality of jobs. Section 4.2 analyses policies to promote labour market inclusiveness, including policies aimed at weakening the link between socio-economic background and labour market success, policies to promote opportunities for career progression and tax and benefit policies. Section 4.3 discusses how policies and institutions can promote resilience and adaptability to ensure that labour markets are able to absorb and adjust to economic shocks and structural change and make the most any resulting opportunities.

4.1. Raising the quantity and the quality of jobs

This section discusses the role of policies and institutions for raising the quantity and quality of jobs by placing particular emphasis on how synergies between these two outcomes can be achieved while mitigating possible trade-offs. It first discusses the role of policies and institutions for creating an environment in which quality jobs can flourish. It then switches to the supply side of the labour market by discussing policies and institutions that enhance the effective supply of labour and job quality by making work more accessible, attractive and sustainable.

Promote an environment in which high quality jobs can thrive

Good labour market performance in terms of both job quantity and job quality requires that labour demand is sufficiently strong to ensure that enough good quality jobs are available for everyone who wants to work. This can be achieved by fostering skills and productivity, while ensuring that the gains from productivity growth are broadly shared with workers and non-wage labour costs are kept down.

Better and well-matched skills are key for both job quantity and job quality

Policies should ensure that workers are equipped with the right skills to thrive in the labour market. Individuals with the right skills are more likely to be employed and, when in employment, tend to have better jobs. A skilled workforce also makes it easier to innovate and adopt new technologies and work organisation practices, thereby boosting productivity and growth. To ensure that the skills acquired through the education and training system correspond to labour market needs, and hence avoid major issues with poor school-to-work transitions and skill mismatch (including shortages), it is important to develop stronger links between the world of education and training on the one hand and the world of work on the other. This can be achieved inter alia by promoting work based learning, the involvement of social partners in the development and delivery of curricula that match market needs, and by cost-sharing in skills funding. The relevance of skills formation can also be improved by having in place robust systems and tools for assessing and anticipating skills needs, combined with effective mechanisms and procedures that ensure that such information feeds into policy-making as well as into lifelong guidance and the design of education and training programmes. Skills policies should also account for regional variations in the supply and demand for skills. This requires close collaboration between employers and the education sector at the regional and local levels.

Promote worker productivity within firms and through the effective reallocation of resources across firms

Productivity growth is the main driving force of higher wages and incomes, and hence rising living standards. Good wages and working conditions, in turn, can promote productivity growth as they enhance motivation, worker effort, skills use and incentives for learning and innovation. A positive dynamic between the performance of labour markets and that of the economy as a whole requires policies that provide sufficient flexibility to allow for the efficient reallocation of workers across firms and sectors along with policies that promote the conditions for learning and innovation in the workplace. In emerging economies, a major challenge is also to design policies and institutions that address the problem of widespread labour informality, as this is associated with both low productivity and poor job quality outcomes (see Box 4.1).

Providing good working conditions and opportunities for career development can foster learning and innovation in the workplace. Good working conditions and opportunities for career development are not only important for employee well-being directly, but can also contribute to productivity by strengthening the commitment of workers to their firm, reduce excessive worker turnover, promote the use of skills in the workplace and strengthen the incentives of firms and workers to invest in training and skill acquisition. Firms therefore often have a strong interest in providing good working conditions since this provides long-term gains in terms of higher productivity and profitability. In practice, the combination of good working conditions with high performance is often associated with the presence of high-quality management and so-called High-Performance Work Practices (HPWP), which tend to emphasise the importance of team work, autonomy, task discretion, mentoring, job rotation and the use of new tools and technologies. The adoption of HPWP depends to an important extent on the production technology of firms, and particularly the importance of skills, but also their size since this determines in large part the resources that firms have at their disposal to implement such practices.

A sound regulatory framework combined with effective social dialogue and targeted information services can help support the conditions for learning and innovation in the workplace. A sound regulatory framework includes adequate standards for working conditions based on occupational health and safety regulations to reduce physical and mental health risks. It also includes working time regulations that limit excessive working hours and the use of night shifts, while establishing the right to rest breaks and paid leave. There also needs to be balanced employment protection provisions that protect workers against possible abuses but which do not prevent required job reallocation. It may also include a minimum wage set at a level that avoids pricing low-wage workers out of jobs. Well-functioning collective bargaining institutions, particularly when associated with high coverage, can also be useful. They allow for more differentiation in terms of wages and working conditions than statutory rules, can foster skills development and skills use in the workplace, and allow for the effective dissemination of good working practices. Finally, governments can indirectly promote high-performance management and working practices through information dissemination and advice on best-practice, as well as facilitating access to management training.

The efficient reallocation of resources depends on the flexibility of firms and the mobility of workers. This includes the ease with which entrepreneurs can start or liquidate a business, firms adjust their workforce in response to changing business conditions and workers move across firms and places in search of better matches for their skills and ambitions to enhance their career opportunities. The efficiency of reallocation is to an important extent determined by the functioning and regulation of financial, housing and product markets, including through policies that affect entry and exit of firms. Labour market policies and institutions also play an important role by determining the flexibility with which firms can adjust their workforces (e.g. employment protection) and the ease with which workers can move across firms. The latter depends to an important extent on the transferability of skills and the portability of benefits, availability of effective employment services and active labour market programmes to facilitate job transitions. Worker mobility also depends on wage incentives for workers to move from low to high-productivity firms, highlighting the importance of allowing sufficient scope to adjust wages to business conditions at the firm level, especially in countries where collective bargaining predominantly takes places at the sector or national level.

Employment protection legislation plays a key role in preventing abuses and avoiding inefficient dismissals but excessive and/or uncertain termination costs hinder efficient labour reallocation. Regulations concerning dismissal and termination of contracts are designed to protect workers against unfair hiring and firing practices and can reduce excessive turnover by preserving worker-firm matches that are viable in the longer term by making firms take account of the social cost in their dismissal decisions (i.e. the social and budgetary consequences of greater joblessness). Regulations that limit the gap in protection between workers on open-ended and fixed-term contracts can further reduce excessive turnover by preventing an undue reliance on temporary contracts. This is likely to spur learning and innovation in the workplace by strengthening incentives for investment in firm-specific human capital. However, excessively high and uncertain termination costs discourage hiring on open-ended contracts and hinder efficient resource reallocation and skill matching, thereby affecting productivity growth and efficiency. In addition, large statutory disparities in termination costs by type of contract trigger differences in job security and generate persistent divides between non-regular and regular workers, in particular because restrictive definitions of fair termination cannot be effectively applied to non-regular workers. This suggests that a narrow definition of unfair dismissal that focuses on false reasons, reasons unrelated to work, discrimination and prohibited grounds should be used. Predictable advance notice, ordinary severance pay and layoff taxes - whose level might depend on the reason for dismissal – can be used to avoid inefficient dismissals and compensate workers for involuntary separations that are not related to their performance.

Box 4.1. Reducing the incidence of low-quality jobs by curbing informality

The high incidence of informality in the labour market is one of the most salient features of labour markets in many emerging economies. Informal jobs are typically characterised by lower levels of productivity, partly as a consequence of lower investment in human capital, worse management practices and credit constraints. They also tend to be of much lower quality than formal jobs and reduce labour market inclusiveness. Promoting quality jobs and increasing labour productivity in emerging economies requires effective action in several areas:

- *Firms and workers need to clearly see the benefits of formalisation.* Governments should improve the quality of the public services they deliver and, where appropriate, strengthen the link between contributions and benefits in social insurance schemes.
- *The costs of formality should be lowered for employers and the self-employed.* Simplified tax and administrative systems, streamlined registration processes and a reduction in red tape are crucial steps in the right direction.
- *Enforcement methods should be improved.* The labour inspectorate should be given sufficient resources and labour inspectors should be adequately qualified. Importantly, enforcement should be transparent and strict, but not be overly harsh, to avoid worsening the situation of vulnerable workers even further.
- *Skills development should be promoted.* By raising the productivity of workers, skills can compensate for the higher cost of formal jobs and enhance access to formal-sector employment.

Ensure that productivity gains are shared with workers, particularly those with low skills

Real wages are the most direct mechanism for transmitting the benefits of productivity growth to workers and their families. Over the past two decades, however, real median wage growth in most OECD countries has decoupled from aggregate labour productivity growth. This reflects both declines in labour shares (decoupling of average wages from productivity) and increases in wage inequality (decoupling of median wages from average wages). Productivity gains no longer appear to translate into broadly shared wage gains for all workers.

The decoupling of real median wages from productivity partly reflects global megatrends, but large cross-country heterogeneity in decoupling suggests that national policies and institutions also matter. The evidence suggests that capital-enhancing technological change and the rise of global value chains have contributed to this decoupling by reducing labour shares (decoupling or real average wages from productivity) and raising wage inequality (decoupling of median wages from average wages). However, the evidence also suggests that national policies in the areas of skills, product markets and labour markets are not only key to raising productivity but can also ensure that the dividend from higher productivity is broadly shared. Skills policies can support the broader sharing of productivity gains by limiting capital-labour substitution in response to global megatrends while pro-competitive product market policies limit the size of product market rents appropriated by capital. Labour market policies and institutions can support a fairer sharing of productivity gains both by affecting the relative cost of labour – and thereby the degree to which capital is substituted for some types of labour – and by influencing the distribution of product market rents.

A statutory minimum wage can help ensure that workers at the bottom of the wage ladder also benefit from growing economic prosperity, particularly in the absence of encompassing collectively agreed wage floors. The latter can be considered a functional equivalent of a minimum wage set by law insofar as most, if not all, workers, especially the weakest ones, are covered by them. Nevertheless, several OECD countries complement collective wage agreements with a statutory minimum wage. When minimum wages are moderate and well designed, adverse employment effects can be avoided. The following principles can help to enhance the design of minimum wage systems. First, make minimum wages pay while avoiding that they price low-skilled workers out of jobs by carefully considering their interactions with the tax-benefit system. For example, by reducing social security contributions around the minimum wage, it is possible to enhance the effectiveness of the minimum wage as a tool to reduce low pay and fight poverty while limiting the rise in labour costs for employers. Second, ensure that minimum wages are revised regularly, based on accurate, up-to-date and impartial information and advice that carefully considers current labour market conditions and the views of social partners and experts (e.g. independent commissions). Third, allow minimum wages to vary by group (if differences in productivity or employment barriers between groups are large) and/or by region (if differences in economic conditions are large). Fourth, improve coverage of, and compliance with, minimum wage legislation.

Collective bargaining institutions and social dialogue can help promote a broad sharing of productivity gains, including with those at the bottom of the job ladder, provide voice to workers and endow employers and employees with a tool for addressing common challenges. To promote good quality jobs for all in a changing world of work, collective bargaining systems have to have wide coverage, while providing sufficient flexibility to firms.

The best way of ensuring the inclusiveness of collective bargaining is by having well-organised social partners based on broad memberships. This allows social dialogue to be widespread at the firm-level among worker organisations and employers and to be based on representative social partners at higher levels (e.g. sector, country). To extend social dialogue to all segments of the economy, including small firms and non-standard forms of employment, governments should put in place a legal framework that promotes social dialogue in large and small firms alike and allows labour relations to adapt to emerging challenges. In the absence of broad-based social partners, another way of promoting the inclusiveness of collective bargaining is through the use of administrative extensions that extend the coverage of collective agreements beyond the members of the signatory unions and employer organisations to all workers and firms in a sector. To avoid that extensions harm the economic prospects of start-ups, small firms or vulnerable workers, it is important that the parties negotiating the agreements represent the collective interest of all groups of firms and workers. This can be achieved by subjecting extension requests to reasonable representativeness criteria, a meaningful test of public interest and providing well-defined procedures for exemptions and opt-outs of firms in case of economic hardship.

Collective bargaining systems characterised by predominantly sector-level bargaining need to allow for sufficient economic flexibility at the firm and country levels. The introduction of flexibility in predominantly sector-level systems has often been considered as requiring a shift from sector to firm-level bargaining. While such a shift would indeed provide more flexibility to firms, it is also likely to induce a decline in bargaining coverage, undermining the inclusiveness of the system. Experience in a number of OECD countries has shown that less radical options are also available, based on the use of controlled opt-outs or sectoral framework agreements that explicitly leave space for further adaptation at the firm or individual level. In principle, these instruments preserve the integrity of sector-level bargaining, while at the same time enabling a closer link between productivity and working conditions at the firm-level. However, their effectiveness in providing additional flexibility for firms largely depends to an important extent on having high levels of collective worker representation across firms. Flexibility with respect to macroeconomic conditions can be fostered through the effective coordination of bargaining outcomes across bargaining units (e.g. industries or firms). Recent OECD analysis suggests that coordination can promote better labour market outcomes by providing more flexibility with respect to macroeconomic conditions (see Chapters 8 and 13 of this Volume). Effective coordination can be achieved through *peak-level bargaining* based on the presence of national confederations of unions and employers that provide guidance to bargaining parties at lower levels. Another possibility is *pattern bargaining* where a leading sector sets the targets - usually the manufacturing sector exposed to international trade - and others follow.

Collective bargaining systems differ widely across countries in terms of their coverage, the flexibility that they provide to firms and their specific institutional set-up and these differences tend to be deeply rooted in the sociocultural fabric of countries. National traditions in collective bargaining are important. Yet, this does not imply that collective bargaining systems cannot and should not adapt to a changing economic context. Indeed, one of the most salient features of successful collective bargaining systems may be their ability to adapt gradually to changing economic conditions within their national industrial-relations tradition. This depends crucially on the quality of industrial relations, but also on a government that provides space for collective bargaining and social dialogue, while setting the boundaries.

Promote job quantity and job quality by keeping non-wage labour costs down

Labour taxes in the form of personal income taxes and social security contributions represent a key source of revenue to governments, but can have an adverse impact on employment, earnings and inclusiveness if excessively high. On average across the OECD, labour taxation accounts for about one third of labour costs.

Changes in the composition of labour taxation that broaden the tax base and increase tax progressivity can contribute to better labour market performance. This could for example take the form of a partial shift away from social security contributions towards personal income taxes, when there is already a weak link between individual contributions and entitlements (e.g. health insurance, family allowances). A partial shift to personal income taxes would reduce the burden of taxation on labour by broadening the tax base since the application of personal income taxes is not limited to labour earnings from dependent employees. It would further reduce differences in fiscal treatment based on labour market status and income source, thereby weakening possible unintended tax incentives for self-employment or employment in the informal sector. If personal incomes taxes are more progressive than social security contributions, as is typically the case, this is likely to increase the overall progressivity of labour taxation, with beneficial implications for inclusiveness. Moreover, in contrast to social security contributions, personal income tax systems in many countries have credits or deductions that make effective rates close to zero or even negative at low income levels, which could benefit employment as well. Such a move also has the potential to strengthen the effectiveness of other policy instruments. For example, a partial shift to personal income taxes could help make the statutory minimum wage more effective in supporting pay for low-productivity workers (job quality), while mitigating any potential adverse effects on employment (job quantity). A similar argument applies to collectively agreed wage floors.[1]

Reducing the overall burden of labour taxation by switching to taxes that weigh less directly on labour can promote employment and take-home pay. One example could be real estate taxes. This would not only be efficient, given the immobile nature of real estate, but also promote inclusiveness since low income households tend to own less property than higher income and more wealthy households. There are also arguments for strengthening the taxation of capital income at the individual level and increasing the reliance on consumption and environmental taxes.

Building secure labour markets by protecting workers and removing barriers to work

Since high-quality job creation and strong productivity growth require a sufficiently flexible labour market, which exposes workers to the risk of job loss, good labour market performance also requires building secure labour markets by providing workers with income support in the event of job loss and removing barriers to work. More generally, high-quality job creation needs to be combined with measures to support an effective labour supply by ensuring that work is accessible, attractive and sustainable.

Effective safety nets against labour market shocks improve job quality

Effective social safety nets alleviate concerns about job security among the employed, with important consequences for worker well-being. Moreover, adequate unemployment insurance and other social benefits – including sickness, disability, lone parent and social assistance benefits – enhance job quality by effectively insuring workers against individual labour market shocks (such as job loss) and smoothing consumption between joblessness and employment spells. While moderate employment protection also has a role to play unemployment insurance coupled with effective re-employment support is generally more effective in providing security to workers. Moderate layoff taxes or some degree of experience rating of employer contributions to finance active and passive labour market policies can then be used to provide employers' with incentives to reduce the use of layoffs and take greater responsibility for the social cost of unemployment, sickness and disability (in terms of greater public spending, lower tax revenues, loss of human capital, health consequences, etc.). However, care should be taken not to unduly penalise certain types of firms and workers and to minimise any unintended consequences on the hiring and firing behaviour of firms, for example by introducing exemptions for employers hiring sick, disabled or long-term unemployed workers.

Adequate safety nets should be accompanied by complementary policies to minimise work disincentives and promote effective job search. In most advanced economies, adequate safety nets consist of multiple layers, including: i) unemployment insurance benefits for those who meet certain minimum contribution requirements; and ii) universal but modest unemployment and social assistance benefits that are available to all non-employed persons subject to a means test. Yet, benefits should be accompanied by strong incentives for effective job search to avoid the risk of benefit dependence and thus increased joblessness and higher costs for the public purse. Mutual obligation principles supported by effective employment services, including job-search assistance and skill development opportunities, active programmes and strictly-enforced job-search requirements are key.

In emerging economies, the provision of effective social safety nets is particularly challenging due to the presence of widespread informal employment (see Box 4.1). In the case of unemployment insurance, for example, the requirement of not being in formal employment for receiving benefits provides potentially strong incentives for working informally while receiving benefits. Moreover, workers who do not perceive the potential benefits of social insurance may "opt out" by taking up informal employment. This can be detrimental to workers' well-being in the longer term and undermines economic growth and the financial sustainability of social protection systems. To address both issues a number of emerging economies have introduced mandatory self-insurance schemes based on individual savings accounts for unemployment, while ensuring that some form of income support is available to those with insufficient savings. In principle, such a system could also be used to provide unemployment insurance to self-employed workers.

In order to strengthen incentives to work, employability and opportunities, a comprehensive activation strategy is needed…

An effective activation strategy must deal with all barriers to employment through the coordination of a range of policies and services. Jobless persons and individuals marginally attached to the labour market often face multiple barriers to labour force participation and quality employment. Some of these may result from the effect of ill-designed benefit schemes on recipients' incentives to engage in active job search. However, jobless persons and individuals marginally attached to the labour market typically face other barriers that can cause them to refrain from actively seeking work and/or prevent them from finding suitable jobs. These barriers are particularly important for a number of groups – including older workers, mothers with young children, discouraged workers and people with disabilities. Therefore, raising labour force participation and improving employment performance – in terms of both job quantity and job quality – require a comprehensive activation strategy that makes work more accessible. This means addressing the different barriers to employment through the coordination, at both national and regional levels, of employment, health and social services, the administration of active labour market programmes and the design of tax and benefits policies. An effective activation strategy must combine measures to ensure that jobless people have the motivation to search actively and accept suitable jobs (e.g. through appropriate tax and benefit incentives) with actions to expand opportunities (e.g. job-search assistance, direct referrals, subsidised employment) and interventions to increase the employability of the least employable (e.g. training and work-experience programmes).

Efficient employment services and active labour market programmes are crucial for the success of such an activation strategy. For harder-to-place workers, the provision of these services may require intensive counselling and skilled case managers, the effectiveness of which is typically enhanced by a low client-to-staff caseload ratio. In order to cope with scarce resources, effective profiling tools must therefore be used sufficiently early in the jobless spell as a way to efficiently allocate jobseekers to less or more intensive service streams. It is also important to ensure that local employment offices have sufficient local labour market expertise to effectively place people into jobs. Private providers could play a useful supporting role to improve the delivery and targeting of employment services or alleviate capacity constraints, conditional on adequate performance management. Moreover, active programmes must be rigorously evaluated and ineffective ones must be swiftly terminated.

… which combines active policies with appropriate taxes and transfers by enforcing a system of "mutual obligations"

Employment services and active labour market programmes must be combined with tax and transfer policies. Effective activation needs to be accompanied by moderately generous and high coverage unemployment and social-assistance benefit systems. There are two reasons for this. First, where effective monitoring and sanction systems are in place within a "mutual-obligations" framework – in which governments have the duty to provide jobseekers with benefits and effective services to enable them to find work and, in turn, beneficiaries have to take active steps to find work or improve their employability – the threat of potential sanctions in terms of benefit withdrawal significantly increases the financial incentive for seeking and taking up gainful employment as well as seriously participating in active programmes.[2] Second, unemployment and social-assistance benefits provide the principal instrument for linking jobless people to employment services and active labour market programmes. Within a "mutual obligations" framework, benefit recipients are referred to employment services, which provide job-search assistance or, depending on the unemployed person's profile, direct them towards more intensive programmes, while monitoring their job-search effort or rehabilitation progress. By contrast, in the absence of unemployment and social assistance benefits, it is often difficult to reach out to those facing multiple barriers to employment, who risk being left behind. While moderately generous and comprehensive social benefits strengthen the effectiveness of activation policies, in the absence of effective active labour market policies, there is a risk that such benefits reduce work incentives and deepen labour market exclusion. Passive and active policies should therefore be conceived together rather than in isolation.

Well-targeted, permanent in-work benefits can be effective to make work pay. Combined with active policies and social safety nets, well-targeted, permanent in-work benefits can be effective to set up the right incentives for low-pay workers to both work and climb the earnings ladder, while supporting the living standards of low-income families. Yet, incentives must be properly understood by potential recipients, implying that simple and transparent in-work benefit systems are typically more effective. Since these schemes tend to exert downward pressure on wages, their effectiveness can be enhanced by combining them with binding wage floors that are set at an appropriate, not-too-high level. Finally, in-work benefit schemes are more effective if combined with individual-based taxation, since family-based tax systems often create an important work disincentive for second earners. Since second earners are often women, this has a tendency to further reinforce existing gender inequalities in the labour market.

Enhance the sustainability of work by providing good-quality, productive and healthy work environments

A comprehensive activation approach also implies making work sustainable over the life-cycle through policies that enhance the quality of the work environment. A healthy working environment can be promoted through policies preventing and addressing work-related health and safety risks. While work-related physical hazards are often well-addressed by existing policies in most advanced economies, they remain a source of concern in many emerging economies. Moreover, health and safety legislation and incentives have been slow in most OECD countries in recognising that physical health risks are on the decline and mental health risks are rising fast: psychosocial expertise is limited in labour inspectorates and equally so in occupational health services, where such services exist. As emphasised in the OECD Recommendation of the Council on Integrated Mental Health, Skills and Work Policy [C(2015)173], mental health risks can be minimised over the life-cycle through a comprehensive approach. This involves: the implementation and enforcement of rigorous legislation for psycho-social risk assessment and risk prevention; the introduction of appropriate financial incentives to promote high-performance work organisation and management practices that reduce the risk that work impairs one's health; and more effective leverage of market incentives by making the business case for models of work organisation and management practices that result in better working conditions.[3] The involvement of the social partners is crucial to ensure the effective implementation of incentives, regulation and guidelines. Initiatives to improve the quality of the work environment will also help people to prolong their working lives, which is particularly important in the context of rapid population ageing.

4.2. Promoting labour market inclusiveness

High levels of inequality can undermine social cohesion by reducing trust in institutions and can also become an obstacle to economic growth and well-being, including by undermining the ability of the less well-off to invest adequately in their children's human capital. However, high inequality in income and opportunities is not inevitable and indeed, despite a widespread increase, there remain large differences across countries. Governments have a range of instruments at their disposal that can be used to tackle inequality or promote equal opportunities. The way they choose to address these challenges depends on the national context, including societal values regarding the importance of solidarity, redistribution and equality. Consistent with the OECD *Inclusive Growth initiative and framework*, this section discusses the key policy choices to address inequality by fostering the inclusiveness of the labour market, while also considering their implications for economic growth. Particular emphasis is given to policies that can enhance the position of low-income earners and their families. This not only reflects social concerns associated with low incomes, but also the recognition that low incomes typically result from a number of specific labour market challenges. Addressing these problems not only increases inclusiveness and social cohesion but can also promote economic growth.

Promote equal opportunities

The depth and persistence of economic inequalities reflect the degree of social mobility across generations as well as over the life-course. Low social mobility reflects the importance of people's socio-economic background for the way they enter the labour market (inter-generational mobility) and the presence of different barriers to career development once in the labour market (intra-generational mobility). Tackling deep and persistent inequalities therefore requires policies that provide access to quality education, health and labour market opportunities for disadvantaged people.

Foster social mobility between generations

The importance of socio-economic background for future labour market performance derives largely from the difficulty that individuals from poor socio-economic backgrounds and/or poor neighbourhoods have in acquiring solid labour market skills. This is also a key channel through which high income inequality can lower economic growth. By opening new opportunities, social mobility can also strengthen incentives for innovation and entrepreneurship, reinforcing its potential impact on economic growth.

Public investments to improve the educational outcomes of those from lower socio-economic backgrounds are key for promoting social mobility. The evidence suggests that early interventions are the most cost-effective, such as improving the access to high quality pre-school programs for children from disadvantaged backgrounds. But measures targeting older students are also needed, such as reducing early school leaving. This requires effective mechanisms for the early detection of youth at risk of dropping out, combined with remedial education interventions. Governments can reduce school failure and dropout by eliminating system-level practices that undermine equity, such as grade repetition and early tracking, by ensuring that school choice does not exacerbate economic or spatial inequities, and by designing alternative upper secondary education pathways to ensure that students complete their education. For individuals who leave education with very low levels of skills, second-chance options for education can provide a way out of a low-skills/poor-economic-outcome trap. Countries should also ensure equal access to post-secondary education. Funding mechanisms can be instrumental in mitigating inequities, particularly after compulsory education, by ensuring that financial considerations are not a barrier to skills development.

Reforms in the tax and benefits system can also help reduce the role of socio-economic background on the educational and health outcomes of children. Cash transfers or tax rebates targeted at poor households or households with children (such as family or child benefits/allowances) can improve the future labour market outcomes of their children. To increase their effectiveness, receipt of these benefits can be made conditional on the behaviour of beneficiaries with respect to education (e.g. school attendance) and health (e.g. medical check-ups), as in the conditional cash transfer (CCTs) programmes developed in many emerging economies as well as some advanced economies. To make conditional cash transfers work, it is important that they are combined with investments in the quality of education and health.

Enhance upward mobility and career development over the life-course

More must be done to help youth make a good start in the labour market, avoiding poor careers characterised by intermittent spells of low-paid work and unemployment. The OECD Action Plan for Youth recommends a set of measures to tackle high youth unemployment, including: strengthening the education system and preparing all young people for the world of work; encouraging employers to expand work-based and work integrated learning programmes (including quality apprenticeships or internship programmes); expanding active labour market strategies to enhance employability and job opportunities; and removing barriers to stable and rewarding work. Governments should also ensure that the cost of hiring youth reflects their productivity through the use of wage-subsidies, the design of non-wage labour costs or a sub-minimum wage. There should also be strong incentives for employers to convert temporary contracts into open ended ones so that they provide a useful stepping stone into more stable employment rather than become a dead end to career progression.

Workers should also be provided with opportunities to develop, maintain and upgrade their skills at all ages to reduce the risk of becoming trapped in low-quality jobs and joblessness, as well as to be able to respond to the rapidly changing demand for skills in existing and new jobs. While there are significant benefits from investing in adult learning for firms and individuals, there are various reasons why such investments tend to be sub-optimal in practice in many countries – particularly among the low-skilled and the disadvantaged, as well as in small and medium-sized enterprises. The lowest skilled are only a third as likely as the highest skilled to participate in adult education and training in most OECD countries. Governments at the national and the local levels, therefore, play a critical role in helping individuals and firms overcome these barriers. Specifically, policies should focus on: i) increasing and promoting the benefits of adult learning (e.g. by strengthening the recognition of acquired skills during the working life and not just those during the training programme); ii) helping individuals and firms overcome any financial constraints they might face (e.g. by offering co-financing arrangements) as well as non-financial constraints (e.g. through flexible provision); iii) helping individuals make good vocational education and training choices by providing high-quality information, advice and guidance; and iv) fostering stronger business-education partnerships which ensure that training programmes are well aligned with the needs of employers. Such efforts should focus in particular on the least-skilled as well as SME's. The social partners also have an important role to play in fostering greater participation in training of under-represented groups.

Good working conditions are essential for long, productive and healthy working lives. Working conditions must not impinge negatively on workers' health, and work organisation should adapt to workers' strengths and needs, making the most of a diverse workforce, including age and gender diversity (see Box 4.2). For example, this means taking into account how specific obligations in terms of family commitments vary across working lives and individual situations, and individual differences across workers in terms of maturity, experience and aptitude to carry out more physically and mentally demanding work. A working environment that is conducive to career development, work-life balance and good physical and mental health will help avoid that difficulties cumulate over the working life. Indeed, health problems and the difficulty of combining work and family life are among the main reasons for withdrawing from the labour force, especially for older workers and women. While working conditions and work organisation are primarily determined by employers, often together with trade unions or other forms of worker representation, policies and institutions can provide employers with incentives and tools to improve them.

Box 4.2. Reducing gender inequalities in the labour market

Gender inequality is not only bad for labour market inclusiveness, it also harms economic performance. OECD analysis has shown that if the proportion of households with a working woman had remained at around 1990 levels, income inequality on average in the OECD – measured in terms of the Gini coefficient – would have been almost 1 percentage point higher than it is now. Similarly, if the share of women working full-time and the gender pay gap had remained constant at their 1990 levels, this would have added another percentage point to income inequality. Enhanced educational outcomes for women, increased female labour force participation, and improved opportunities for career development for women also contribute to better economic performance and higher living standards. Despite significant progress, important gender gaps remain. As emphasised by the Recommendation of the Council on Gender Equality in Public Life [C(2015)164], Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship [C/MIN(2013)5/FINAL], countries must step up their efforts to ensure that public policy truly reflects inclusive labour markets in which both men and women can reach their full potential.

- Gender stereotyping needs to be addressed in educational choices at school from a young age since it has important implications for education and career choice of girls. As a result, girls are still much less likely to study in STEM areas (science, technology, engineering and mathematics) and women are less likely to be employed in, typically high-paid, occupations using STEM skills. Career guidance initiatives and information campaigns to promote gender equality in STEM areas should focus on parents, teachers and students.
- Measures supporting the reconciliation of work and family life are critical for men and women to participate in the labour market on an equal footing. The difficulty of combining work and family responsibilities very often results in women working part-time or dropping out of the labour force altogether. Policies that can help parents with young children include parental leave, childcare, out-of-school-hours care and flexible working arrangements. A better sharing of parental care can be achieved by instituting leave arrangements for the exclusive use of fathers, or provide "bonus" months when couples share leave entitlements.
- While working part-time facilitates the combination of work and family responsibilities, it can come at a cost to long-term career and earnings prospects. This also contributes to the glass ceiling that women face in getting through to the top of their professions. To increase women's representation in decision-making positions, countries have introduced mandatory quotas, target-setting, disclosure initiatives and monitoring processes.
- Female entrepreneurship can be promoted by reducing gender gaps in access to finance and entrepreneurial skills and networks and skills through, for example, entrepreneurship training, coaching and mentoring programmes.
- Gender gaps in labour market performance tend to be larger in most emerging economies than in the OECD average. In these countries, additional policy challenges for reducing gender gaps in labour market performance are closing remaining gaps in education, facilitating access to credit for women, fighting labour market discrimination and curbing informal employment.

Promote more equal outcomes without undermining employment and growth

More equal opportunities lead to more equal outcomes, but more equal outcomes also lead to more equal opportunities by levelling the playing field. Indeed, it is the feedback effect of inequality in outcomes to inequality in education and health that is driving a negative relationship between inequality and economic growth. As a result, there is a strong argument for policies that seek to reduce inequality in outcomes directly, provided they do not unduly undermine incentives to invest in skills, work and entrepreneurship. Apart from the role of education and skills, which already has been discussed above, this mainly concerns the tax-benefit system and, to a more limited extent, wage-setting policies.

Appropriately designed wage-setting institutions can be part of a broader strategy to reduce poverty and labour market exclusion

Wage-setting policies in the form of statutory minimum wages or collective wage bargaining reduce wage inequality, but their effectiveness in reducing poverty is likely to be modest. While in-work poverty is associated with low wage levels, a substantial number of minimum-wage workers live in households with incomes above the poverty line and a number of poor people have earnings above the minimum wage but live in relatively large households without other earners. However, a moderate minimum wage can help to enhance the effectiveness of in-work benefits, designed to tackle low in-work incomes. Collective wage bargaining potentially affects a greater number of low-wage workers at risk of poverty, but also tends to have a greater impact on workers in households with incomes above the poverty line, especially in the context of a statutory minimum wage. Moreover, if not well designed, there is a risk that the benefits of reducing in-work poverty as a result of statutory or collectively agreed minimum wages are offset by greater poverty among jobless households when they reduce the employment prospects of low-productivity workers. The main features of well-designed minimum wage policies and collective bargaining systems are discussed in the context of creating high-quality jobs above.

Redistribution through the tax-benefit system is crucial for limiting financial hardship

Redistribution through the tax-benefit system can play a crucial role in making labour markets more inclusive by ensuring that the gains from economic growth are broadly shared in the population, including among families with low incomes. Most of its redistributive effect reflects the role of cash transfers – accounting for around two thirds on average across OECD countries – with progressive taxation accounting for the remaining part. Redistribution also takes place through the provision of public services, notably in the form of education and health. Efforts to strengthen the scope and effectiveness of redistribution should bear in mind possible adverse effects on work incentives, particularly among low-income families. The design of such policies is key for their effectiveness in reducing inequality and overcoming trade-offs with employment and economic growth.

At the lower end of the income spectrum, government transfers have an important role to play in lifting low-income households from financial hardship, but they need to be paired with measures to promote self-sufficiency and prevent long-term benefit dependency. Even in the context of constant budgets, policies to address growing inequality could be made more efficient, for example by making greater use of in-work relative to out-of-work benefits to encourage people to take up paid work and give additional income support to low-income households. Unemployment insurance can also contribute significantly to redistribution since the risk of unemployment tends to be highly concentrated at the bottom of the wage distribution. Increasing the coverage of unemployment insurance is a promising avenue for promoting labour market security and inclusiveness, provided it is carried out together with the rigorous enforcement of a "mutual-obligations" framework to preserve work incentives. This is especially important for non-standard workers who may not be eligible for unemployment benefits and the long-term unemployed who have exhausted the maximum duration of their benefit entitlements.

There is also scope to strengthen the role of taxation for redistribution to ensure that everyone contributes a fair share, especially those at the top end of the income distribution. Over the past decades, incomes of top earners have risen much faster than those of other earners in most OECD countries while effective marginal tax rates on high incomes have remained stable or declined. Governments therefore should ensure that wealthier individuals contribute their fair share of the tax revenue, including by improving tax compliance, scaling back tax deductions and reassessing the role of property and inheritance taxes, while taking account of the impact of possible reform options on incentives for work, effort and skills development. A particular effort should be made to ensure that profits of companies, in particular multinationals, are taxed where revenues are generated (OECD, 2017[1]).

Reduce spatial inequalities and support lagging regions

Large regional labour market and income divides in many OECD countries and emerging economies can partly be addressed by promoting growth and competitiveness in lagging regions. At a minimum, this requires that high-quality public services, including public education, public health, public transport and public employment services, are maintained in lagging regions. However, unlocking these regions' growth potential may in some cases require additional public investments in education, transport and infrastructure that could – if well designed – strengthen a region's competitiveness and facilitate the diffusion of innovation and good practices across regions, industries and firms. Policies may also be needed to provide special support to firm and job creation in regions hit by technology or trade shocks, including by adequate innovation support, improving access to finance and supporting well-designed business incubators.

But preventing lagging regions from falling behind further also requires specific policies to help displaced workers and disadvantaged groups. While trade liberalisation and technological progress bring important benefits to countries, some regions can be hard hit because of their industrial structure. Place-based employment and social policies should tackle the social problems associated with the local concentration of unemployment, social exclusion and poverty through: the provision of easily accessible anti-poverty programmes; the establishment of community centres and the use of urban regeneration projects; and retraining, work experience or entrepreneurship programmes that help displaced workers move into new activities or towards other regions with suitable job opportunities. Some regions may need to raise specific support for linguistic minorities and promote the acquisition of new skills and trades for indigenous people whose traditional ways for maintaining their livelihoods are being eroded in an increasingly modern and interconnected world.

Addressing the needs of lagging regions requires a good coordination between national, regional and local policies. Sub-national governments play an important role in the selection of public investment projects, the development of local infrastructure and the design of regional education, employment and social policies. But all levels of government, including the central government, should work together in a coordinated way to effectively promote regional development. Given the limited capacity of lagging regions to collect taxes to finance basic public services and the need for additional measures to support workers in lagging regions, some degree of inter-regional fiscal redistribution is required. A coordinated approach should also involve efforts to enhance the capacity of regional and local governments to effectively administer and implement large-scale investment projects, education and employment programmes.

Specific policies are needed to ensure that underrepresented and disadvantaged groups are not left behind

Policy should also ensure that groups at greater risk of labour market disadvantage are not excluded. A number of groups are fully integrated in the labour market and do not equally share the benefits of economic growth. For example, in OECD countries, the employment rate of people with disabilities is on average 44% lower than that of prime-age men. Also, the low-income rate in households with a migrant head is 21% higher than in the average household. And mothers in couples with young children are often not in work or working as secondary earners, bringing home less than 30% of household earnings in many countries.

Supporting disadvantaged groups requires, in some cases, adapting policy interventions to their specific needs and employment barriers, which often are quite heterogeneous not only between groups but also within groups. For example, increasing the integration of women with caring responsibilities requires encouraging men to take care leave, increasing access to affordable child-care, and enhancing the availability of flexible working arrangements (see Box 4.2), as well as removing fiscal disincentives to work for second earners. However, in the case of sole parents, a comprehensive activation strategy should be put in place by promoting a mutual-obligations framework in which employment and childcare support (including out-of-school support) are combined with work and effective job-search effort. Childcare support should be designed to ensure that work pays once taxes, transfers and childcare costs are taken into account, without heightening the risk of poverty. Similarly, a more inclusive labour market policy for migrants implies tackling discrimination, ensuring equal access to active labour market policies, assessing and recognising qualifications and skills acquired abroad as well as providing migrants with specific training opportunities corresponding to their needs, including language courses. In the case of migrant mothers with children, however, equal access to childcare and social services (which includes effective provision of information on these services) plays a paramount role. And fostering the inclusion of people with disabilities requires organising disability policy around removing each person's specific barrier(s) to his/her employability and making the incentives of all actors involved – sickness and disability benefit recipients, employers, authorities, service providers and medical professionals – consistent with this strategy.

Entrepreneurship policies can also play a role in opening up opportunities for disadvantaged groups. Entrepreneurship policies should therefore be designed so as to be inclusive and ensure that everyone, including disadvantaged groups, have opportunities to start up and operate a business or be self-employed. This requires policy measures that are tailored to the specific challenges faced by the different disadvantaged groups, possibly bundled into packages to allow addressing all barriers simultaneously, and that rely on specialist agencies to ensure policy effectiveness. Key policies to promote and support inclusive entrepreneurship include entrepreneurship training, coaching and mentoring, facilitating access to finance, and building entrepreneurial networks.

4.3. Fostering resilient and adaptable labour markets for the future of work

Economies and labour markets are in a constant state of flux, which reflects the creative destruction process inherent to well-functioning market economies as well as swings in the business cycle. Creative destruction involves the efficient reallocation of labour and capital to their most productive uses, which supports aggregate productivity, higher wages and better job quality. Policies can support the adaptability of labour markets by promoting efficient reallocation, which becomes particularly important when economies are subject to longer-term secular changes, such as technological progress, globalisation and demographic change. Policies, especially a sound macroeconomic policy framework, can also make economies more resilient to large swings in the business cycle (i.e. promote the ability to limit fluctuations in employment or unemployment and to quickly rebound in the wake of aggregate shocks). Beyond efficient reallocation and sound macroeconomic policies, resilience and adaptability also require an additional set of policies in the areas of skills, social protection, activation and social dialogue to maintain, if not enhance, labour market performance in the face of changing economic conditions. Such policies not only help improve labour reallocation, which boosts productivity and avoids the individual and social losses associated with prolonged unemployment, but also promote other objectives in their own right, such as job quality and labour market inclusiveness. Having the right combination of policies in place will be particularly important for shaping the future of work, ensuring that potential threats arising from secular trends are turned into opportunities, and that opportunities are shared fairly among all actors in society.

Macro-economic and structural policies and institutions can strengthen labour market resilience and enhance long-term labour market performance

The Great Recession of 2008-09 and the slow pace of the subsequent recovery in many countries have highlighted that large economic downturns can have long-lasting negative economic and social effects. Public policies that enhance labour market resilience, i.e. an economy's capacity to limit fluctuations in employment and to quickly rebound in the wake of aggregate shocks, are key not only to limit the short-term social cost of economic downturns but also to support labour market and economic performance in the medium- to long-term. In particular, public policies can reduce the degree to which increases in cyclical unemployment translate into structural unemployment, lower labour force participation and lower wage and productivity growth.

Macroeconomic policies play an important role in stabilising the labour market and preventing hysteresis in the wake of aggregate shocks. Monetary policy can be deployed rapidly and may have immediate effects on the real interest rate and aggregate demand by affecting inflation expectations. Even when interest rates cannot be reduced further during large economic downturns, monetary easing can be provided by unconventional measures and should be accompanied by a forceful fiscal policy response. Allowing automatic stabilisers to operate freely and complementing them by discretionary measures – preferably with a focus on high-quality public investment that crowds in private investment and raises the long-term growth potential of the economy – during deep economic downturns is crucial in this respect. The evidence indicates that fiscal policy is particularly effective during economic downturns and when initial levels of public debt are low. This suggests that adverse effects on fiscal sustainability of an effective forceful fiscal policy response during economic downturns may be limited, especially when sufficient fiscal space is built up during economic upturns. Keeping public debt at prudent levels during good times and building sufficient flexibility into fiscal rules is crucial in this respect.

Labour market policies need to be sufficiently responsive to changes in the need for public support. Having a system of adequate income support for the unemployed coupled with an effective activation strategy even before an economic downturn occurs is key. However, in countries where the maximum duration of unemployment benefits is low and unemployed workers have limited access to second-tier benefits (e.g. social assistance), there may be a case for temporarily extending their maximum duration during a recession. Moreover, resources for active labour market policies need to respond sufficiently strongly to cyclical increases in unemployment to promote a rapid return to work and preserve the mutual-obligations ethos of activation regimes. This would also strengthen automatic fiscal stabilisers. A major challenge in this context is to scale up capacity quickly, while maintaining service quality. Another is to maintain effectiveness in a context where the number of job opportunities is depressed. This may require temporarily shifting the emphasis of activation from work-first to train-first, in particular for hard-to-place jobseekers.

Short-time work schemes can promote resilience by preserving vulnerable jobs that are viable in the long-term. Short-time work schemes have played an important role in limiting job losses during the Great Recession in a number of OECD countries. To ensure that short-time work schemes are operational before job losses materialise, it is desirable to establish them during normal times so that they can rapidly be activated and scaled up at the start of recessions. However, short-time work schemes should be kept small or dormant during normal times as they risk undermining the efficient reallocation of resources across firms, and hence productivity growth. Factors that can help ensure that take-up does not persist for too long in a recovery are to require firms to participate in the cost of these schemes and limit their maximum duration.

Structural labour market policies and institutions that do not vary over the course of the business cycle also affect labour market resilience. Employment protection provisions for regular workers, if set at an adequate level, can promote labour market resilience by preserving job matches that are at risk of being suppressed but are viable in the medium term. However, excessively strict employment protection risks becoming counter-productive by increasing incentives for the use of temporary contracts in good times that are also more easy to terminate in a downturn, thereby amplifying job cuts in the wake of economic downturns, and slowing the creation of jobs associated with regular contracts in a recovery. Well-designed collective bargaining systems are also found to promote labour market resilience by facilitating adjustments in wages and working time. This can be achieved through the effective coordination of bargaining outcomes across firms and industries and by allowing for sufficient flexibility at the firm level to align wages with productivity, including through the use of opt-out clauses in the case of economic hardship.

Labour market and macroeconomic policies that promote labour market resilience may also have beneficial effects for long-run growth, employment performance and inclusiveness. Stabilising labour market outcomes during large economic downturns not only reduces the social cost of economic downturns, but also reduces the risk that transitory increases in unemployment translate into structural increases in unemployment and structural declines in labour force participation. Moreover, the benefits of higher labour market resilience are likely to accrue disproportionately to the most vulnerable workers, including youth, those at risk of long-term unemployment and workers with temporary contracts.

Rapid structural change places a premium on efficient labour re-allocation and on measures to help displaced workers back into work quickly

Globalisation, technological progress and demographic change are having a profound impact on both labour demand and supply – creating new jobs in emerging areas and destroying some in declining ones. These trends are also changing the nature of jobs, the way they are being carried out, and by whom. Thus, labour markets will need to be adaptable to turn the potential threats posed by these trends into opportunities and ensure that productivity gains are passed on to workers while limiting the risk of technological unemployment, a deterioration in job quality, increases in skills mismatches, and the rise of long-term inequalities.

Adapting to globalisation, technological progress and demographic change will require more than ever policies that promote the efficient redeployment of workers from low-performing to higher-performing businesses, industries and regions – while also helping lagging regions to catch up. These include labour and product market policies that do not constrain the entry and exit of firms and the mobility of workers across businesses and regions. If flexible forms of work, and particularly those associated with the platform economy, experience a rapid expansion, ensuring the portability of accrued rights and protections for all forms of work becomes particularly important to avoid that the loss of accrued rights becomes a barrier to job mobility. Housing policies could further promote geographical mobility of workers to help people move to the regions where the best jobs are available. This could be achieved by making the allocation of public housing more responsive to the needs of people moving from areas in decline and reducing constraints on the development of private rental markets. Reducing transaction costs – including by raising competition among intermediaries –would also help to support the mobility of home owners, especially in countries where the share of homeownership is high. Providing unemployed workers with subsidies to cover the costs of relocating can be a cost-effective way to enhance labour mobility and help displaced workers back into employment. In some countries, occupational licensing has acted as a barrier to mobility, without clear benefits in terms of better service quality, consumer health or safety. Such licensing should be used judiciously and standards should be harmonised across regions as much as possible. More generally, the mobility of workers across firms, industries and regions should be accompanied by effective skills policies, adequate social protection and constructive social dialogue.

Adaptability also requires targeted policies that help displaced workers get back to work quickly. Standard activation policies may not be sufficient to help displaced workers back into work quickly. Intervening early is particularly important, since it has been found to be the most cost-effective way to provide support to displaced workers. New OECD analysis highlights the importance of rules that require advance notice of redundancy (Chapter 14). This allows the affected workers and relevant labour market authorities to start early in preparing for a smooth adjustment. In some countries, this may require a shift in workers' protection from severance pay to advance notice to prevent the lack of advance notice from becoming an obstacle to job reallocation. While many displaced workers may not need much additional help apart from being rapidly oriented/motivated towards active jobs search, some will be at risk of long-term unemployment and benefit exhaustion. Profiling tools are therefore needed to identify those workers early and target dedicated support at them – thereby avoiding that unnecessarily intensive (and expensive) special assistance services are provided to jobseekers not needing them. Systematic early needs assessments are particularly helpful, especially when the outcome is formalised in an individual action plan that can lead to early intervention when specific barriers to re-employment have been identified. It is also important that services are available to all displaced workers, and not just those affected by collective dismissal in large firms.

Non-standard forms of work contribute to the adaptability of labour markets, but also raise concerns about job quality

In all advanced and emerging economies, different types of non-standard forms of work (temporary and self-employment) already coexist with more traditional permanent contracts. In addition, technological advances are promoting the emergence of new forms of work such as “crowd work”, “gig work”, and other forms of on-demand, independent jobs which, despite currently representing only a small share of employment, may expand significantly in the near future.

Non-standard forms of work can help labour markets be more adaptable but, in some cases, also raise concerns about job quality. Non-standard forms of work can offer an important source of flexibility for both workers and employers, which enhances the development of new business models, innovation and productivity. They may also facilitate the labour market integration of under-represented groups (and therefore promote inclusiveness) by helping individuals overcome barriers to participation. In some cases, they can promote a better work-life balance. For many individuals, non-standard employment is therefore a choice. However, labour market outcomes vary greatly across workers in non-standard jobs, in particular in terms of pay, job security and social protection. In addition, workers may be less likely to be covered by collective bargaining arrangements and/or some labour regulation, and may not be eligible for labour market programmes and support. They may also get low pay, receive less training and suffer more job strain. Given that certain population groups are over-represented in non-standard forms of work (typically women, youth, the least-skilled and workers in small firms as well as migrants), such forms of work risk generating a source of inequality in access to good jobs (with some groups confined to less attractive types of work) resulting in labour market segmentation. Concerns about low job quality and labour market segmentation are more prevalent when non-standard work is involuntary and results from a weak position in the labour market.

The challenge for governments is to accompany innovation in the creation and use of non-standard employment arrangements while avoiding abuse, creating a level playing field between companies, and providing adequate protection for all workers. Differences in tax and regulatory treatment between standard employees and those in other forms of employment can promote inefficient arbitrage, with employers and workers choosing non-standard contracts solely to circumvent taxes and regulations on regular contracts. Such arbitrage may be exacerbated by regulatory gaps and ambiguities that result in the “misclassification” of workers. Not only does this unfairly transfer risks and costs from employers onto workers, but it also distorts competition. Businesses should succeed and expand on the basis of their superior technology, efficiency and/or quality of service, and not because of regulatory arbitrage. Governments therefore need to reduce differences in treatment across different forms of work, remove loopholes and ambiguity in regulation, and ensure effective enforcement of existing regulation (including the use of appropriate penalties where necessary) – while preserving those flexibility-enhancing features of alternative employment arrangements that are beneficial for individuals and employers. Governments should also endeavour to provide adequate protection for all workers. In the area of social protection, and depending upon circumstances, this may require: adapting or extending existing social insurance schemes to cover previously excluded categories of workers; complementing social insurance with non-contributory schemes; implementing minimum floors for social benefits; and/or making social protection portable (i.e. linking entitlements to individuals rather than jobs). But governments should also try and extend other forms of protection to non-standard workers, including: the minimum wage (to protect against low-pay); and protection from arbitrary dismissal, discrimination, and health and safety risks, among others. Finally, while employers and workers themselves will have to find ways to reconcile flexibility with protection through collective bargaining, governments can help promote an environment conducive to constructive dialogue. This includes putting in place a legal framework that facilitates the adaptation of social partnerships to give a voice to workers in non-standard forms of work. These issues are likely to become more important as on-demand work expands.

The challenges posed by the future of work may require a more fundamental shake-up of labour market, skills and social policies, rather than just incremental changes to the systems in place.

Job losses associated with previous episodes of major technological upheaval have tended to be short-lived and have, in the long-term, made room for the creation of more productive and rewarding jobs. However, the expected speed and breadth of the changes occurring in the labour market, as well as evidence from a number of OECD countries that productivity gains are no longer broadly shared with workers, have raised concerns that this time might be different. If this is the case, then tinkering with existing systems may not offer an answer to the skills, labour market and social challenges of the future, and a more fundamental paradigm shift may be required. In fact, some challenges are already evident in the available data, and will require immediate action. For example, many non-standard workers have no access to old age, accident, unemployment or health insurance. A majority of individuals lack the basic digital skills to function in a technology-rich work environment. The number of workers who are member of trade unions has declined dramatically in several countries making it more difficult for collective bargaining to be effective. At the same time, labour markets are polarising and inequality is at its highest level for the past half century. Other challenges lie further ahead and the implications for policy remain uncertain. This means that labour market policy needs to be forward-looking and have a certain agility to allow for learning, experimentation and adaptation. Learning from other countries becomes particularly important in this context, as some may be better prepared for the changes that lie ahead than others.

Social protection systems will need to be extended and adapted, but a more fundamental re-think may be required. While many countries are already struggling to provide adequate social protection for workers on non-standard work contracts, the advent of the platform economy is adding to these difficulties as an increasing number of workers only work occasionally and/or have multiple jobs and income sources, with frequent transitions between dependent employment, self-employment and work-free periods. Many of them do not even have worker status. These new ways of working are therefore bringing additional challenges for existing social security systems, which are often still largely predicated on the assumption of a full-time, regular, open-ended contract with a single employer. As a result, some workers risk falling through the cracks – although the scale of the problem that lies ahead is difficult to predict at this stage. In some cases, employment regulation will need to be clarified or adapted to take into account new forms of employment. At the same time, tax and benefit systems themselves would need to be extended and or adapted to the new forms of work so that all workers are provided with a minimum form of protection. Portability of social security entitlements should be promoted where this is not already the case to prevent the loss of benefit entitlements when workers move between jobs. And governments may also need to expand the role of non-contributory schemes. Several countries are experimenting with various forms of basic income schemes that, besides being simple, have the advantage of not leaving anyone without support. However, an unconditional payment to everyone at meaningful but fiscally sustainable levels would require tax hikes as well as reductions in existing (often targeted) benefits, and would often not be an effective tool for reducing poverty. In addition, some disadvantaged groups would lose out when existing benefits are replaced by a basic income, illustrating the downsides of social protection without any form of targeting at all.

Extending social protection should go hand in hand with measures that strengthen activation frameworks. The new forms of work that are emerging may hinder the ability of countries to enforce the principle of mutual obligations given that monitoring work activity may become more difficult. Activation strategies more generally might be weakened if a growing share of the unemployed are no longer eligible for unemployment benefits and will therefore slip under the radar of the authorities. In many ways, this parallels the challenges that many emerging economies already encounter due to the existence of large informal sectors, and more advanced countries may therefore have much to learn from the experience of emerging ones. One particular area where emerging economies have taken the lead is in establishing job guarantees – i.e. the promise of a job to anyone willing and able to work at some minimum wage rate. Compared to basic income schemes, job guarantees fit better with the principle of "mutual obligations", whereby society's responsibility to support those in need is matched by the individual's duty to contribute something in return. Job guarantees also have the advantage over basic income schemes that they go beyond the provision of income and, by providing a job, help individuals to (re)connect with the labour market, build self-esteem, as well as develop skills and competencies. By establishing and maintaining a buffer of employed workers (which would grow during recessions and shrink during booms), a job guarantee would also contribute to labour market resilience. In more advanced economies, however, past experience with public sector employment programmes has shown that they have negligible effects on the post-programme outcomes of participants, and therefore are best considered as a form of income-support rather than a policy to promote self-sufficiency.

The future of work could also raise important challenges for existing labour market regulation, including employment protection legislation, minimum wage laws, working time regulations and regulations to safeguard occupational health and safety. A rise of non-standard work would be accompanied by a reduction in job security for many workers as they would not be protected by the standard rules for hiring and firing that have been defined for open-ended contracts. Oftentimes, less strict rules would apply (e.g. in cases of temporary employment, temporary work agency work or dependent self-employment) while in others, workers would be excluded from employment protection legislation altogether (e.g. the self-employed). For some of the emerging new forms of work, it is not even clear what the status of workers is, who the employer is, and what rules should apply to them. It will therefore be critical that countries examine their legal framework to determine whether it needs to be updated and/or adjusted in order to provide some form of minimum employment protection for all workers. The usefulness of minimum wage policy might also be challenged in the future world of work. Existing minimum wage legislation may not be applicable to many of the new forms of employment where workers become independent contractors, work for multiple clients and are often paid on a piece-rate basis. Countries also face policy challenges with regards to regulations that seek to improve workplace safety and health. New forms of employment, particularly crowd sourcing, tend to transfer responsibilities for occupational health and safety away from the employer and into the hands of individual workers, who often lack the training or resources to take appropriate measures to ensure that working conditions and the working environment are safe. Sometimes, strong competition between workers may result in corners being cut and unnecessary risks being taken while, at the same time, labour inspectorates are often not adequately prepared to deal with these new forms of employment. Regulations may therefore need to be adapted/clarified, and monitoring and control mechanisms strengthened and improved.

An increase in non-standard forms of employment would also present a major challenge for collective bargaining systems. The new forms of work add to the challenge of organising worker voice since individuals are increasingly working alone, separated by geography, language and legal status. In some cases, there are also important regulatory challenges to overcome. For example, in some countries, it is illegal for independent workers to unionise since this would be considered forming a cartel and therefore against competition laws. Some innovative solutions are nevertheless emerging: non-standard workers are setting up new unions and "traditional" unions are trying to improve the coverage of non-standard forms of work. In some cases, companies voluntarily extend the terms set in collective agreements for standard workers to non-standard workers and/or engage in collective bargaining. What is needed from governments is a favourable regulatory environment that allows effective forms of worker representation to emerge so that both workers and firms benefit from the flexibility afforded by non-standard forms of work.

Future skills challenges will require a significant upscaling of adult learning opportunities as well as the development of new tools for incentivising skills investments. A key challenge lies in the fact that large numbers of workers lack the basic digital skills required to survive in a technologically-rich work environment. Addressing this challenge will require a rapid and massive upscaling of adult learning opportunities. The rise in non-standard forms of work further compounds the challenge, since workers in such types of employment are less likely to receive training (and, in the case of the self-employed, bear responsibility for their own training). Addressing this challenge might require the development of new instruments for incentivising investments in training (such as personal training accounts, or lifelong training rights) as well as mechanisms to allow the portability of training rights between employers. But adjustments may also be needed to more traditional financial measures that promote access to learning opportunities, such as grants and loans, to make them accessible to adults of all ages; and provision of education and training should be made more flexible such that adults can overcome time constraints and care responsibilities which act as barriers to participation. More generally, existing infrastructures for lifelong learning may not be geared up for the significant changes that lie ahead. A key challenge lies in the facts that: i) the majority of workers exposed to deep and rapid changes in the labour market has already left initial education; ii) the skills of these workers will become obsolete rather quickly as a result of rapid technological change; and iii) they will be required to stay in the labour force for longer. A significant upscaling of adult learning may therefore be required. In doing so, countries should fully exploit the opportunities presented by new technologies that allow access to courses to be scaled up massively at only a fraction of the cost of traditional courses, but care must be taken in avoiding marginalising those lacking basic digital skills.

Conclusions

To promote more and better-quality jobs and greater access to the labour market for under-represented groups, the new Jobs Strategy identifies a whole-of-government action around three broad principles:

Promoting an environment in which high-quality jobs can flourish

This requires a sound macroeconomic framework, a growth-friendly environment and skills evolving in line with market needs. A key new insight is that during sharp economic downturns it can be beneficial to channel resources to short-term work programmes that seek to preserve vulnerable jobs that are viable in the long term. Moreover, it is important to provide a good balance in employment protection for workers in different contracts. Liberalising temporary contracts while maintaining high levels of employment protection for workers on open-ended contracts can lead to the excessive use of the former and low job quality, high levels of inequality and low resilience, without clear gains in overall employment.

Preventing labour market exclusion and protecting individuals against labour market risks

Supporting job seekers for a quick (re)integration in employment remains essential, including by unemployment benefit and social assistance schemes that provide high coverage with rigorous enforcement of mutual obligations. At the same time, the new Jobs Strategy emphasises the importance of addressing problems before they arise by promoting equality of opportunities and taking a life-course perspective that prevents the accumulation of individual disadvantages that require costly interventions at a later stage. This requires ensuring that social background is not a major determinant of success in the labour market and investing in life-course policies that promote adult learning, enhance work-life balance and reduce the risk of work-related health problems.

Preparing for future opportunities and challenges in a rapidly changing economy and labour market.

Product and labour market dynamism will be key to deal with rapid economic change. However, workers need to be equipped with the right skills in a context where the demand for skills is evolving rapidly. Workers also need to remain protected against labour market risks in a world where flexible forms of work may increase. This includes social protection and labour market regulations but possibly also expanding the role of non-contributory schemes, minimum floors to social benefits, and making social protection more portable.

Notes

1 In the case of insurance for unemployment, sickness and disability, there may be an argument for increasing the financial responsibility of employers for the cost of social protection by strengthening the link between employer contributions and expenditures (see "Building secure labour markets" below for further details).

2 A rigorous "mutual-obligations" framework should as much as possible be applied to any kind of benefit, to avoid substitution across benefits with different degree of conditionality.

3 For example, by specifying employer obligations with regard to psychosocial risk assessment and risk prevention, defining the role of workers' representatives, providing tools and supports to enable employers to adjust the psychosocial work environment. Action is also needed to improve management's responses to workers' stress and mental health issues – e.g. by providing stress prevention and mental health training for managers and other stakeholders while offering toolkits and guidelines to line managers on how to deal with health issues when they emerge.

Reference

OECD (2017), *OECD/G20 Inclusive Framework on BEPS*, http://www.oecd.org/tax/beps/inclusive-framework-on-beps-progress-report-july-2017-june-2018.pdf (accessed on 02 November 2018). [1]

Chapter 5. Implementing reforms

To provide more concrete support for countries it is important to accompany the general policy principles of the new Jobs Strategy with concrete guidance for: i) identifying reform priorities and developing country-specific recommendations; ii) building support for successful reforms and iii) evaluating the effectiveness of reforms. These issues are developed in more detail in Part V of the Volume.

Introduction

This chapter goes beyond the general policy principles of the new OECD Jobs Strategy by providing concrete guidance for their implementation and evaluation. More specifically, Section 5.1 makes use of the Jobs Strategy dashboard to identify countries with the same challenges based on their relative scores for the different dimensions of labour market performance and sets out the factors that need to be taken into account when developing country-specific recommendations. To assist countries with their implementation, Section 5.2 outlines some key elements that can help build support for reforms. Section 5.3 briefly discusses the importance of evaluating reforms.

5.1. Identifying policy priorities and country-specific recommendations

Developing country-specific recommendations requires identifying policy priorities based on labour market performance, while taking account of a country's specific economic and social circumstances and starting point in terms of existing policy and institutional settings.

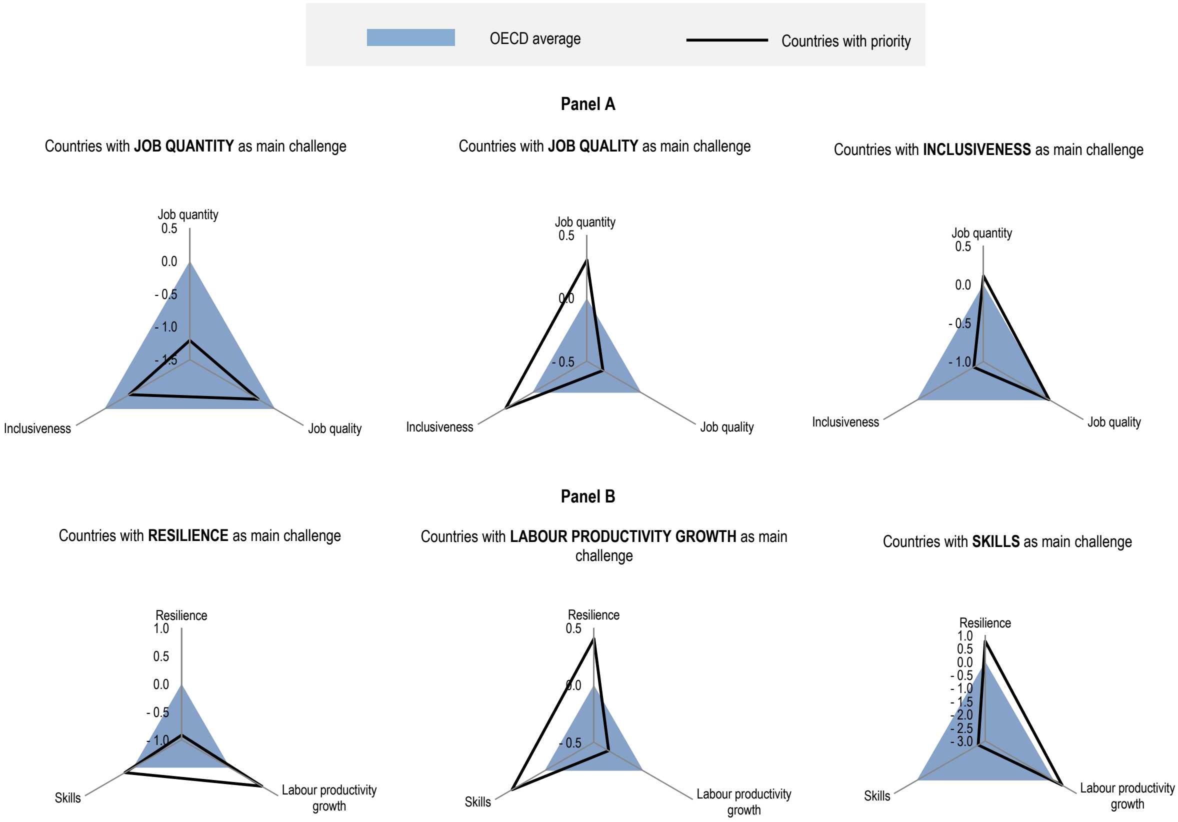
Identifying policy priorities

Apart from assessing labour market performance, the OECD Jobs Strategy dashboard can also be used to identify policy challenges based on *relative* performance (a given country's performance on one outcome *relative* to other outcomes). As discussed in more detail in Chapter 17, identifying priorities based on *relative* performance allows setting policy priorities for all countries. Even when a given country tends to perform well or poorly across all/most dimensions of the dashboard, it is possible to identify one or several outcomes for which performance is weak relative to other outcomes.

As an illustration, in Figure 5.1 countries are grouped according to their relative performance on labour market outcomes (Panel A of the dashboard, job quantity, job quality, inclusiveness) and on framework conditions (Panel B, resilience, labour productivity growth and skills). For simplicity, one main challenge is chosen for each of the two areas. It should be stressed that while this procedure allows establishing performance challenges for all countries, there may be large differences in *absolute* performance even among countries sharing the same challenge. For instance, countries with job quantity as the main challenge may include countries with below-average performance in job quantity as well as countries with above-average performance (if they are performing even better on job quality and inclusiveness).

On average, countries with job quantity as the main challenge also do worse than the OECD average in terms of job quality and inclusiveness (Figure 5.1). Countries with inclusiveness as the main challenge perform around the OECD average in terms of job quantity and job quality, whereas countries with job quality as the main challenge typically outperform the OECD average in job quantity and inclusiveness. Regarding the performance areas of Panel B, countries with weak *relative* performance in one area tend to outperform the OECD average in other areas.

Figure 5.1. Broad performance challenges



Note: The blue triangle indicates the average performance of OECD countries (see Chapter 3, Table 3.1 for details on the indicators). The black line indicates the average performance of countries with the same performance challenge. All indicators have been standardised and rescaled so that a higher score indicates better outcomes.
Source: Chapter 17.

StatLink http://dx.doi.org/10.1787/888933881154

Developing country-specific recommendations

Once countries have identified their main broad performance challenges, the development of specific policy priorities requires taking account of countries' specific challenges, institutional capacity and reform preferences. This acknowledges not only that countries differ in terms of their starting points but also that improving labour market performance is necessarily a gradual process and one that can take different forms in different countries.

Country-specific policy recommendations should reflect global good practices as well as the country's level of institutional capacity. For example, in emerging economies, where the institutional capacity of the state tends to be relatively weak and informal work is widespread, providing effective social protection is a major challenge. In these countries, a mandatory system of self-insurance based on individual savings accounts for unemployment complemented with a small collective component for those without sufficient savings may be an appropriate first step to improve coverage and effectiveness of social protection. More generally, where social capital is low and administrative capacity lacking, policy action should aim at being particularly simple, transparent and easily accountable. Its implementation would require combining further investment in civil servants' skills with the definition of a rigorously-applied code of conduct and the setting up of independent bodies for internal control and audit that have enforcement powers.

Policy recommendations may also differ across countries depending on the degree of interventionism of social systems. More market-reliant countries may want to place more emphasis on measures to prevent labour market exclusion and poverty by promoting equality of opportunity – for example, by improving equal access to quality education – relative to measures that seek to promote equality of outcomes ex post– for example, by enhancing the redistribution role of the tax and benefits system. This allows taking some account of reform preferences without calling into question the importance of inclusiveness as a policy objective or compromising in terms of policy effectiveness.

Finally, policy challenges will differ significantly across countries with different demographic developments even when performance gaps are similar. Countries with rapidly ageing populations may need to prioritise policies promoting working at older age and female labour force participation, whereas countries with younger populations may need to prioritise initial training and the school-to-work transition. Similarly, in a number of countries, the labour market integration of migrants may require specific policies.

5.2. Implementing reforms

Broad-based support for welfare-enhancing reforms may be low because their benefits often take time to materialise and may not be equally distributed. In most cases, the benefits of reforms materialise gradually through firm entry, hiring and productivity growth. By contrast, negative effects in terms of job and income losses may be immediate. For example, reforms reducing dismissal costs, while encouraging hiring in viable jobs in the long-run, would make it convenient to swiftly terminate inefficient positions. In some cases, specific groups of workers may lose from the reforms even if most people gain. For example, trade liberalisation, while benefiting consumers through more and better products at lower prices, often induces downsizing in unskilled-labour intensive sectors and regions.

By combining policy reforms into coherent packages, it is possible to broaden support and make reforms more successful. Coherent reform packages can be used to strengthen the long-term benefits by exploiting synergies, minimise the short-term costs and foster a more equal sharing of long-term gains and short-term burden across a large number of stakeholders. This implies that reforms with potential short-term or distributional costs could be accompanied by complementary actions in terms of macroeconomic and other structural policies. If job losses are concentrated in specific regions, policies at the national level need to be coordinated with policies at the regional level to be effective. This requires coordination across levels of government and a fiscal system that can compensate for revenue shortfalls that regional governments are likely to suffer during times of crisis.

Macroeconomic policy can offset the short-term costs of structural reforms. Monetary policy would typically react to a fall in aggregate demand and inflation expectations and stabilise the economy. However, room to intervene may be limited when interest rates are already very low. Resorting to unconventional monetary policy for prolonged periods of time raises issues of effectiveness, financial stability and possibly an inefficient allocation of credit. In such cases, a growth-enhancing fiscal initiative can offset the short-term costs of structural reform if there is sufficient fiscal space. Depending on country specificities, such an initiative could take the form of an increase in productive public investment or a reduction in taxes that are most harmful to economic growth.

Other structural policies can help minimising short-term costs. The recent experience of reforming countries suggests that short-term adverse effects of costly structural reforms can be reduced if they are accompanied by changes in collective bargaining, policy actions to enhance firm-level flexibility or, in some cases, designing reforms in ways to preserve acquired workers' rights. For example, recent experiences suggest that, in countries with national, regional or branch-level collective bargaining, allowing scope for individual firms to adapt wages and working conditions to their individual situation can limit any short-term job losses resulting from the relaxation of dismissal regulations. More flexibility in working conditions and wage setting allows firms to make use of variables other than employment when adjusting to the required restructuring. Alternatively, more flexible dismissal legislation could be introduced and applied only to new hires. There is evidence that such "grandfather clauses" more than offset short-term employment costs of reforms of dismissal legislation.

Sequencing reforms in effective ways – advancing those that are pre-requisite for the success of others – can play a key role in ensuring reform success. For example, short-term costs of some structural reforms tend to be smaller in countries with an effective activation strategy to support jobseekers. Yet, if efficient programmes are not already in place, there are limits to how rapidly active labour market policies can be scaled up when unemployment rises, since fine-tuning of these institutions typically takes several years. This suggests that building up an effective activation strategy should precede reforms that likely involve short-term labour market side effects. Similarly, product market and employment protection reforms are less costly in the short term when the former precede the latter. This is because when barriers to entry are lowered in industries with dominant incumbents, the latter react to the reform by reorganising and downsizing to deter entry of potential competitors, but this reaction is less likely when dismissals are more costly. On the other hand, greater competition and greater entry accelerates the positive effect of reforms reducing dismissal costs on hiring, thereby improving the net short-term effects induced by such a reform. Last but not least, undertaking reforms when the fiscal position is sound makes it easier to accompany them with an expansionary macroeconomic policy stance.

Reforms are most often successful when governments are able to build support for them. Evidence suggests that this typically implies: i) winning an electoral mandate for the reform; ii) effective communication of the reform rationale and the consequences of inaction based on rigorous evidence; and iii) intensive tripartite discussions involving the government and the social partners, provided that the government has a strong bargaining position and that negotiations take place in a spirit of trust and cooperation. This typically occurs in the presence of strong government cohesion and the willingness to exchange support for the reforms against action aimed at minimising the short-term and distributional costs, including boosting aggregate demand (e.g. by enhancing productive public investment) or compensating losers.

5.3. Evaluating reforms

While existing good practices provide evidence-based guidance for action, country specificities make each reform unique. For this reason, new policies and programmes need to be assessed regularly and rigorously and inefficient ones need to be swiftly adjusted or terminated. This requires investing in data collection to allow monitoring programme participation and the outcomes of firms and workers over time, including by mobilising administrative data in a way that respects confidentiality. It also requires building evaluation mechanisms into the design of policy reforms. In particular, small-scale experimentation of new measures – where possible based on a random-assignment design – before implementing them on a large scale could represent an effective tool to avoid mistakes and/or build up the evidence base required to win consensus.

Conclusions

This chapter has provided some general guidelines for the implementation of the new OECD Jobs Strategy and the evaluation of reforms, all of which are developed in more detail in Part V of the Volume. In particular, it has explained how policy challenges can be identified using the new Jobs Strategy dashboard based on *relative* performance. However, specific policy recommendations need to take account of the challenges faced by individual countries, the means available and national reform preferences. Policy measures may also vary with the degree of intervention of social systems and demographic developments.

The chapter also found that reforms are more successful if they benefit from broad support and identified key elements that can help build such support. These include the combining of policy reforms into coherent packages, which exploit synergies, minimise the short-term costs and foster a more equal sharing of the long-term gains and short-term burden across a large number of stakeholders. Sequencing reforms in effective ways can help ensure the success of reforms too. Winning an electoral mandate for policies, effective communication of the rationale for the reforms and of the consequences of inaction, and constructive negotiations with stakeholders are also vital ingredients.

It is also important to evaluate reforms rigorously, so that inefficient policies can be swiftly adjusted or ended. Investments in data collection and building evaluation mechanisms into programmes are essential to monitor their success. It can also be useful to test new measures on a small scale before implementing them more widely.

Chapter 6. Detailed policy recommendations

This chapter contains the detailed policy recommendations of the new OECD Jobs Strategy. These policy recommendations are organised around three broad principles: i) promote an environment in which high-quality jobs can flourish; ii) prevent labour market exclusion and protect individuals against labour market risks; and iii) prepare for future opportunities and challenges in a rapidly changing labour market. The chapter ends with recommendations on the implementation of reforms, in order to provide countries guidance in building stronger and more inclusive labour markets.

Introduction

This chapter presents the detailed policy recommendations of the new OECD Jobs Strategy. These policy recommendations are a key pillar of the OECD Inclusive Growth Initiative.

The detailed policy recommendations are organised around three broad principles: i) promote an environment in which high-quality jobs can flourish; ii) prevent labour market exclusion and protect individuals against labour market risks; and iii) prepare for future opportunities and challenges in a rapidly changing labour market. To further assist countries in building stronger and more inclusive labour markets, the chapter also includes recommendations on the implementation of reforms.

In the implementation of the new Jobs Strategy, it will be important to exploit synergies among different policy areas and ensure consistency with the OECD Going for Growth recommendations, the OECD Skills Strategy, the OECD Innovation Strategy and the OECD Green Growth Strategy. Thus, a whole-of-government approach is necessary.

A. Promote an environment in which high-quality jobs can flourish

1. Implement a sound macroeconomic policy framework that ensures price stability and fiscal sustainability while allowing for an effective counter-cyclical monetary and fiscal policy response during economic downturns

- Monetary policy should pursue medium-term price stability by reacting to both inflationary and dis-inflationary shocks and aim to stabilise economic activity, including through non-conventional measures when interest rates cannot be lowered further during large economic downturns.
- Automatic fiscal stabilisers should be allowed to fully operate, possibly supported by additional discretionary measures in response to particularly large economic shocks. Discretionary increases in public investment, including well-designed infrastructure projects and maintenance of the existing capital stock, can be particularly effective in containing unemployment pressure during prolonged economic downturns.
- The use of fiscal policy for macroeconomic stabilisation is particularly effective when monetary policy is over-burdened and where monetary policy cannot be used for this purpose.
- A sound fiscal policy framework should create sufficient fiscal space during upturns to allow for a stabilising fiscal policy response during downturns, including in the form of increased public investment and spending on labour market programmes.

2. Promote growth and quality job creation by removing barriers to the creation and growth of new businesses, the restructuring or exit of underperforming ones, and by creating an entrepreneurship-friendly environment

- Promote business dynamism and competition in both manufacturing and especially services to revive productivity growth, by implementing labour market and other policies that facilitate entry of new firms, reallocation of workers towards the most productive firms and the restructuring or orderly exit of the weakly productive ones.

- Create an entrepreneurship-friendly environment to raise investment, innovation and job creation by raising the efficiency of tax systems; providing a sound legal and judicial infrastructure; enhancing the robustness of financial markets that serve the real economy; continuing efforts to strengthen the rule of law and fight corruption; and by improving the governance of state-owned enterprises.

3. Ensure that employment protection legislation yields dismissal costs which are predictable, balanced across contract types and not overly restrictive, while protecting workers against possible abuses and limiting excessive turnover.

- Reduce differences, and to the extent possible, equalise advance notice, ordinary severance pay and layoff taxes across types of contract, but keeping them at a level that does not hinder efficient labour reallocation.
- Clarify the conditions that firms are expected to meet to dismiss workers on open-ended contracts for economic reasons and make worker compensation predictable. The latter may be achieved by adopting a comprehensive definition of fair economic dismissal while setting different notice periods and ordinary severance pay depending on the reason.
- In the case of dismissal for personal motives, restrict, and if needed clarify, the definition of unfair dismissal, for which remedial action can be sought in courts, to abuses, including false reasons, reasons unrelated to work, discrimination, harassment and prohibited grounds.

4. Facilitate the adoption of flexible working-time arrangements to help firms adjust to temporary changes in business conditions, while helping workers to reconcile work and personal life.

- Enhance work-life balance by removing legal impediments and discriminatory tax and social security provisions against the use of voluntary part-time work and flexible work schedules, while promoting the use of teleworking arrangements.
- Increase the flexibility of working time to temporary changes in business conditions through the use of working-time accounts and overtime, collectively-agreed working-time adjustments and publicly provided short-time work schemes to provide additional flexibility to firms and reduce excessive turnover.
- Use short-time work schemes as a tool to preserve jobs in times of crisis, but limit their use in good times to avoid that that they undermine the efficient reallocation of resources across firms, and hence productivity growth.
    - Prepare for economic downturns by establishing a short-time work scheme that can be scaled up or activated in times of crisis, if no such a scheme exists, while providing clear and easily accessible information on the modalities for their use.
    - Ensure that the use of short-time work schemes is largely limited to economic downturns, by requiring firms to participate in the cost of

short-time work, limiting the maximum duration of short-time work schemes and targeting them at firms in temporary difficulties.

5. Reduce non-wage labour costs, especially for low-wage workers, and differences in fiscal treatment based on employment status.

Consistent with the OECD's recommendations on *Tax Policy Design for Inclusive Growth*, the following principles can help to improve the design of labour taxation for good labour market performance:

- Broaden the tax base of labour taxation to reduce non-wage labour costs as well as differences in fiscal treatment based on employment status, with a particular focus on low-wage workers. This can be done by switching to taxes that weigh less heavily on labour or by adjusting the composition of labour taxation.
- For a given level of labour taxation, consider increasing its progressivity by relying more heavily on progressive personal income taxes for the financing of social protection when there is already a weak link between individual contributions and entitlements, removing exemptions and deductibles from personal income taxation that are regressive and treating all forms of remuneration evenly (e.g. wage earnings, fringe benefits, stock options).
- Provide clear incentives to firms for minimising labour market risks by strengthening the link between employer social security contributions and expenditures in the context of existing insurance-based sickness, disability and unemployment benefit schemes, while avoiding penalising certain types of firms and workers and minimising any unintended consequences on the hiring and firing behaviour of firms.

6. Consider using a statutory minimum wage set at a moderate level as a tool to raise wages at the bottom of the wage ladder, while avoiding that it prices low-skilled workers out of jobs.

- Accompany minimum wages with tax and benefit measures to ensure that measures to make work pay have their intended effects for workers, while limiting the impact of minimum wages on the cost of labour for firms.
- Ensure that minimum wages are revised regularly, based on accurate, up-to-date and impartial information and advice that carefully considers current labour market conditions and the views of social partners.
- Where appropriate, allow minimum wages to vary by age group (to reflect differences in productivity or employment barriers) and/or by region (to reflect differences in economic conditions).

7. Promote the inclusiveness of collective bargaining systems while providing sufficient flexibility for firms to adapt to aggregate shocks and structural change.

Collective bargaining systems differ widely across countries in terms of their coverage and the flexibility that they provide to firms. Moreover, these differences tend to be deeply rooted in their socio-cultural fabric. The challenge is to adapt collective bargaining systems to a changing world of work within the broad terms of the existing national industrial-relations tradition. Systems characterised by predominantly sector-level bargaining tend to be associated with high coverage, but also risk undermining employment and productivity growth if not well-designed. In countries characterised by predominantly firm-level bargaining, coverage tends to be limited to large firms and their workers, the main question is how the reach of collective bargaining and social dialogue can be extended.

- The best way of fostering an inclusive collective bargaining system is through well-organised social partners based on broad memberships. To extend social dialogue to all segments of the economy, including small firms and non-standard forms of employment, governments should put in place a legal framework that promotes social dialogue in large and smalls firms alike and allows labour relations to adapt to new emerging challenges.
- In the absence of broad-based social partners, administrative extensions of sectoral agreements can help make collective bargaining systems more inclusive by achieving higher coverage, but need to be well-designed to ensure their representativeness, and avoid undermining the economic prospects of start-ups, small firms or vulnerable workers. This could be done by subjecting extension requests to reasonable representativeness criteria, a meaningful test of public interest or requiring well-defined procedures for exemptions and opt out.
- Collective bargaining systems should provide sufficient flexibility to allow wages and working conditions to adjust to difficult economic conditions. In the case of predominantly sector-level collective bargaining, this can be promoted through organised decentralisation which preserves the integrity of sector-level bargaining while providing the possibility of controlled opt-outs or, by leaving space in sector-level agreements through the use of framework agreements for bargaining at the firm or individual level. To engage effectively in organised decentralisation, it is important to have high levels of local representation of workers in firms. Flexibility to macroeconomic conditions can be fostered through the effective co-ordination of collective bargaining outcomes across bargaining units through peak or pattern bargaining.
- Promote the quality of labour relations by: fostering broad, representative and well-organised employer and worker associations; creating built-in incentives for the regular re-negotiation of collective agreements; providing high quality and objective statistics on the state of the economy; and supporting mechanisms that enhance the accountability of the social partners for the effective implementation of collective agreements.

8. Foster the development of suitable skills for labour market needs, while promoting the use of these skills and their adaptation during the working life to respond to evolving skills needs.

Consistent with the OECD Skills Strategy:

- Put in place a high-quality initial education and training system, from early childhood education through school and beyond, which gives individuals the best possible start in the labour market by providing them with strong basic skills, socio-emotional skills and specific skills required by employers, as well as the capacity for lifelong learning and to make education, training and occupational choices throughout their working lives.

- Develop strong links between the world of education and the world of work to ensure that the skills acquired through the education and training system correspond to labour market needs, and hence avoid major issues with skill mismatch. Policies to foster closer links between education and work include: work-based learning; the involvement of social partners in the development and delivery of curricula matching market needs; and an element of cost-sharing in skills funding.
- Encourage better skills use in the workplace, including through collective bargaining and the promotion of good management and high-performance management and working practices.
- Adapt education and training programmes in different regions to meet the specific needs of the regional economy.

9. Promote formal employment by enhancing the enforcement of labour market rules, making formal work more attractive for firms and workers and promoting skills development to enhance worker productivity

- In countries where there are many informal jobs, tackle informality by improving the efficiency of public spending and the quality of the public services and, where they exist, strengthening the link between contributions and benefits in social insurance schemes; by simplifying tax and administrative systems; by increasing resources for labour inspectorates and making the enforcement process transparent and strict; and by promoting skill development to compensate for the higher cost of formal jobs and enhance access to formal-sector employment.

B. Prevent labour market exclusion and protect individuals against labour market risks

1. Promote equal opportunities to avoid that socio-economic background determines opportunities in the labour market through its role for the acquisition of relevant labour market skills or as a source of discrimination.

- Promote access to quality education for disadvantaged children and youth. Promoting access to pre-school programmes for children from disadvantaged backgrounds is particularly important, but countries should also ensure equal access to post-secondary education.
- Tackle the problem of school dropout through early identification and targeting of at-risk students. For individuals who leave education with very low levels of skills, second-chance options for education can provide a way out of a low skills/poor-economic-outcome trap.
- Develop policies to tackle discrimination in the labour market against women, older workers, LGBT, ethnic minorities, migrants and disabled through enforced regulations, suitable incentives and information campaigns encouraging employers to hire, promote and/or retain these workers.
- Following the Recommendation of the Council on Gender Equality in Public Life [C(2015)164], Recommendation of the Council on Gender Equality in Education ,Employment and Entrepreneurship [C/MIN(2013)5/FINAL],countries must step up efforts to ensure that public policy truly reflects inclusive labour

markets in which both men and women can reach their full potential. This includes amongst others tackling gender stereotyping in education choice, promoting a more equal sharing of caring responsibilities between men and women and addressing glass-ceiling effects.

2. Adopt a life course perspective to prevent that individual disadvantages cumulate over time, requiring interventions at a later stage, which are usually less effective and involve larger fiscal costs.

- Use policy and social dialogue to encourage and enable people to develop, maintain and upgrade skills at all ages, making sure that the appropriate skill mix of vocational education and training opportunities vary according to workers' barriers and evolve throughout the working life.
- Provide workers with the right incentives to avoid early withdrawal from the labour force, consistent with the Recommendation of the Council on Ageing and Employment Policies [C(2015)172].
- Consistent with the Recommendation of the Council on Mental Health, Skills and Work Policy [C(2015)173], shape incentives, define regulations and provide guidance to adapt working conditions to workers' strengths and needs over the life cycle, including enhancing reconciliation of work and family life, thereby avoiding impinging on workers' physical and mental health. This can be done by: i) developing a rigorous legislative framework for physical and psycho-social risk assessment and risk prevention; ii) using appropriate financial incentives; and iii) making the business case for management and organisational practices that result in better working conditions.

3. Develop a comprehensive strategy to activate and protect workers, by combining adequate and widely accessible out-of-work benefits with active programmes in a mutual-obligations framework.

- Develop a comprehensive activation strategy that makes work more accessible by dealing with all barriers simultaneously by combining measures to ensure that jobless people have the motivation to search actively and accept suitable jobs with actions to expand opportunities and interventions to increase the employability of the least employable.
    - Develop and implement effective profiling tools early in the jobless spell so that intensive counselling and tailored case-management are targeted to harder-to-place jobless individuals and staff caseload is contained.
    - Make work pay through tax-benefit reforms and by providing targeted in-work benefits, while making sure that schemes are sufficiently simple and transparent to be understood by potential recipients.
    - Spending on active labour market policies needs to respond to cyclical increases in unemployment to allow for a rapid return to work and preserve the mutual-obligations ethos of activation regimes.
- Combine activation measures with adequate and widely accessible unemployment, disability and social- assistance benefits to provide income support to jobless persons.

- To help ensure that activation measures reach all persons facing barriers to work it is important that income support in the form of unemployment, disability and social assistance benefits cover a large part of the potential target population.
- Consider temporarily extending the maximum duration of unemployment benefits during a recession in countries where the maximum duration of unemployment benefits is short and unemployed workers have limited access to second-tier benefits (e.g. social assistance). Complement these extensions with enhanced access to training programmes.

- Embed activation and income-support measures in a rigorous mutual-obligations framework which makes income support and effective re-employment services conditional on beneficiaries taking active steps to find work or improve their employability. This requires making sure that job seekers efforts are strictly monitored and that warnings and sanctions are articulated in a balanced way.

4. Adopt specific policies for underrepresented and disadvantaged groups, ensuring that they simultaneously address all barriers to employment.

- Identify and analyse the barriers to quality employment faced by specific groups and jobless individuals using a comprehensive approach through coordinated actions concerning the design of tax-and-benefit policies and the provision of employment, education, training, health, childcare, housing, transport and other social services.
- Promote the labour market inclusion of people with caring responsibilities, by developing flexible working-time arrangements, removing fiscal disincentives to full-time work for second earners, encouraging sharing responsibilities between adults in the family as well as securing availability of and access to affordable and good-quality childcare and elderly care.
- Ensure that work is rewarding for lone parents, older workers and people with health issues by putting in place a comprehensive activation strategy based on the principle of mutual obligations in which employment, transfers and support services are exchanged for work and effective job-search or rehabilitation effort, while ensuring that work pays once taxes, transfers and other costs are taken into account, without heightening the risk of poverty.
- Organise disability policy around the principle of promoting ability, removing each person's specific barrier(s) to his/her employability, where this is possible, but taking care of avoiding increasing the poverty risk. Take steps to make the incentives of all actors involved – sickness and disability benefit recipients, employers, service providers as well as gate-keeping authorities and medical professionals – consistent with this strategy.
- Assess and recognise qualifications and skills acquired abroad and provide migrants with accessible language and training opportunities corresponding to their needs.

5. Support lagging regions through coordinated policies at the national, regional and local levels that promote growth and competitiveness based on their specific assets and tackle social problems associated with local concentrations of labour market exclusion and poverty.

- Promote regional growth and competitiveness by ensuring high-quality basic public services complemented with well-designed public investments to strengthen a region's competitiveness and facilitate the diffusion of innovation and good practices across regions, industries and firms.
- Use place-based policies to tackle social problems related to the local concentration of unemployment, social exclusion and poverty by alleviating financial hardship, supporting local communities and promoting employability.
- Coordinate regional and local development policies with national policies to foster policy coherence and effectiveness; to ensure sufficient financial resources for local and regional policies are available; and to strengthen the capacity of local and regional government to administer and implement them.
- Remove impediments to geographical mobility, including by making the allocation of public housing more responsive to the needs of people moving away from areas in decline and by considering the provision of subsidies to cover the costs of relocating in case people are unlikely to find employment in their region of residence, e.g. after a plant closure.

C. Prepare for future opportunities and challenges in a rapidly changing labour market

1. Promote the reallocation of workers between firms, industries and regions, while supporting displaced workers.

- Promote the reallocation of workers between firms, industries and regions through product, labour market and housing policies.
- Support displaced workers through effective skills policies (including the accreditation of informal and formal learning), adequate social protection and constructive social dialogue.

2. Enable displaced workers to move quickly into jobs, using a mixture of general and targeted income support and re-employment assistance, combined with prevention and early intervention measures.

- Provide adequate income support to displaced workers, ensuring that delays in access to unemployment benefits as a result of severance payments do not delay access to re-employment support, and being mindful that higher benefits for displaced workers might create inequities.
- In countries with low unemployment insurance coverage and spending on ALMPS, provide targeted re-employment assistance to displaced workers in the form of counselling, job search assistance and retraining.

- Minimise post-displacement costs by beginning the adjustment process during the notification period through early interventions by the public employment service and/or initiatives by the social partners to provide counselling and training before workers are laid-off. In order to make early intervention possible, countries should allow for at least a short advance notice period, while taking care that this does undermine job reallocation and hiring on permanent contracts, and provide firms and workers with incentives to cooperate and connect with employment services as early as possible.
- Partner effectively with other actors who have the requisite contacts and expertise, such as private labour market intermediaries and public and private vocational training providers as well as employers and trade unions.

3. Accompany innovation in new forms of employment with policies to safeguard job quality by avoiding abuse, creating a level-playing field between firms, and providing adequate protection for all workers regardless of employment contract.

- Minimise abuse and the misclassification of workers by: reducing differences in regulatory and tax treatment across different forms of work; removing regulatory gaps and ambiguities; providing companies with adequate guidance on how (and based on what criteria) an employment relationship will be presumed; and guaranteeing the effective enforcement of existing regulation.
- Address tax evasion and under-reporting, while bringing new types of workers into the tax system.
- Provide adequate social protection for all workers by: extending existing social insurance schemes to previously excluded categories of workers or adapting them to non-standard forms of work (e.g. by revising thresholds on earnings or contributory periods that limit workers' receipts of benefits); making social protection more portable (i.e. linking entitlements to individuals rather than jobs); and strengthening non-contributory social assistance schemes.

4. Plan for the future by anticipating change; facilitating inclusive dialogue with the social partners and other relevant stakeholders on the future of work; and where necessary, adapting today's labour market, skills and social policies to the emerging needs in the changing world of work..

- Adopt robust systems and tools for assessing and anticipating change, combined with effective mechanisms and procedures which ensure that such information feeds into policy-making as well as into lifelong guidance.
- Ensure that all relevant stakeholders are involved in discussions around the future of work, aiming for consensus around the challenges that lie ahead and the possible solutions which could be implemented.
- Prepare for a possible paradigm shift in skills, labour market and social policy by considering new options to replace old ones, and piloting and evaluating such schemes were feasible.

D. Implementation

1. Make reforms successful by adapting them to country specificities, carefully packaging and sequencing them to limit their potential cost in the short-run or for specific groups and building support for them.

- Where social capital is low and administrative capacity lacking, opt for particularly simple, transparent and easily-accountable policy actions. Combine their implementation with further investments in civil servants' skills, the definition of a rigorously-applied code of conduct and the establishment of independent bodies for internal control and audit that have enforcement powers.
- When structural reforms involve short-term or distributional costs, offset these adverse effects – through appropriately expansionary monetary or – if fiscal space exists – fiscal policy and/or by accompanying costly reforms with appropriate reforms of collective bargaining, policy actions to enhance firm-level flexibility or, in some cases, designing reforms in ways to preserve workers' entitlements as they have been acquired at the reform date (e.g. grandfathering).
- Get the sequence of reforms right by ensuring that effective activation schemes are already well functioning when reforms potentially involving short-term employment costs are implemented and by having product market reforms preceding the loosening of employment protection legislation.
- Build support for reforms by seeking an electoral mandate for them, communicating effectively on their rationale, and negotiating constructively with stakeholders.

2. Ensure that reforms are fully implemented, effectively enforced and rigorously evaluated; invest in data collection if suitable data are not available.

- Invest in data collection, including by mobilising administrative data in a way that respects confidentiality, to allow monitoring regulatory compliance, programme participation and tracking worker and firm outcomes over time.
- Ensuring compliance requires well-resourced labour inspectorates, both in terms the number of staff and their qualifications, as well as a transparent and strict enforcement process.
- Ensure that policies and programmes are regularly assessed in a rigorous way and that inefficient ones are swiftly amended or terminated.
- Build evaluation mechanisms into policy actions. Consider small-scale experimentation of new measures before implementing them on a large scale.