



**HIGH-LEVEL POLICY FORUM
ON THE NEW OECD JOBS STRATEGY**

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Issues paper

INTRODUCTION

Since the publication of the Reassessed OECD Jobs Strategy in 2006, the global economy has experienced the worst financial and economic crisis since the Great Depression and has undergone a number of profound structural changes. While firms at the technology frontier have continued to enjoy strong productivity growth, followers have lagged behind dragging down potential growth. At the same time, income inequality remains at unprecedented levels in many countries, threatening social cohesion, economic growth and well-being. While rapid technological change – including through increased digitalisation and automation – and a continued expansion of global value chains are expected to strengthen productivity growth in the long-run and allow consumers to access more and better products and services, they also imply significant adjustment costs for those in affected firms/ sectors and locations, which further reinforce concerns about rising inequality. These structural transformations are taking place in a context of rapid population ageing in most advanced and many emerging economies raising concerns about the ability of labour markets to respond to the required adaptations. These demographic changes, together with the rise in non-standard forms of work challenge the sustainability of social protection systems, the effectiveness of labour market programs as well as the quality of available jobs.

Well-functioning labour markets are crucial to address these challenges, sustain economic growth and well-being, while enhancing a fairer distribution of prosperity across society. They enable all workers to harness the main opportunities provided by new technologies and markets, while also helping them to cope with the required changes and adaptation, so that nobody falls behind and opportunities are shared fairly. Labour market policies and institutions play a central role in stimulating job creation and enhancing job quality, by facilitating the reallocation of resources to their most efficient and rewarding uses promoting learning and innovation in the workplace, removing barriers to good quality jobs, and fostering greater inclusiveness. In conjunction with business competition and financial market policies, they will also foster productivity and long term growth potential. More generally, it is important to emphasise that labour markets and institutions operate within a broader domestic and international economic context.

The depth and speed of changes associated with the digital transformation, greater integration and demographic changes as well as the greater attention towards equality and well-being objectives, all require a serious review and expansion of the 2006 Reassessed OECD Jobs Strategy. The new Jobs Strategy should be *broader* in scope and more *forward-looking* to ensure that recommendations remain appropriate in a rapidly changing economy and labour market. Moreover, the new Jobs Strategy should be a key pillar of the overall *OECD Inclusive Growth Initiative*.

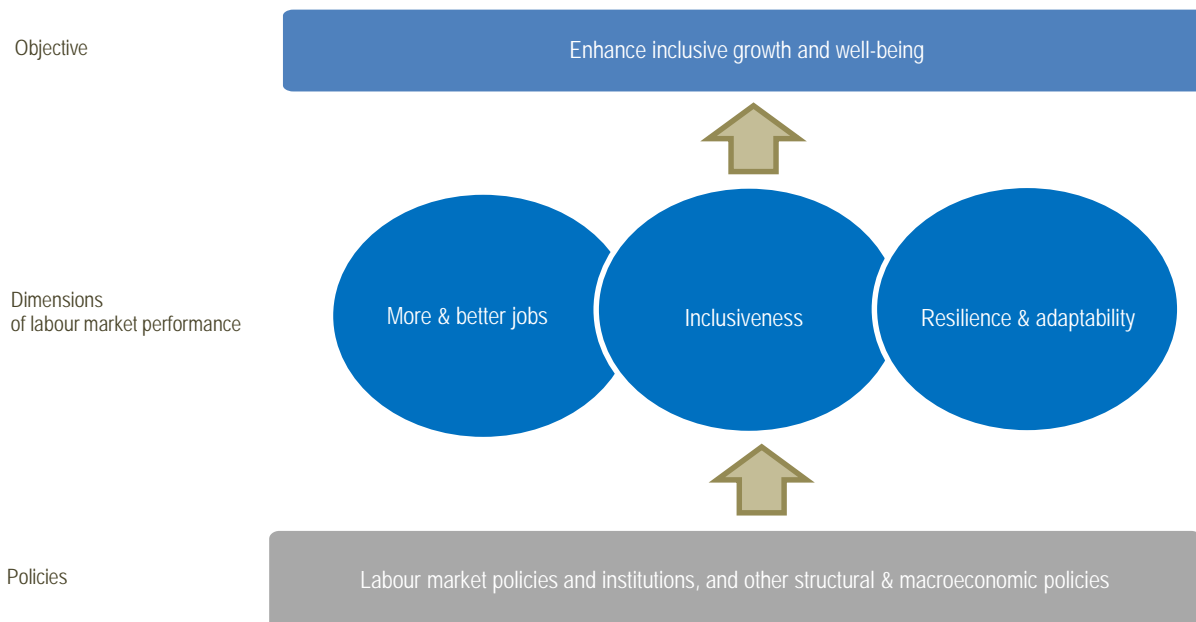
A framework for assessing labour market performance and identifying policy priorities

The new Jobs Strategy is developed with reference to three outcome dimensions, through which the labour market contributes to the over-arching objective of achieving greater, fairer and more sustainable well-being within societies (Figure 1):

- *More and better jobs*. This captures the labour market situation in terms of both the quantity of jobs (e.g. employment, working time) as well the quality of jobs by taking account of the three dimensions of the OECD Job Quality framework: i) earnings; ii) labour market security; and iii) the quality of the work environment.
- *Inclusive labour markets*. This focuses on the distribution of outcomes and opportunities across individuals. This includes the share of income going to labour, the distribution of individual earnings and household incomes, and differences in access to quality jobs as well as prospects for social mobility and career advancement between different socio-economic groups.
- *Adaptability and resilience*. This relates to the effectiveness with which individuals and societies absorb, adapt to, and make the most out of structural, occupation/sector-specific and aggregate shocks, which arise as a result of various factors, ranging from economic crises, the continuous process of creation and destruction of jobs, firms and activities, to megatrends (e.g. 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 by focusing on the ability of workers and labour markets to withstand future shocks and seize upon new opportunities. Adaptability and resilience are essential to ensure the “sustainability” of good labour market outcomes and economic performance in a constantly evolving world.

Figure 1. The conceptual framework of the new OECD Jobs Strategy



Measuring and assessing labour market performance: The new OECD Jobs Strategy Scoreboard

To what extent can policy improve labour market performance along each of the three dimensions of the new Jobs Strategy? Can synergies be developed and how can possible trade-offs be addressed? How do policy priorities differ across countries? To address these questions it is important to first assess how countries perform along the three main dimensions. Table 1 below presents a dashboard that compares labour market performance of OECD countries in terms of job quantity, job quality and inclusiveness. Job quantity is measured by the employment rate, in headcounts and full-time equivalent (thereby taking into account working time) and the unemployment rate, job quality is measured by earnings quality, labour market security and the incidence of job strain, while the degree of inclusiveness is assessed through 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. Subject to data availability and feasibility, the New Jobs Strategy will also include measures of resilience and adaptability in the scoreboard.

The main element emerging from the scoreboard is that with the right mix of policies and institutions it is possible to do well in terms of job quantity, job quality and inclusiveness simultaneously. Many countries that do relatively well with respect to job quality tend to have relatively high employment rates and vice versa. Similarly, many countries with higher employment rates and greater job quality also have lower income inequality, lower gender income gaps and a better integration of disadvantaged groups. This highlights the importance of combining policies into coherent packages that enhance synergies across policies and minimise possible trade-offs. However, higher employment rates do not necessarily imply better job quality and greater inclusiveness suggesting important differences in policy priorities and effectiveness across countries.

Table 1. A scoreboard of labour market performance in terms of job quantity, job quality and inclusiveness

	Quantity			Quality			Inclusiveness		
	Employment	Employment in full-time equivalent units	Unemployment	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 (15-64 years) in employment (%) (2015)	Share of working-age population (15-64 years) in employment (%) (2015)	Share of persons in the labour force (15-64 years) in unemployment (%) (2015)	Gross hourly earnings in USD adjusted for inequality (2013)	Expected monetary loss associated with becoming and staying unemployed as a share of previous earnings (2013)	Share of workers experiencing job strain (2015)	Share of working-age persons (18-65 years) living with less than 50% of median equivalised household disposable income (2013)	Difference between average annual earnings of men and women divided by average earnings of men (%) (2014)	Average employment gap as a percentage of the benchmark group (prime-age male workers) (2015)
OECD countries									
Iceland	84.2	74.9	4.2	21.2	0.7	..	4.6	34.0	9.8
Switzerland	80.2	67.1	4.7	28.5	1.7	28.0	6.3	49.5	15.3
Sweden	75.5	70.1	7.6	19.8	5.2	37.9	9.4	24.4	14.2
Norway	74.9	66.6	4.5	28.2	1.5	29.0	9.0	35.1	16.5
New Zealand	74.3	65.0	6.0	16.7	4.9	23.3	9.1	..	18.5
Netherlands	74.1	57.7	6.9	29.2	3.1	41.2	9.0	46.6	22.1
Germany	74.0	64.6	4.7	24.5	2.7	45.5	9.1	45.4	20.3
Denmark	73.5	64.3	6.3	27.3	2.3	30.5	6.7	24.1	18.8
Japan	73.3	71.5	3.5	16.1	2.4	50.1	14.5	57.7	24.8
United Kingdom	73.2	63.7	5.7	16.8	5.7	36.6	9.8	42.8	23.0
Canada	72.5	65.1	7.0	19.7	3.9	32.9	12.8	39.7	19.4
Australia	72.2	61.5	6.2	21.0	3.9	28.6	10.2	44.2	21.4
Estonia	71.8	68.8	6.3	6.7	7.6	35.3	14.9	30.7	21.6
Austria	71.1	62.7	5.8	21.3	2.2	44.4	8.5	46.6	21.9
Czech Republic	70.2	68.7	5.1	8.5	4.7	40.2	5.6	45.7	31.1
Finland	68.7	63.8	9.5	20.3	2.6	28.0	7.9	21.9	18.8
United States	68.7	64.2	5.4	17.6	5.2	33.1	15.7	40.2	25.4
Israel	68.3	62.4	5.3	8.5	3.9	34.4	14.7	..	14.1
Latvia	68.1	65.8	10.1	..	..	..	12.3	22.0	18.1
Luxembourg	66.1	60.8	6.7	28.7	2.1	36.6	8.0	36.6	25.0
Korea	65.7	62.2	3.7	9.6	2.1	53.7	9.3	61.0	32.3
Slovenia	65.2	61.9	9.1	14.4	5.2	48.6	8.8	22.4	28.6
France	64.3	59.6	10.1	20.1	4.6	45.2	7.9	35.3	27.5
Hungary	63.9	62.6	6.8	7.3	7.8	49.1	10.0	28.6	34.8
Portugal	63.9	60.6	12.9	8.6	11.7	46.2	13.3	29.4	22.0
Ireland	63.1	55.3	10.0	17.6	5.0	33.7	9.2	38.7	27.6
Poland	62.9	60.9	7.6	7.2	8.9	46.2	10.4	35.9	31.7
Slovak Republic	62.7	60.7	11.5	8.3	10.7	47.1	7.9	32.6	35.3
Chile	62.4	56.1	6.5	6.5	8.1	..	14.8	49.9	28.5
Belgium	61.8	56.2	8.6	27.2	3.6	39.3	9.4	33.3	30.6
Mexico	60.6	53.7	4.5	4.0	5.2	39.4	13.9	59.4	41.4
Spain	58.7	53.9	22.2	16.6	26.6	52.6	16.5	37.4	27.6
Italy	57.1	51.6	12.1	18.0	11.8	46.6	13.4	45.3	34.2
Greece	50.8	47.7	25.1	10.2	32.0	64.4	16.1	51.7	38.1
Turkey	50.2	47.2	10.5	5.6	9.8	76.2	13.1	..	47.6
OECD	66.4	60.4	7.0	16.5	6.5	41.4	10.6	39.0	25.4
Non-OECD countries									
Colombia	67.6	60.4	9.2	2.0	11.0	..	..	38.2	34.3
Costa Rica	60.7	53.3	9.8	3.0	7.2	..	..	..	42.1
Lithuania	67.2	64.7	9.3	..	..	..	11.9	28.9	18.8
Argentina	61.7	..	..	3.7	7.5	..	..	49.4	..
Brazil	67.5	60.8	7.1	2.3	6.6	..	..	49.2	37.2
China	75.1	..	2.9	2.8	5.8	..	..	..	32.0
India	53.3	..	3.7	1.1	3.6	..	..	..	50.5
Indonesia	64.6	..	6.4	1.2	8.2	..	..	..	42.4
Russia	69.3	..	5.6	4.1	5.1	..	..	..	35.4
Saudi Arabia	52.5	..	5.7	..	..	..	..	..	..
South Africa	43.7	41.4	25.3	1.9	22.6	..	..	..	51.9

Note: Shades indicate performance groups from the highest (darker) to the lowest (lighter) third. Countries are ordered by employment rates. See OECD (2017), Chapter 1, for an extended version of the table, including changes over time.

Source: OECD (2017), *OECD Employment Outlook*, Chapter 1, OECD Publishing, Paris.

The role of policies and institutions for good labour market performance

What combinations of policies and institutions are consistent with good labour market performance along each of its main dimensions? How to ensure that policy recommendations remain valid in a constantly changing world? How should reform priorities differ across countries? Should they depend on performance, economic conditions and institutional set-up? The High-Level Forum on the New Jobs Strategy provides a unique opportunity for Ministers, representatives of the social partners and renowned experts to discuss the role of policies and institutions for labour market performance and how they should be reflected in the new Jobs Strategy.

The Forum is structured into four thematic sessions. Session 1 will examine the new framework proposed for the OECD Jobs Strategy and the emerging policy messages. The other three sessions examine a number of specific topics that are of particular relevance to the new Jobs Strategy but have received less attention in previous versions of the Jobs Strategy. These include promoting job quality and its effect on productivity (Session 2); enhancing labour market resilience (Session 3); and adapting labour market policy and institutions to shape the future of work and respond to the changing challenges of a rapidly changing labour market (Session 4). The remainder of this note presents the main issues for discussion for each of the four sessions.

Following the Forum, the OECD will reflect the main insights from the Forum's discussions in a revised narrative of the new Jobs Strategy that, together with its main policy recommendations, will be submitted for endorsement at the Ministerial Council Meeting (MCM) of Spring 2018. An in-depth supporting analytical volume that provides the evidence-base for the new Jobs Strategy and will be released in the Fall of 2018.

SESSION 1: THE NEW JOBS STRATEGY FRAMEWORK AND KEY POLICY MESSAGES

Key facts

- Coherent and well-designed policies can raise the quantity of jobs, their quality and labour market inclusiveness at the same time. In fact, many countries perform similarly in terms of job quantity, job quality and inclusiveness. But certain countries perform very well on some indicators and poorly on others. For example, among countries with similar employment rates, earnings quality varies by a factor of 6.
- The gender income gap remains considerable (close to 40% on average), even in many countries that perform well in other dimensions. And disadvantaged groups are still lagging behind in terms of employment (for example the employment rate of people with disabilities is 44% lower than that of prime-age men).
- Over the past decade, labour market security worsened and low-income rates increased in many countries. At the same time, however, most countries narrowed the gender labour income gap, better integrated disadvantaged groups into the labour market and raised the quality of the working environment.

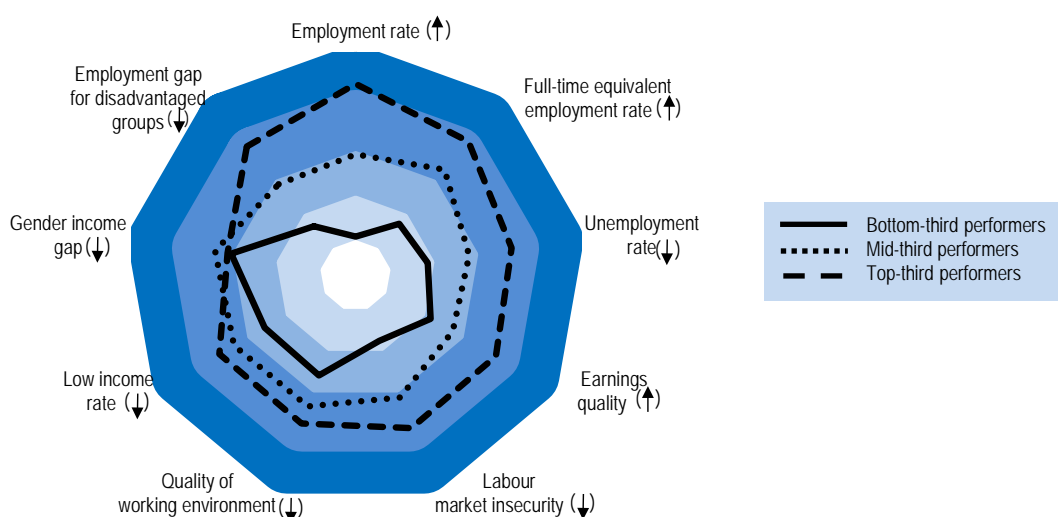
A well-functioning labour market is a key element of inclusive growth and well-being. A well-functioning labour market performs well in terms of the quantity and quality of jobs so that enough good-quality jobs are available for those who want to work. A well-functioning labour market is also inclusive in the sense that the benefits of economic growth are fairly shared within society by creating job opportunities for all men and women and protecting living standards of the most vulnerable people. To ensure that good labour market performance is sustainable in an ever changing world, a well-functioning labour market also needs to be adaptable and resilient. This requires that individuals and societies effectively adjust and respond to new challenges and opportunities, which arise from various forces, ranging from economic crises and the continuous process of creative destruction to megatrends (e.g. technological progress, climate change, population ageing and globalisation).

Moving from general policy objectives to concrete policy priorities

While most countries share these general policy objectives, priorities are likely to differ across countries. Policy priorities depend on many factors including social preferences over different aspects of labour market performance, the existing policy and institutional framework, the institutional capacity to effectively implement reforms and enforce labour regulations, and the country's relative performance across policy objectives. Figure 2 compares performance across each of the nine policy objectives of the Jobs Strategy Scoreboard for three groups of countries: the top third of performers in terms of the employment rate, the middle third and the bottom third. Top employment rate performers also tend to perform better in other dimensions of labour market performance. But the gender income gap is one exception: average performance in this dimension is relatively weak in the top performing countries due to large gender gaps in working-time, in some of countries with relatively high employment rates. Countries with low employment rates tend do particularly badly on inclusion of disadvantaged groups and labour market security.

Figure 2. Average performance among countries with low, intermediate and high employment rates

The concentric circles measure increasingly high levels of performance with respect to the corresponding outcome - reflecting higher or lower values depending on the direction of the arrow -, with the inner (outer) circles indicating performance in the bottom (top) 20%



Sources and definitions: See Table 1.

Going from policy priorities to policy recommendations

Good labour market performance crucially depends on sound labour market and social policies and institutions, but also on a range of other factors, including sound macroeconomic and financial policies, productivity-enhancing policies in product, financial, and housing markets, tax policies as well as the protection of property rights and the rule of law. Labour market policies and institutions can enhance labour market performance by:

- *Raising the quantity and quality of jobs by exploiting synergies while mitigating possible trade-offs.* On the demand side, policies and institutions that foster skills and productivity can promote both job creation and job quality. This includes policies that reduce skill mismatch, promote a better use of skills in the workplace, and foster life-long learning systems. It also includes policies that promote productivity and job quality by supporting learning and innovation in the workplace, enhance the efficient reallocation of resources across firms (e.g. promoting product market competition, setting adequate hiring and firing regulations) and, in emerging economies, stimulating the creation of jobs in the formal sector. On the supply side, policies and institutions that make work more accessible, attractive and sustainable both promote labour force participation and job quality. This requires combining adequate social safety nets with effective activation strategies, make-work-pay policies, and policies that reduce work-related health risks. Coherent policy packages should be used to overcome possible trade-offs. For example, the provision of adequate social protection within a mutual-obligations framework can effectively reinforce workers' motivation to participate in active labour market programmes, search for jobs and strive for self-sufficiency.
- *Making labour markets more inclusive, while strengthening economic growth.* Tackling deep and persistent inequalities requires policies and institutions that promote social mobility. This involves removing barriers to the acquisition of adequate labour market skills by individuals from weak socio-economic backgrounds. It also includes employing policies that reduce the risk of becoming trapped in low-quality jobs and joblessness and improve career prospects. In countries where gender income inequalities remain large, this requires fostering a more equal gender distribution of caring responsibilities. Second, there is a role for policies and institutions that seek to reduce inequality in outcomes directly while ensuring that this does not undermine work incentives and entrepreneurship. This can take the form of intervening directly in the wage-setting process through the use of a statutory minimum wage and/or fostering effective and representative collective bargaining systems. It also involves supporting the incomes in poor households through the design of efficient and fair tax-benefit system. Third, policies should place particular emphasis on the integration of disadvantaged groups. Poor outcomes typically result from a number of specific labour market challenges. Addressing these problems increases inclusiveness and promotes economic performance.
- *Fostering adaptability and resilience to sustain good labour market and economic performance in the face of structural change and economic volatility.* Because structural change cannot be fully anticipated, it is important to ensure that labour markets are adaptable to shocks, whatever their nature. This not only requires removing barriers to the efficient reallocation of resources across firms engaged in similar economic activities and the same geographic area, but also – and particularly – removing barriers to the reallocation of resources across firms in different industries and regions. This requires measures that allow individuals, and especially the low-skilled, to continuously upskill and reskill as well as targeted measures that provide support to displaced workers. To limit the economic and social costs of economic downturns macro-economic and labour market policies (e.g. activation, short-time work) need to be sufficiently responsive to economic conditions. It also requires structural policies that avoid labour segmentation or promote adjustment in terms of earnings rather than job cuts. Policies that promote resilience are typically consistent with good labour market performance in the longer-term since they prevent the cyclical costs of downturns from becoming entrenched.

Translating policy recommendations into policy action

Reaping the full benefits of structural reforms often takes time. Building support is important therefore not only to pass reforms but also to make them successful. Winning an electoral mandate for the reform, effective communication and constructive negotiations with stakeholders, including the social partners, from a good bargaining position are key ingredients of success. Macroeconomic policy offsetting the short-term costs of structural reforms can be effectively exchanged for support, while synergies between labour, product market and financial reforms can be exploited to support effective outcomes.

Questions for discussion

- Is the approach for the new Jobs Strategy based on a multi-dimensional framework appropriate for identifying reform priorities and developing policy recommendations?
- How can policies and institutions be designed in a way that raises job quantity, job quality and inclusiveness?
- What types of policies and institutions ensure that labour markets are resilient and adaptable in a fast changing world? Are there trade-offs between making the labour market more inclusive and making it more adaptable?
- How to mobilise a whole-of-government approach as suggested in the new Jobs Strategy to achieve its multiple objectives and sustain them?

SESSION 2: JOB QUALITY, HEALTH AND PRODUCTIVITY

Key facts

- Job quality not only matters for the well-being of workers but also for their productivity and health. The link with productivity reflects better use of skills in quality jobs and the impact of working conditions on health and management of existing health problems.
- High-performance work practices are linked to better job quality, greater skills use and thus to higher productivity. These practices are characterised by considerable work autonomy, teamwork, learning opportunities and interactions with colleagues as well as the use of bonuses for performance.
- Job quality is important for productivity and health, but health is also important for productivity and career progression. Addressing health problems of workers early is key as is providing opportunities for people with disabilities or health problems to stay connected with the labour market.
- Informality in emerging economies is associated with both poor job quality and low productivity.

Poor job quality and slow or declining productivity growth are of increasing concern to policymakers in OECD countries and emerging economies as both hold back improvements in prosperity and well-being. Sluggish productivity growth feeds into job quality by holding back wage growth, one of the main determinants of a good job. In the other direction, poor job quality itself may be holding back productivity growth as it is often associated with the under-utilisation of skills and reduces motivation, effort and incentives for learning and innovation. Poor job quality may also impair health outcomes, increase sick leave absences and promote the early retirement for health reasons. In emerging economies, informal employment is often at the root of poor job quality as well as poor productivity performance. Fostering job quality for productivity, health and well-being requires promoting high-performance work practices in companies, in particular, small and medium-sized ones, via well-targeted policy interventions and adequate institutions.

The OECD Jobs Quality Framework

The OECD framework for measuring and assessing job quality identifies three broad and complementary dimensions:

- *Earnings quality* which refers to the extent to which the earnings received by workers in their jobs contribute to their well-being (how much do I earn? how does that compare with others?)
- *Labour market security* which captures those aspects of economic security that are related to the risks workers face in the labour market and their consequences (what is the risk that I lose my job? how easy is it to find a well-paid job? what kind of income support will I get while unemployed?)
- *Quality of the working environment* which is measured by the degree of job strain experienced by workers as a result of job demands exceeding the resources they are given to meet those demands (how stressful or physically demanding is my job? do I receive the support I need? do I have a say in how I do my work?)

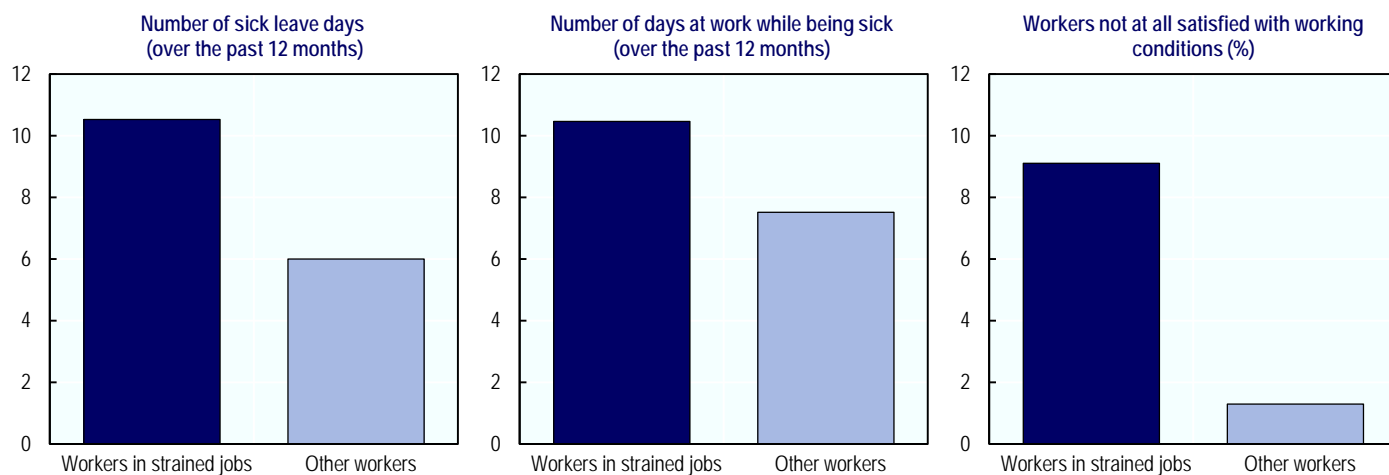
There does not have to be a trade-off between job quality and job quantity, at least in advanced OECD countries. Indeed, job quantity and job quality tend to be positively related across countries, groups and over the life-course. This implies that with the right mix of policies and institutions it is possible to do well in terms of both quantity and quality. In emerging economies, quantity and quality do not go hand in hand. The main issue for these countries is not open unemployment and the lack of jobs per se, but rather the lack of good quality and productive jobs. This reflects to an important extent the pervasiveness of informal work in emerging economies.

What is the role of job quality for well-being, health and productivity?

Poor working conditions, as measured by the OECD indicator for the quality of the working environment, is associated with higher sickness absences, lower performance at work and lower job satisfaction (Figure 3). This suggests that good working conditions not only affect worker well-being but also can boost economic outcomes through better health and higher labour productivity. These findings are broadly in line with the existing literature in medicine, psychology, sociology and economics, including studies that look directly at the relationship between the quality of the working environment and productivity. These studies confirm the positive association between the quality of the working environment and productivity at work, which partly reflects the impact of working conditions on health and the knock-on effect on productivity, but also show that the association between the quality of the working environment and productivity is stronger for persons in good health. This implies that, for people with health problems, good working conditions alone are not sufficient to ensure a productive working life. These stylised facts suggest a number of priorities for policy makers. First, policies need to be identified that improve working conditions and safeguard workers' health. This includes effective occupational health and safety regulations but also incentives and measures that encourage employers to improve the resources given to workers to cope with their job demands. Second, in view of the prevalence of (mental) health problems in the workforce, policies cannot only be directed at improving the working environment but also need a strong focus on keeping people in work and helping people return to work quickly when they are ill. The latter implies a need for better integrated work and health policies, as emphasised in the *OECD Council Recommendation on Integrated Mental Health, Skills and Work Policy* which was endorsed by OECD ministers in January 2016.

Figure 3. The role of the quality of the work environment for well-being and health outcomes

The relationship between job strain, workers' health and job satisfaction, 2010



Source: OECD Employment Outlook 2014.

How can governments promote better working conditions, health and productivity?

In emerging economies where physical health risks at work remain a major problem, this requires a two-pronged strategy that strengthens the adequacy and enforcement of occupational health and safety provisions in all workplaces, and promotes formal sector development and respect for labour regulations. Instruments such as the *OECD Guidelines for Multinational Enterprises* also have a role to play in promoting good working conditions by fostering norms and standards for responsible business conduct in the operations of multinational enterprises and their supply chains. As concerns psycho-social health risks, existing regulations, guidelines and collectively agreed principles need to be adapted to take account of the potential implications of work for psycho-social risks. To ensure their effective implementation the involvement of social partners, employers and employee representatives is crucial. Financial incentives can also be used as an innovative way to promote a healthier work environment. In several countries sickness and/or disability and/or work injury insurance premiums are experience-based (i.e. linked to the frequency of claims), thereby setting clear incentives to reduce inflows into benefits and some incentives for better working conditions. Potential unintended side effects such as changes in the hiring behaviour of employers (who may steer away from hiring those at risk of facing health problems) and particular issues that may arise with respect to small and medium sized enterprises, however, must be looked into. More generally, market incentives should be leveraged more effectively by promoting the business case for the adoption of high performance work organisation and management practices that have the potential to enhance both the quality of the work environment and a fuller use of workers' skills, thereby improving worker productivity and business outcomes.

Unfinished business

To provide effective guidance to policy, there is a need to strengthen the knowledge base on the links between job quality, health and productivity. The scarcity of studies that follows people over time makes it difficult to draw stronger conclusions on how they operate and the factors affecting them. Evidence for different groups of workers and types of jobs and occupations and for different sectors of the economy, including sectors populated by small low-productivity firms, is also limited. Secondly, it is important to learn more about good country practices and effective policies in OECD countries to promote job quality, especially with respect to high performance work practices and to small and medium-sized enterprises which form the majority of firms in many OECD countries. The OECD's new work on *Job Quality, Health and Productivity*, involving a cross-country study and individual country reviews, should help to close this knowledge gap.

Questions for discussion

- What are the most promising ways to promote better working conditions for better health and higher productivity of workers?
- What is the role of the social partners in promoting job quality and the creation of good jobs?
- How can the particular challenges of small and medium sized enterprises and low-productivity sectors be addressed in an effective way?
- What aspects of job quality, health and productivity should the OECD focus on in the coming years?

SESSION 3: PROMOTING LABOUR MARKET RESILIENCE

Key facts

- The OECD unemployment rate has returned to close to the level prevailing before the Great Recession of 2008-09 despite weak output growth, but the crisis showed large differences across countries in the ability of their labour markets to withstand a major shock, in short their resilience.
- Fiscal policy can contribute significantly to labour market resilience: an increase in the ratio of public spending to GDP of 1 p.p. during economic downturns can reduce the unemployment rate by up to 1 p.p. after 2 years
- The effectiveness of activation strategies during the Great Recession was blunted as resources for active labour market programmes per unemployed person declined by 20% between 2007 and 2010 on average in the OECD.
- Measures to contain job losses in a major crisis, such as short-time work schemes, can play an important role to foster overall labour market resilience, as shown in a number of countries during the Great Recession (e.g. Germany, Japan).

The Great Recession of 2008-09 and the slow pace of the subsequent recovery have highlighted that large economic downturns can have long-lasting economic and social effects. Public policies that enhance labour market resilience – an economy’s capacity to limit fluctuations in employment and to quickly rebound in the wake of aggregate shocks – are crucial not only to limit short-term social costs 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 growth.

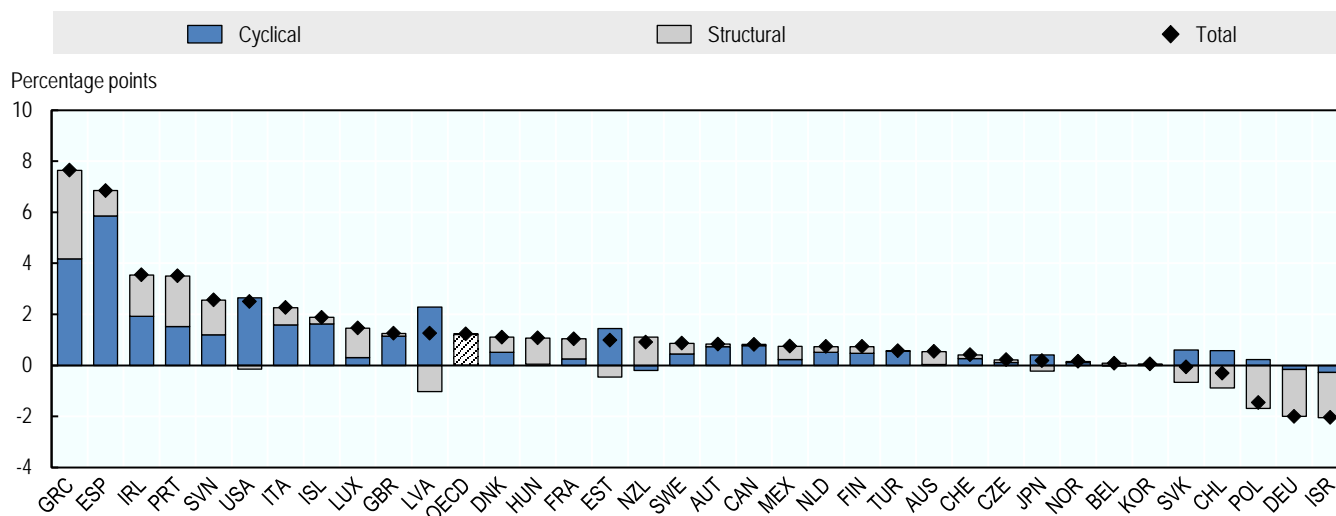
Labour market resilience in the wake of the Great Recession

For the OECD as a whole, the unemployment rate has returned to close to the level prevailing before the Great Recession of 2008, but job quality has declined as labour productivity and wage growth have slowed relative to trend. Despite a significant slowdown in potential output growth, there has been no persistent increase in structural unemployment or decrease in labour market participation since the Great Recession of 2008-09, implying that the slowdown in potential output growth is largely unrelated to labour market developments.

Cross-country differences in the degree of labour market resilience have been large (Figure 4). These reflect to an important extent differences in the size and the nature of the initial aggregate output shock as well as subsequent output developments, which in part reflect the response of macro-economic policies to the crisis. Cross-country differences in the unemployment impact of the crisis also reflect differences in the extent to which adjustments occurred in labour productivity growth and - to a lesser extent - working time and labour market participation. These differences depend to an important extent on differences in structural policies and institutions across countries.

Figure 4. The unemployment cost of the Great Recession different significantly across countries

Annualised deviation of the unemployment rate from the pre-crisis NAIRU, 2008-2016



Note: The total height of the bars denotes the change in the unemployment rate from the pre-crisis structural rate, with the part in red denoting the deviation of the structural rate from its pre-crisis level.

Source: OECD Employment Outlook 2017.

Policy lessons from the Great Recession

The experience of the global crisis has yielded a number of lessons regarding the role of macroeconomic and labour market policies for labour market resilience, including:

- *Macro-economic policies* are highly effective in limiting employment declines during economic downturns and preventing that cyclical increases in unemployment become structural. Automatic fiscal stabilisers and monetary policy provide the first line of response. When aggregate demand declines are very large and/or the monetary policy space is exhausted, complementary discretionary fiscal policy measures may also be needed. Discretionary increases in hard and soft public investment can be particularly effective in stabilising unemployment during prolonged economic downturns.
- It is important to have in place adequate *income support to the unemployed* before a downturn occurs, which combines income support with effective activation policies). 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.
- Spending on *active labour market policies* needs to respond more strongly to cyclical increases in unemployment than has been the case in the past to promote a rapid return to work and preserve the mutual-obligations ethos of activation regimes. 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* have played an important role for labour market resilience, but in normal times they risk undermining the efficient reallocation of resources across firms, and hence productivity growth. The use of short-time work schemes should therefore be largely limited to economic downturns. Factors that can help ensuring that take-up does not persist for too long in a recovery are to: require firms to participate in the cost of short-time work; limit the maximum duration of short-time work schemes; and require short-time workers to search for a job.
- *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, thereby amplifying the importance of job cuts in the wake of economic downturns, and by slowing the creation of jobs associated with regular contracts in a recovery.
- Well-designed *collective bargaining systems* can 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.

Looking ahead

In order to raise labour market resilience to future shocks, governments should build up sufficient monetary and fiscal policy space during the expansion and improve structural policy settings. In a number of OECD countries, current business cycle conditions warrant continued macroeconomic policy support, but monetary and fiscal policy space should be rebuilt once the recovery is well entrenched. In some countries, structural policy settings could be made more conducive to labour market resilience, for example by reducing labour market segmentation through a reduction in the gap in employment protection between workers on permanent contracts and those on temporary contracts. Labour market resilience could further be strengthened by making labour market policies more responsive to economic conditions (e.g. short-time work schemes, active labour market programmes and unemployment benefits).

Questions for discussion

- Which structural policies are most effective in strengthening labour market resilience? Are there policy trade-offs between promoting greater resilience and long-term labour market performance?
- Which type of arrangements for collective bargaining and social dialogue are most conducive to labour market resilience?
- Should labour market policies be made contingent on the state of the business cycle, including in the areas of unemployment benefits, short-term working schemes and the resources used to help the unemployed find jobs?
- Are automatic stabilisers enough, or should active macroeconomic policy support also be used to enhance labour market resilience during large economic downturns?

SESSION 4: SHAPING THE FUTURE OF WORK

Key facts

- Across the OECD, an estimated 9% of jobs are at high risk of automation, and another 25% are at risk of significant change in their tasks and skills needs
- Between 30% and 40% of jobs in the business sector in most European countries are sustained by consumers in foreign markets
- The share of the population aged 65 and over will rise from less than one person in six in 2015 to more than one person in four in 2050

The world of work is changing rapidly and radically

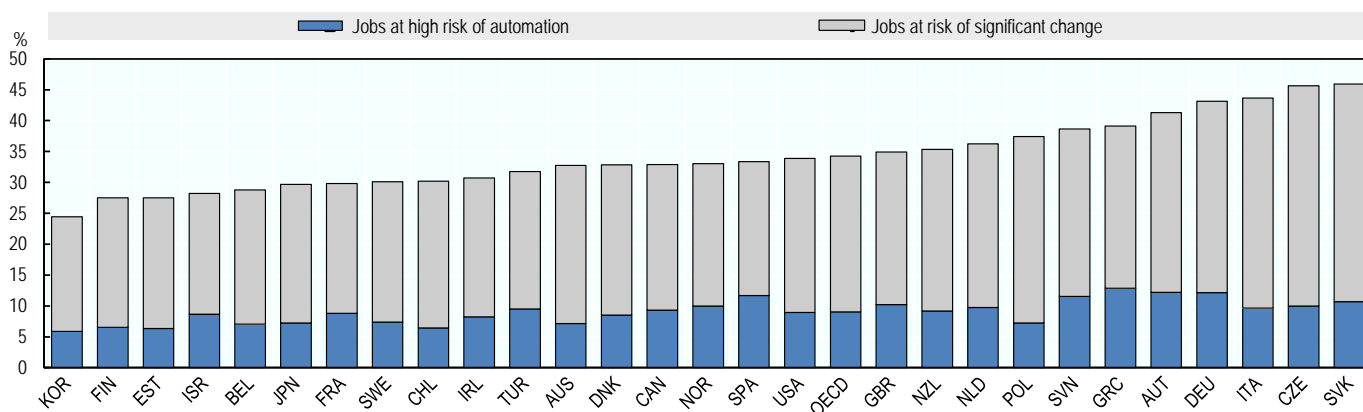
Globalisation, technological progress and demographic change are having a profound impact on OECD labour markets. Together, these trends are changing the *quantity* and *quality* of jobs that are available, as well as *how* and *by whom* they will be carried out.

The world economy has become more integrated through trade at an unprecedented pace. On average across the OECD, imports (and exports) have risen from just under 20% of GDP in 1995 to nearly 30% in 2015. In advanced countries, this has led to concerns about job opportunities lost to offshoring in manufacturing and increasingly in services as well – however it has also resulted in the creation of new, more skilled jobs as firms saw sales, profits and investment increase. While emerging economies may have gained from the offshoring practices of firms in advanced economies, there are now concerns about “premature deindustrialisation” as recent developments in robotics and 3D printing allow firms in advanced economies to relocate production closer to domestic markets in more fully automated factories.

Closely linked to globalisation, technological advances in Artificial Intelligence (AI), Information Technology (IT) and robotics are permitting an increasing number of tasks traditionally performed by humans to become automated. Estimates vary considerably, but a conservative calculation places the percentage of jobs at a high risk of automation in the next 15-20 years at 9% (Figure 5). However, another 25% of jobs are at risk of significant change as a result of automation. At the same time, technological progress is resulting in the creation of many new jobs – either directly (through the emergence of entirely new occupations) or indirectly (as a result of rising productivity and prosperity). Technological progress is also fostering the emergence of new forms of work, such as “crowd work”, “gig work”, and other forms of on-demand labour.

Last but not least, many countries are undergoing significant demographic change. On average, across the OECD, the share of the population aged 65 and over will rise from less than one person in six in 2015 to more than one person in four by 2050. Fewer young people will be entering the workforce and shortages of qualified labour could arise as larger cohorts of older workers retire. Longer working lives may be accompanied by more numerous job changes. Population ageing is also likely to lead to important reallocations of labour across sectors and occupations as overall consumption patterns change: demand is likely to shift from durable goods (such as cars) towards services (such as health care).

Figure 5. Across OECD countries, 9% of jobs are at high risk of automation



a) Jobs are at a high risk of automation if the estimated risk is at least 70%. Jobs at risk of significant change are those where the estimated risk of automation is between 50 and 70%.

b) Data for Belgium correspond to Flanders and data for the United Kingdom to England and Northern Ireland.

c) Data correspond to 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey and to 2012 for the other countries.

Source: OECD calculations based on the Survey of Adult Skills (PIAAC) (2012, 2015); and Arntz, Gregory and Zierahn (2016), “The risk of automation for jobs in OECD countries: A comparative analysis”, *OECD Social, Employment and Migration Working Papers*, No. 189, OECD Publishing, Paris.

Opportunities and risks

Driven by these trends, the future of work will offer unparalleled opportunities. New technologies and new markets will generate new and more productive jobs. The ability to unbundle jobs into smaller tasks will allow work to be carried out more efficiently on a truly global, digital assembly line where workers will, in principle, have more of a say about whom they work for, how much they work, as well as where and when they work. Such increased flexibility could provide new opportunities for under-represented groups to participate into the labour market, such as women, senior workers and those with disabilities.

However, the future of work is also likely to bring significant challenges. While fears around massive unemployment caused by automation and globalisation are probably exaggerated, significant upheaval is nevertheless likely as jobs are destroyed in some areas and others emerge elsewhere. Adjustment costs may be significant and are more likely to be borne by the low-skilled as well as those currently performing more routine tasks that are more likely to be automated and offshored. Combined with a general increase in the demand for higher level skills, these trends may lead to further polarisation in jobs by skill levels and increases in inequality. Indeed, there is plenty of evidence that globalisation and technological change have already contributed to the polarisation of labour markets and to the trend increase in inequality in most OECD countries. Income inequality is now at its highest level for the past half century: the average income of the richest 10% of the population is about nine times that of the poorest 10% (up from seven times 25 years ago).

Moreover, the new forms of work that are emerging raise serious concerns about the quality of jobs that are created, since they may go paired with lower pay, less job security and a lack of social protection. In addition, workers may not be covered by collective bargaining arrangements and/or some labour regulation (including working time, minimum wage and anti-discrimination laws). They also tend to receive less training and suffer more job strain.

The key challenges for policy makers

If labour markets are unable to adapt quickly and align themselves to the new trajectories traced by these mega-trends, countries will struggle to maintain high levels of job quantity and quality, as well as labour market inclusiveness.

So what should policy makers do? It is difficult (if not counter-productive) to try and plan in detail for the potential changes that might affect the world of work in years to come. If one thing is certain, it is that the future is uncertain. Efforts should instead be targeted at making labour markets more resilient and adaptable, so that workers and firms can manage the transition with the least possible disruption, while maximising the potential benefits. Thus, policy has a role to play not only in adapting to, but also in shaping the future of work and its impact on inequality, including through the prevention of unnecessary job losses and proactively engaging workers in lifelong learning. Aside from implementing policies to promote business dynamism to provide new work opportunities, countries will need to:

- Prepare young people for the jobs of the future by ensuring that they are equipped with the right type of skills to successfully navigate through an ever-changing, technology-rich work environment, and give all workers the opportunity to continuously maintain their skills, upskill and/or reskill throughout their working lives.
- Design labour market institutions (e.g. minimum wages; employment protection; unemployment benefits; health and safety regulations) to ensure that the risks associated with the future of work are not borne disproportionately by workers in the form of joblessness, low pay, precariousness and poor working conditions – while at the same time encouraging employers to seize the opportunities offered by technological change and globalisation.
- Re-think social security systems to minimise the chances of people slipping through the net: align benefit rules across different contractual arrangements; extend social insurance schemes to previously excluded categories of workers; complement social insurance with non-contributory schemes; make social protection more portable.
- Strengthen activation frameworks to mitigate some of the inevitable adjustment costs of moving towards more globalised and technologically advanced economies by helping those workers who have been displaced by changing skills needs into a new job quickly.
- Promote an environment conducive to new forms of social dialogue which allow tailored solutions to new challenges to emerge at the firm-level, while strengthening the voice of those workers who are increasingly working independently and separated by distance, language and legal context.

Questions for discussion

- How can job quality for non-standard forms of work be reconciled with the need for firms to adopt new technologies and adjust rapidly to changes?
- What can be done to promote effective lifelong learning and to narrow disparities by age and skill level?
- How should social protection be (re-)designed? Is there a role for a basic income as opposed to less radical reform of social protection to shape and respond to future changes in the world of work?
- How can collective bargaining adapt to the growing importance of non-standard work and how can new forms of social dialogue be promoted to address emerging challenges at the firm-level?



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