

GOING NATIONAL: IMPLEMENTING THE OECD JOBS STRATEGY

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ABSTRACT /RESUME**Going National: Implementing the OECD Jobs Strategy**

This paper provides guidance for developing country-specific policy recommendations from the broad policy principles of the new OECD Jobs Strategy. To this end, it identifies countries' main policy challenges and develops broad policy packages to address them. It highlights the importance of considering countries' initial conditions – in terms of the state of the business cycle, fiscal and administrative capacity, past reforms, preferences and demography – for tailoring policy recommendations to country specific challenges, capabilities and needs. It also contains a checklist with key questions for each of the broad dimensions of labour market performance that should be considered when developing country-specific recommendations.

JEL Classification codes: J38; J58; J68.

Keywords: Job quantity, job quality inclusiveness, public policies

Approche par pays : mettre en œuvre la Stratégie de l'OCDE pour l'emploi

Ce papier fournit des orientations pour l'élaboration de recommandations politiques spécifiques à chaque pays à partir des grands principes de la nouvelle Stratégie de l'OCDE pour l'emploi. À cette fin, il identifie les principaux enjeux d'action publique dans les pays, ainsi que des programmes d'action complets pour s'y attaquer. Il met en lumière la nécessité de prendre en compte la situation initiale des pays - en termes de conjoncture économique, de capacités budgétaires et administratives, de réformes antérieures, de préférences et d'évolutions démographiques - pour adapter les recommandations politiques aux défis, capacités et besoins spécifiques des pays. Il contient également une liste de contrôle avec des questions clés pour chacune des grandes dimensions de la performance du marché du travail qui devraient être prises en compte lors de l'élaboration de recommandations spécifiques par pays.

Classification: J38; J58; J68

Mots-clés: Quantité des emplois, qualité des emplois, inclusivité, politiques publiques

Table of contents

Going National: Implementing the OECD Jobs Strategy.....	5
1. Introduction.....	5
2. An illustrative procedure of how to identify policy challenges	6
3. Identification of policy challenges and examples of broad policy packages	7
4. Integrating the country-specific context	16
5. Conclusions.....	22
References	23

Figures

Figure 1. Developing country-specific reform recommendations	6
Figure 2. An illustrative diagnostic process to identify policy challenges	7
Figure 3. Identifying policy challenges by broad performance area	8
Figure 4. Large differences in <i>absolute</i> performance for countries with the same policy challenge	9
Figure 5. Large differences in disaggregate relative performance for countries with the same policy challenge.....	10
Figure 6. Tax revenue varies widely across countries.....	18
Figure 7. The old-age dependency ratio will almost double in the next 35 years on average	21

Boxes

Box 1. The implementation of the OECD Jobs Strategy in the OECD Economic Surveys	11
Box 2. Checklist for country reviews	13

Going National: Implementing the OECD Jobs Strategy

By Elena Crivellaro, Alexander Hijzen and Cyrille Schwellnus¹

1. Introduction

1. The new OECD Jobs Strategy provides a comprehensive set of policy guidelines to harness the opportunities provided by new technologies and markets, while helping workers to cope with the required adjustments and ensuring that the fruits of growth are broadly shared. The new Jobs Strategy stresses 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 a rapidly-evolving economy and labour market require forward-looking policies that foster economic dynamism and 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.

2. To support member and partner countries with the implementation of the *OECD Jobs Strategy*, it is necessary to go beyond general recommendations and identify country-specific policy challenges and recommendations. The objective of this paper is to put forward a number of tools and procedures that can facilitate this process. The approach proposed in this paper is to draw on the OECD Jobs Strategy Dashboard that provides indicators on the quantity and quality of jobs; labour market inclusiveness; and resilience and adaptability.

3. This paper proposes to base countries' policy challenges on underperformance on one dimension of the Dashboard *relative* to other dimensions, implying that there can be large differences in *absolute* performance between countries sharing the same challenge. There can also be large differences between countries in terms of business cycle conditions; fiscal and administrative capacity; past reforms; social preferences and demography that need to be accounted for when developing country-specific policy recommendations. The examples of broad policy packages developed here should thus be seen as a starting point for more granular and nuanced country-specific recommendations. Their development is further supported by a checklist with key questions for each of the broad dimensions of labour market performance.

4. The remainder of the paper is structured as follows. Section 2 situates the paper in the overall context of the new OECD Jobs Strategy and describes an illustrative procedure to derive country-specific policy recommendations. Section 3 develops broad policy packages that address the main policy challenges emerging from this procedure. Section 4 emphasises a range of contextual factors and policy questions that will have to be taken

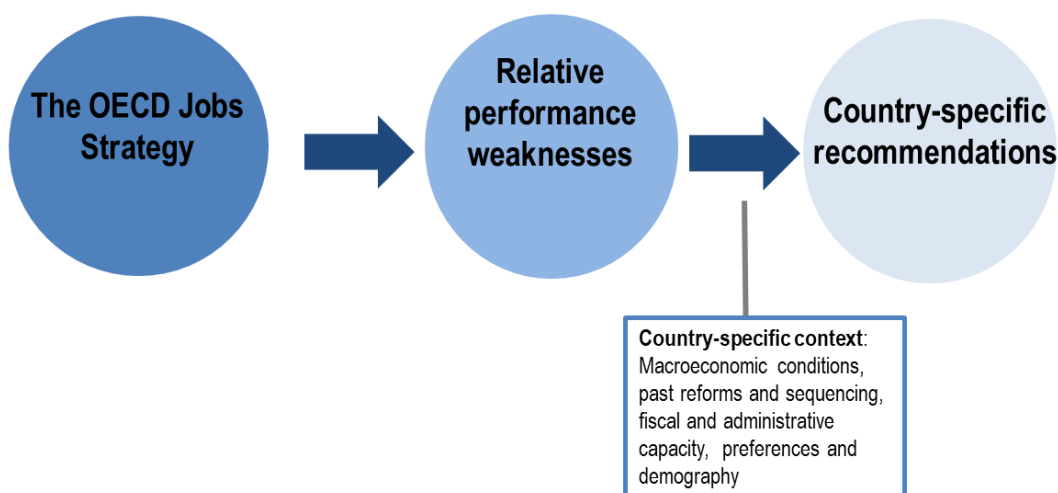
¹ At the time of writing this paper, Elena Crivellaro was a member of the Economics Department of the OECD, Alexander Hijzen is a member of the OECD Directorate of Employment, Labour and Social Affairs, and Cyrille Schwellnus is a member of the Economics Department. The authors would like to thank Luiz de Mello, Giuseppe Nicoletti (from the Economics Department), Stefano Scarpetta and Stéphane Carcillo (from the Directorate for Employment, Labour and Social Affairs) for helpful comments. Sarah Michelson (also from the Economics Department) provided editorial assistance.

into account to tailor policy packages to country-specific circumstances. It also provides a checklist with key questions for each of the broad dimensions of labour market performance that should be considered when developing country-specific recommendations. Section 5 concludes.

2. An illustrative procedure of how to identify policy challenges

5. To assist countries with the implementation of the new OECD Jobs Strategy, this paper describes an illustrative procedure for translating its general recommendations into country-specific ones. To this end, it identifies country-specific performance challenges using the dashboard of the new OECD Jobs Strategy (OECD, 2019^[1]) and presents elements of broad policy packages to address them. These challenges and policy packages constitute a starting point for formulating fully-fledged country-specific reform strategies, which also should fully take account of the country-specific context, such as past reforms and social preferences (Figure 1).

Figure 1. Developing country-specific reform recommendations

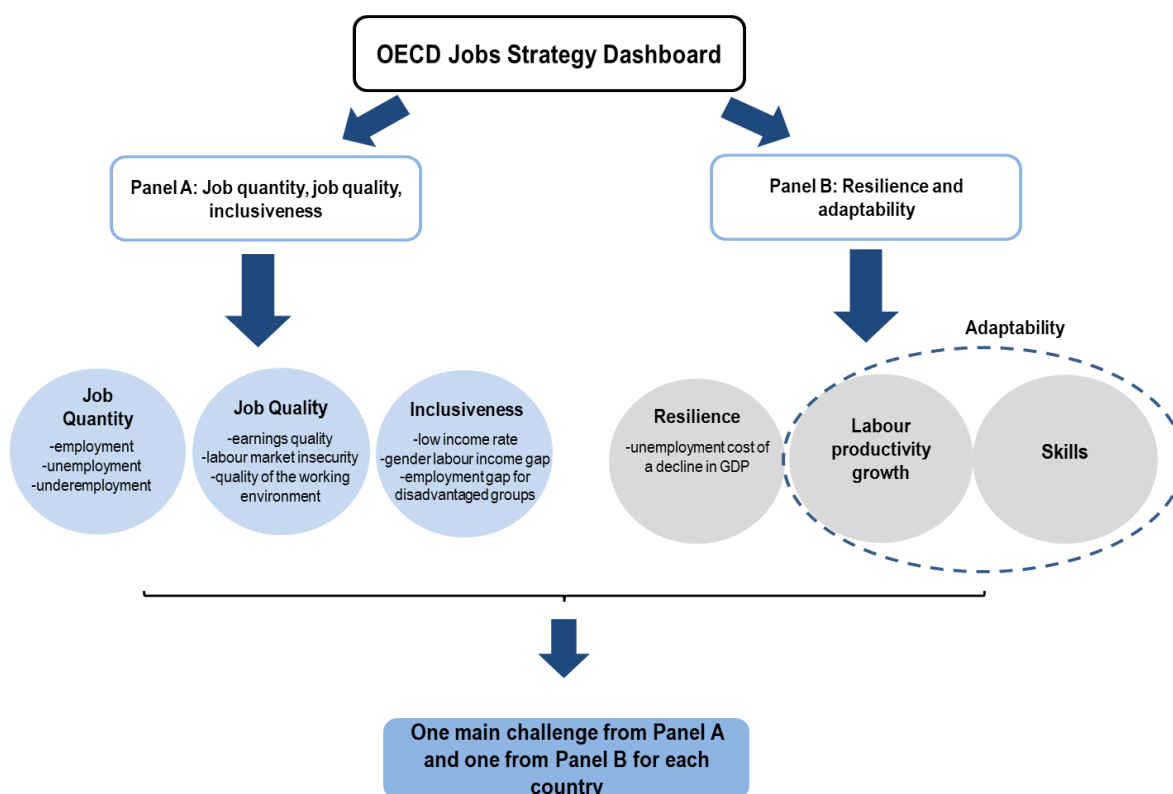


6. The OECD Jobs Strategy dashboard describes labour market performance using indicators of job quantity, job quality and inclusiveness (Panel A) as well as indicators of framework conditions for resilience and adaptability (Panel B). As an illustration of how the dashboard and the analysis of the Jobs Strategy could be used to identify policy challenges, this paper presents areas of largest underperformance relative to other areas (*relative* performance), with each country being assigned one challenge from Panel A of the dashboard and one from Panel B.² 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

² All indicators are standardised (mean zero and standard deviation of one), with negative numbers representing areas of underperformance. For countries that are performing above average in all the dimensions, challenges are established as areas where performance is weaker (i.e. indicators where the country scores closer to the average). The indicators used for the country-specific diagnostic process are: summary indicators of job quantity, job quality, inclusiveness, resilience and two measures of adaptability (labour productivity growth and student skills). This set of indicators is widely available across countries and allows a general assessment of countries' labour market performance and of their ability to face the opportunities and the challenges of the future of work.

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). While this procedure allows for an easy identification of country-specific challenges in all countries, it can be easily amended in the context of specific countries, by taking account of a broader set of challenges or selecting them differently between policy objectives.

Figure 2. An illustrative diagnostic process to identify policy challenges

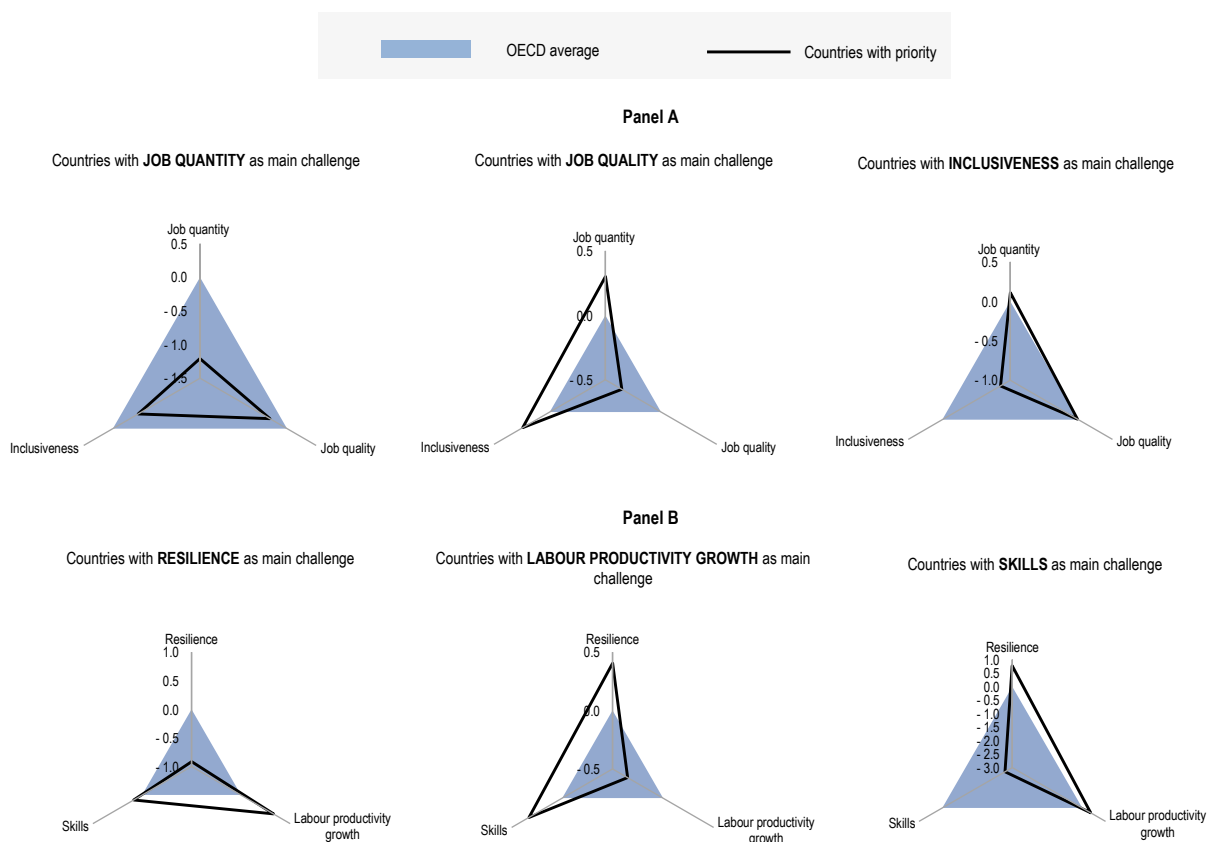


3. Identification of policy challenges and examples of broad policy packages

3.1. Broad performance areas

7. On average, countries with job quantity as a performance challenge also do worse than the OECD average in terms of job quality and inclusiveness (Figure 3). 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 a challenge in one area tend to outperform the OECD average in other areas.

Figure 3. Identifying policy challenges by broad performance area



Note: The blue triangle indicates the average performance of OECD countries (see OECD (2019)^[1], 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.

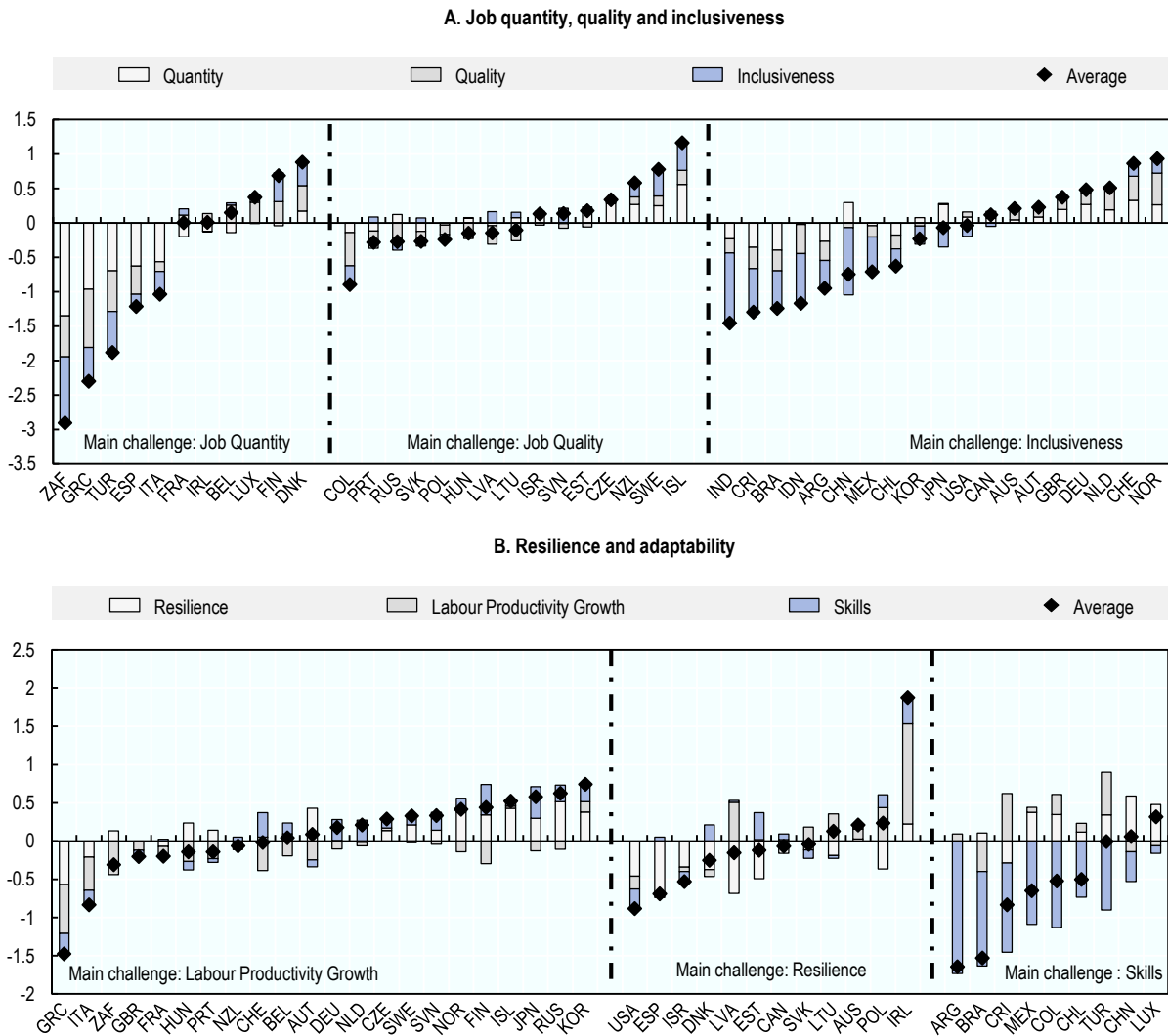
3.2. Dissecting policy challenges by broad performance areas

8. Even countries with the same challenge based on *relative* performance can differ importantly in terms of *absolute* performance (Figure 4). For instance, Denmark performs *relatively* worse in job quantity than in job quality or inclusiveness but performs above the OECD average in job quantity (it does well in terms of *absolute* performance), whereas other countries with job quantity as the main challenge, such as Greece, Italy and Spain, perform well below the OECD average.

9. *Relative* performance across the sub-indicators of job quantity, job quality and inclusiveness may also differ significantly across countries even for countries with the same broad challenge (Figure 5). For instance, Canada, China, Japan, Korea and the United States share inclusiveness as broad performance challenge, but differ importantly in terms of *relative* performance across sub-indicators. In Canada, China and the United States, weak relative performance is mainly driven by high rates of low-income households, whereas in Japan and Korea, this is driven by relatively large gender gaps.

Figure 4. Large differences in *absolute* performance for countries with the same policy challenge

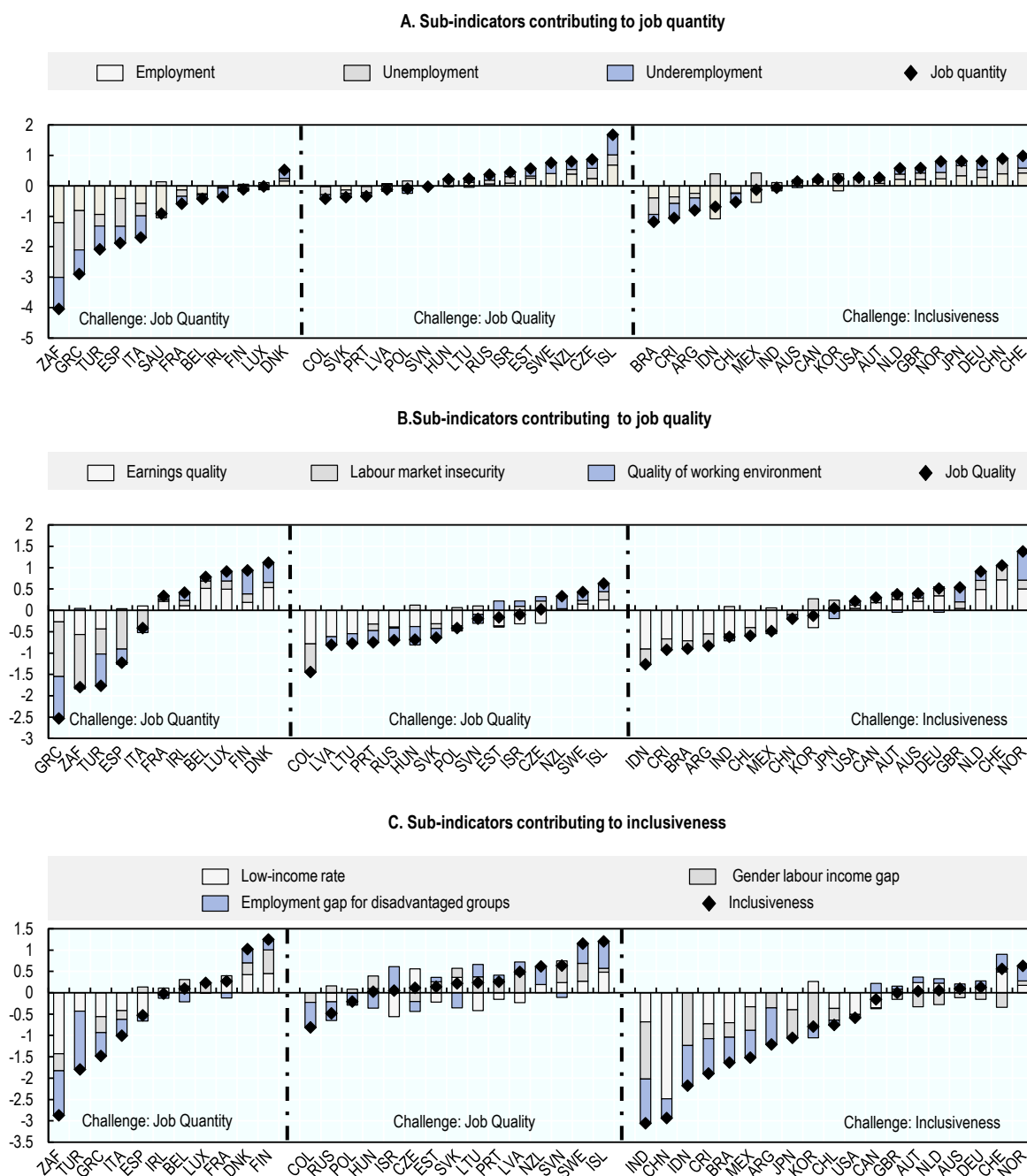
Standard deviations across OECD countries



Note: The figure shows contributions to overall *absolute* performance in Panel A and B of the Dashboard. *Absolute* performance is standardised based on the OECD average, with units on the vertical axis denoting standard deviations. On the horizontal axis, countries are sorted by main challenge and in ascending order of absolute performance (i.e. from the worst to the best performers).

Figure 5. Large differences in disaggregate relative performance for countries with the same policy challenge

Standard deviations across OECD countries



Note: The figures shows contributions to *absolute* performance in job quantity, job quality and inclusiveness. *Absolute* performance is standardised based on the OECD average for each sub-indicator, with units on the vertical axis denoting standard deviations. In each panel, countries are sorted in ascending order of *absolute* performance in each main dimension (i.e. from the worst to the best performer).

3.3. *Elements of broad policy packages to address country-specific challenges*

10. This sub-section presents a number of examples of broad policy packages to address country-specific challenges. Given large differences in *absolute* performance and in the economic and institutional context between countries sharing the same broad challenges, these policy packages should again be seen only as broad illustrations. Country-specific reform strategies require a much more in-depth analysis, which will be provided by the OECD Economic Surveys (Box 1).

Box 1. The implementation of the OECD Jobs Strategy in the OECD Economic Surveys

The OECD actively supports member and partner countries with the implementation of the OECD Jobs Strategy through the identification of country-specific policy challenges and recommendations. This is done through the preparation of special chapters in the OECD Economic Surveys as well as more analytical background papers on the implementation of the new OECD Jobs Strategy. Countries are offered the choice between two different options. The "standard" Survey chapter identifies policy challenges and recommendations using a harmonised template. The "extended" Survey chapter additionally develops concrete policy action plans based on new analytical work.

The harmonised template for the Jobs Strategy implementation chapters in the Economic Survey consists of two main components. In a first part, the main labour market challenges are discussed and policy challenges identified based on the OECD Jobs Strategy dashboard. This part of the chapter also includes a box explaining what the OECD Jobs Strategy is about and its main policy messages. The second part provides the policy analysis, puts forward specific policy recommendations and, where appropriate, makes suggestions for their effective implementation. Special emphasis will be given to policy recommendations that relate to a countries' labour market challenges. The development of policy recommendations is facilitated and supported by the discussion of contextual factors and the policy checklist in this paper. The recommendation could be organised along the main dimensions of the Jobs Strategy framework (job quantity and quality; labour market inclusiveness; and resilience and adaptability).

The implementation process will be concluded with a synthesis report that will draw lessons from the country reviews and highlight good practices across the full range of policy tools identified by the OECD Jobs Strategy. The development and implementation of the new OECD Jobs Strategy is a joint activity of the Employment, Labour and Social Affairs Directorate (ELS) and the Economics Department (ECO).

11. In this sub-section, special emphasis is given to possible synergies and trade-offs between policy areas related to job quantity, job quality, inclusiveness (Panel A) and resilience and adaptability (Panel B):

- ***Countries with job quantity as the main challenge***
 - The majority of countries with job quantity as broad performance challenge, including Belgium, Finland, France, Greece, Italy and South Africa, need to tackle unemployment and also foster ***productivity growth***. Although in the short term there can be trade-offs between policies that promote job creation and productivity growth, in the long term they are likely to be mutually reinforcing. In Belgium, France and Greece, for instance, overly strict product market and employment protection rules may limit both productivity growth and job

quantity. In Belgium, Finland, France and Italy underperformance on job quantity may also reflect high non-wage labour costs, which calls for reviewing the level and composition of labour taxes.

- A number of other countries, including Ireland and Spain, have room to enhance *resilience*. Poor job performance partly reflects a legacy of the global financial crisis. In many cases, macroeconomic and structural policies that strengthen resilience also improve performance in terms of job quantity in the medium run. Spain, for instance, experienced large and persistent employment losses following the global crisis of 2008-09 and the subsequent euro area crises which had not been fully reversed 2017.
- A few countries, including Turkey, need to enhance effective labour supply and improve *skills*. Lack of relevant skills represents a major barrier to employment. In Turkey, poor outcomes in student skills often reflect an inefficient use of resources which is also compounded by limited resources for education.
- ***Countries with job quality as the main challenge***
 - The majority of countries with job quality as the main performance challenge, including Czech Republic, Hungary, New Zealand, Portugal, Russian Federation and Slovenia, would benefit from increasing earnings quality as well as *productivity growth*. Relatively poor performance in terms of job quality reflects low wages. Boosting productivity is key for achieving better working conditions, including higher wages. However, this is likely to require important structural reforms since these countries also underperform in terms of productivity *growth*. These can include reforms that reduce barriers to entry and exit of firms where they are particularly high such as in Slovenia, and the Russian Federation as well as making better use of R&D tax incentives and subsidies to promote the faster diffusion of innovation from leading to lagging firms (New Zealand and Portugal). However, on their own, such reforms are unlikely to achieve high levels of job quality. In some countries, such as Hungary and the Russian Federation, additional measures may be needed to promote job quality, for instance in the areas of occupational health and safety and social dialogue.
 - Most other countries, including Estonia, Israel, Latvia, Lithuania, Slovak Republic and Poland, may need to combine measures to promote job quality, especially earnings quality, with measures to strengthen *resilience*. Policies to promote resilience, including a sound macroeconomic policy framework, can have the added benefit of raising job security by limiting employment losses during economic downturns and ensuring a rapid rebound. In turn, policies to promote job quality may have the added benefit of strengthening resilience. Estonia, Israel, Latvia and Poland, for instance, would benefit both in terms of resilience and job quality from strengthening social dialogue.
- ***Countries with inclusiveness as the main challenge***
 - The majority of countries with inclusiveness as the main performance challenge would benefit from also promoting *labour productivity growth*, including Austria, Germany, Japan, Korea, Netherlands, Norway, Switzerland and the United Kingdom. Indeed, even though most of these countries perform above average in many important areas of job quantity, job quality and inclusiveness, they could do even better if they improved gender equality in the labour market.

Depending on the nature of gender inequalities (see OECD, 2019^[21]), this could be achieved by strengthening access to affordable, high-quality child care to promote female participation; enhancing work-life balance; promote a more equal sharing of parenting responsibilities; and reducing labour supply distortions in the tax and transfer system. To promote labour productivity growth, Austria, Germany, Japan and Korea could reduce barriers to entry in services, such as professional licencing requirements, which would have the additional benefit of reducing barriers to work for low-qualified workers, thereby raising inclusiveness.

- Most emerging market economies have much room to improve inclusiveness and *skills*, including Argentina, Brazil, Chile, China, Costa Rica, Mexico and South Africa. Providing access to high-quality education is crucial to create equal opportunities for all segments of the population. In many emerging market economies, this could, for instance, be achieved by improving both educational enrolment and quality. Another way of improving skills and promoting inclusiveness in these countries would be to reduce high levels of informality, which could be achieved by increasing the benefits of formality, decreasing the cost of formalisation and improving enforcement methods.
- In a number of English-speaking countries, such as Australia, Canada and the United States, there is scope to promote inclusiveness, with a particular focus on reducing the low-income rate, and strengthen *resilience*. In Canada and the United States, the share of the working-age population with low disposable income is large compared with the OECD average. This could be addressed by raising investment in skills, strengthening social safety nets and developing a comprehensive activation strategy, which would have the added benefit of strengthening the automatic fiscal stabilisers and thereby strengthen resilience. To address gender gaps in labour income, which are high in all countries in all of these countries, full-day childcare and primary education could be extended and taxes for second earners be reduced.

12. In order to develop country-specific policy recommendations, the procedure for the identification of policy challenges described in this section may be complemented by the tool described in Box 2. It consists of a checklist with key questions for each of the broad performance areas that should be considered when developing country-specific recommendations. The way these questions are used not only depends on a country's performance in a specific area, but also on its broader economic, social and institutional environment as explained in the next section.

Box 2. Checklist for country reviews

This checklist to derive country-specific policy recommendations is organised along the three dimensions of the Jobs Strategy framework and includes references to chapters in the Jobs Strategy Volume for further reading.

1. Policies aimed at boosting job quantity and job quality.

Fostering worker productivity (OECD, 2018, Chapter 7)

- Is the education and training system effective in equipping workers with the skills needed by employers? Are there strong links between the world of education and

the world of work? Are effective skills anticipation systems in place? Does the training and education system offer opportunities and incentives for learning to workers throughout their working lives?

- Are the conditions in place for learning and innovation in the workplace? Are there any measures to encourage a better use of skills in the workplace through, for example, social dialogue or the promotion of high-performance work and management practices? Does employment protection strike the right balance between flexibility for firms and security for workers?
- Are barriers in product and labour market markets holding back productivity growth and quality job creation? Are there barriers in product markets to the entry and growth of successful businesses, their restructuring or the exit of underperforming ones? Does employment protection yield dismissal costs that are predictable and not overly strict? Are there important barriers to the mobility of workers across firms, industries and regions?
- Is informality widespread in the country, and, if so, how can formal employment be promoted? What is the role of policies to enhance the enforcement of labour market rules, make formal work more attractive for firms and workers and promote suitable skills?

Promoting fair wages and labour taxes (OECD, 2018, Chapter 8)

- Is the system of minimum wages used as a tool to raise wages at the bottom of the wage ladder while avoiding to price out low-skilled workers out of jobs? Does the system allow for any differentiation across groups or regions?
- Does collective bargaining contribute to a broad sharing of productivity gains through better wages and non-wage working conditions? Can collective bargaining systems be made more broad-based and inclusive? Do they provide sufficient flexibility to firms to adapt to aggregate shocks and structural change?
- How do social security contributions and personal income taxes affect labour costs and work incentives, particularly those of low-skilled workers? Does the system of labour taxation provide sufficient progressivity? Does it provide financial incentives to firms to limit labour market risks (e.g. experience rating of employer social contributions)? Are wage-setting institutions and the tax and benefit system well-coordinated?

Protecting and supporting workers (OECD, 2018, Chapter 9)

- Do public income-support programmes for the unemployed effectively protect workers against the risk of unemployment? Does the unemployment insurance system strike the right balance between providing insurance against labour market risks and preserving work incentives through the design of benefit schedules, the responsibility of employers for the risk of unemployment, the combination of out-of-work with in-work benefits, and the development of effective activation strategies?
- Is there a comprehensive strategy to activate and protect workers that combines adequate and widely accessible out-of-work benefits with active programmes in a mutual-obligations framework? Does the system ensure that jobless people have the motivation to search actively for work and accept suitable jobs? Are job search

efforts monitored and warnings and sanctions articulated in a balanced way? Do all groups who need support receive support?

- Are there policies preventing and addressing work-related health and safety risks? Do working time regulations allow for sufficient flexibility for workers? Are there effective regulations to safeguard occupational health and safety? Is there a legislation for psycho-social risk assessment and risk prevention? Do financial incentives to reduce the risk that work impairs people's health exist? Does their design pay adequate attention to the risk of unintended side effects?

2. Policies aimed at promoting labour market inclusiveness.

Tackling deep and persistent inequalities (OECD, 2018, Chapter 10)

- To what extent are equal opportunities promoted in order 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?
- Do regulatory and adult learning policies foster more inclusive labour markets? Do adult learning systems target disadvantaged groups through the provision of information and guidance, the reduction of barriers to participation and the engagement of employers and trade unions? Does employment protection legislation yield termination costs that are balanced across different contracts?
- Is the gender gap in income driven by employment, working time or wage differences between men and women? Do parents have access to affordable, high-quality childcare? Is it possible to promote a more equal sharing of parenting responsibilities, through, for instance, a more balanced parental leave scheme? Are there distortions in the tax and transfer system that affect the labour-supply decisions of second earners?
- Do lagging regions receive support through coordinated policies at the national, regional and local levels that promote growth and competitiveness and tackle social problems associated with local concentrations of labour market exclusion and poverty?
- What is the role of taxes and benefits in tackling poverty and bringing about a more equal distribution of income? Does the system of government transfers strike the right balance between those in and out of work? Does the taxation system ensure that everyone contributes a fair share?

Enhancing the prospects of disadvantaged workers in the labour market (OECD, 2018, Chapter 11)

- Are policies designed so as to ensure that they simultaneously address all barriers to employment 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?
- Can policies to promote the prospects of disadvantaged groups be made more effective? Are they designed in an employment-oriented way? Is exclusion prevented through early intervention? Is discrimination against disadvantaged groups effectively addressed through the enforcement of adequate regulations, the application of financial incentives and the use of information campaigns?

- Do policies take a life-course perspective to prevent that individual disadvantages cumulate over time, requiring costly interventions at a later stage? Are effective adult learning systems in place? How are work-life balance policies designed? Do policies provide good incentives to avoid that work impairs people's health?

Managing self-employment, new forms of work and the platform economy (OECD, 2018, Chapter 12)

- Is innovation in new forms of employment accompanied 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?
- Is policy forward looking by anticipating change and facilitating inclusive dialogue with the social partners and other relevant stakeholders on the future of work? Are labour market, skills and social policies adapting to the emerging needs in the changing world of work?

3. Policies aimed at fostering resilience and adaptability

Nurturing labour market resilience (OECD, 2018, Chapter 13)

- Does the macroeconomic policy framework ensure price stability and fiscal sustainability while allowing for an effective counter-cyclical monetary and fiscal policy response during economic downturns?
- Can working time be adjusted to temporary changes in business conditions through the use of working-time accounts, overtime or collectively-agreed working-time adjustments? Are short-time work schemes foreseen as a tool to promote resilience during severe economic downturns by preserving vulnerable jobs that are viable in the long-term?
- Are there collective bargaining systems that facilitate adjustments in wages and working time to adjust to difficult economic conditions? Do they allow for sufficient flexibility for firms to adapt to aggregate shocks and structural change?

Promoting adaptable labour markets (OECD, 2018, Chapter 14)

- Are business dynamism and competition in both manufacturing and especially services promoted? Do policies promote the efficient reallocation of workers across jobs, firms, industries and regions?
- Are adult-learning systems sufficiently responsive to the changing skills needs of employers, effective in providing strong incentives for learning and worker-centred by linking training rights to workers rather than their jobs?
- Are effective employment and social policies in place to support displaced workers by alleviating financial hardship and promoting a rapid return to suitable work? What is the role of general versus targeted support schemes? Are displaced workers supported through early intervention measures?

4. Integrating the country-specific context

13. While the above policy options provide illustrative examples, they do not yield operational country-specific policy recommendations. Apart from accounting for the

magnitude of performance gaps, such operational recommendations require accounting for a range of other country-specific factors, including: macroeconomic conditions; fiscal and administrative capacity; past reforms, synergies and sequencing; social preferences; and demographic conditions.

4.1. Macroeconomic conditions and policies

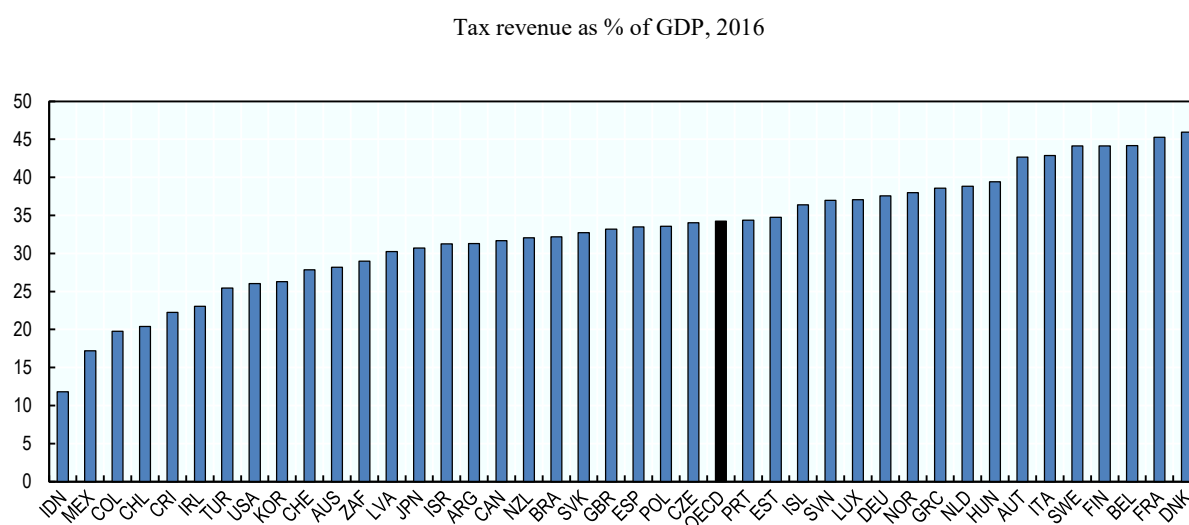
14. Reaping the full benefits of reforms takes time. Product and labour market reforms significantly raise economic and labour market performance in the long run (Boeri, Cahuc and Zylberberg, 2015^[2]). But structural reforms often involve significant reallocation of resources across firms and sectors that can result in short-term costs, notably in the labour market (OECD, 2019^[3]).

15. The short-term effect of structural reforms depends on the state of the business cycle. For instance, reforms to employment protection have positive effects on employment and output when implemented during cyclical upswings, but can exacerbate shortfalls in employment during periods of slack (see OECD, 2019^[3] for more detailed discussion). A possible reason is that while in good times these reforms may spur hiring by reducing the cost of future dismissal, in periods of slack they may trigger instantaneous layoffs. By contrast, labour tax reductions or increases in public spending on activation have larger effects on output and employment during periods of slack (IMF, 2016^[4]; OECD, 2017^[5]).

16. Supportive macroeconomic policies can limit the short-term costs of structural reforms and promote their political viability. They can, for instance, enhance the positive effect of labour and product market reforms on employment in the short-run (IMF, 2016^[4]). Moreover, supportive fiscal policy can be used to compensate the losers of reform (Høj et al., 2006^[6]).

4.2. Fiscal and administrative capacity

Limited capacity to raise fiscal revenues can be a barrier to reform. Emerging market economies typically collect taxes of between 12 to 32 % of GDP, while the average for advanced countries is around 35% (Figure 6). This suggests that countries with limited fiscal capacity face more difficulties to find the resources needed to adopt and implement reforms, especially in the areas of job quality and inclusiveness that often require raising social spending. For instance, Northern European countries such as Sweden and Denmark with strong fiscal capacity can implement relatively generous public income support and employment programmes to promote job quality whereas this is not the case in most emerging market economies. More generally, countries with limited fiscal capacity may need to prioritise reforms that are budget neutral, such as adjusting both taxes and expenditure to raise work incentives, rather than reforms that require financing high up-front costs, such as increasing spending on activation or strengthening the social safety net (IMF, 2012^[7]).

Figure 6. Tax revenue varies widely across countries

Note: Data refers to 2016 for all countries except for Australia and Japan (2015). OECD average is the unweighted average of the countries included in the graph.

Source: OECD Tax Revenue Database, 2018, <https://stats.oecd.org/Index.aspx?DataSetCode=REV>.

17. Limited administrative capacity can be another barrier to reform. For instance, in many emerging market economies large informal sectors evade taxation and labour market rules. In these countries, labour market security needs to be promoted by other means than public income support and employment programmes, including by increasing the use of mandatory self-insurance based on individual saving accounts for those who can afford it and by providing a redistributive component for those who cannot rely on individual savings. The Chilean unemployment insurance system of individual unemployment saving accounts (*Régimen de Seguro de Cesantía*) in combination with a Solidarity Fund (*Fondo de Cesantía Solidario*) provides an interesting example of self-insurance combined with income support in the event of job loss for the poor (OECD, 2011^[8]). Similarly, in countries such as Greece, Italy, Spain and Turkey, limited administrative capacity can hamper the effective implementation and delivery of active labour market programmes.

18. In addition to improving fiscal and administrative capacity, stepping up the public administration's transparency, accountability, capacity and professionalism — including at the local level — and improving the business environment are preconditions for successfully implementing reforms. In emerging market economies such as Colombia, Costa Rica and Mexico the capacity of the public sector is weak, both in terms of human and financial resources, corruption remains widespread and the rule of law is weak (Kaufmann, Kraay and Zoido-Lobaton, 1999^[9]). These factors hinder the effective implementation of policies. In these countries, policy action should aim at being particularly simple, transparent and easily accountable (OECD, 2019^[10]). For instance, this may imply erring on the side of less conditionality and less targeting of social benefits while limiting their generosity.

4.3. Past reforms, synergies and sequencing

19. When synergies between policies exist, combining and coordinating them produces better outcomes than implementing them separately. For example, a country that

simultaneously implements reforms in the areas of education, activation and innovation rather than focusing on a single policy area is more likely to achieve positive outcomes. Promoting higher educational attainment without implementing policies that support innovation and skills matching might result in skills mismatch, underemployment, dissatisfaction and emigration (OECD, forthcoming^[11]).

20. Some reforms are a prerequisite for the success of others. For example, ideally it would be better to have product market liberalisation preceding labour market reforms. The rationale is that pro-competitive product market reforms reduce market power, facilitate the entry of new firms and, in turn, promote higher economic activity and labour demand, e.g. (IMF, 2016^[4]; Høj et al., 2006^[6]; Blanchard and Giavazzi, 2003^[12]).³ As a consequence, product market reforms could improve the chances of reforming employment protection rules by creating employment opportunities, thereby reducing the incentives for incumbent workers to protect their jobs (Koeniger and Vindigni, 2003^[13]; Dias Da Silva, Givone and Sondermann, 2018^[14]).

21. Activation and social protection measures can complement each other, as there are important synergies between income or in-kind support on the one hand (“passive policies”) and activation measures (“active policies”) on the other (OECD, 2019^[15]). Usually, incentives operating through existing social protection measures (i.e. threat of benefit withdrawal, bonus payments or different forms of sanction) can encourage participation in activation-related programmes. Similarly, a system of effective income support payments makes it much easier to target activation measures such as training, or job search assistance (OECD, 2015^[16]). Such targeting can, in turn, create the fiscal space and the political support that is needed to ensure adequate support for families who need it most. For this reason, the effectiveness of active policy measures might be more limited in countries with lower levels of social benefits or where benefits can only be received for a short duration of time. As a consequence of this complementarity, policy adjustments in one area often indicate a need for reviewing provisions in the other. For instance, to maintain a balance between rights and responsibilities, extensions of unemployment benefit duration or coverage may need to be accompanied by measures to maintain the activation approach for a growing number of benefit recipients. The Nordic countries, for example, have achieved high employment rates despite high social benefits by imposing strict eligibility and job search requirements.

22. Labour market reforms that raise labour supply, such as activation policies, will boost employment when the extra supply gets absorbed by rising labour demand. Activation policies can be expected to work best if they are embedded in a comprehensive policy framework that facilitates job creation and dynamic labour markets. For instance, reforms that increase wage flexibility as well as product and capital market reforms that encourage job growth can enhance the effectiveness of activation policies. Additionally, the effectiveness of active labour market policies is enhanced by lower entry barriers in product markets and higher public sector efficiency (Andrews and Saia, 2016^[17]).

4.4. Preferences for redistribution and social dialogue

23. Preferences for redistribution vary substantially across countries (Alesina, Giuliano and Alesina, 2009^[18]). Countries with strong preferences for redistribution (e.g. the Nordic

³ Product market reforms should also be prioritised because they have the highest short-term gains, they boost output regardless of overall economic conditions and because they do not weigh on public finances (IMF, 2016^[4]).

countries) typically promote inclusiveness through the tax and transfer system (Causa and Hermansen, 2017^[19]). Where the tax and transfer system is less redistributive, inclusiveness could be promoted by investing in the education to provide equality of opportunity and/or by direct interventions in market outcomes. Such interventions include supporting earnings at the lower end of the income distribution by using minimum wages and activation policies that facilitate re-employment.

24. Specific country preferences towards social dialogue and collective bargaining, rather than state- and market-oriented approaches, are another element that need to be taken into account when developing country-specific recommendations. For example, in some countries, collectively-agreed wage floors are used to ensure that workers at the bottom of the wage ladder also benefit from economic growth. By contrast, in the absence of collective bargaining agreements, the same policy objective may be achieved by using statutory minimum wages. For example, Australia does not have sector level bargaining, but sets industry-level minimum wages that vary according to occupation through a system of wage regulation (*Modern Awards*).

25. In countries with strong social dialogue, social partners may partly substitute for the government in providing integrated packages of labour market policies, such as training and retraining opportunities as well as career guidance and information to foster mobility. For instance, *Jobs Security Councils* (JSCs) in Sweden provide an example of continuous and tailored re-employment services for displaced workers that are provided by the social partners (i.e. employer federations in close collaboration with union federations), rather than by the public employment services or other public actors (OECD, 2019^[20]).

4.5. Demographic factors: Ageing and migration

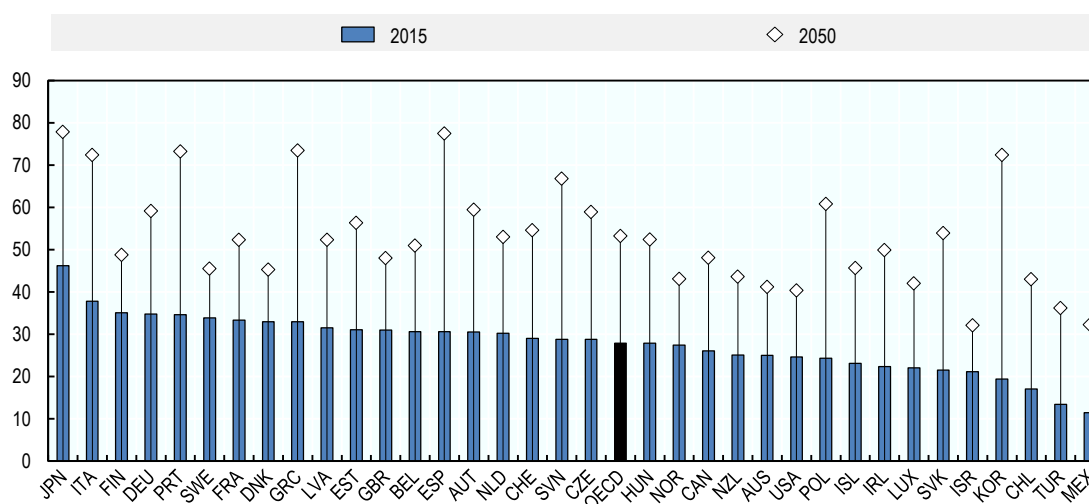
26. Declines in fertility rates and increases in life expectancy are leading to population ageing in many OECD countries, which is raising the old-age dependency ratio (the ratio of older people to the working-age population and shifting the composition of the workforce from young to older workers (Figure 7). Countries with ageing populations are also likely to face shortages of qualified labour, which have implications for potential growth and the sustainability of social insurance systems (IMF, 2018^[21]; OECD, 2017^[22]) (OECD, 2017^[16]). Population ageing is also likely to lead to important changes in industrial and occupational structure as consumer tastes change, with demand likely to shift from durable goods towards services.

27. In countries with rapidly ageing populations, such as Germany, Italy, Japan and Slovenia, it is important to strengthen skills, workplace and activation policies that allow, support and encourage people to continue working at older ages as well as policies promoting female labour force participation and the integration of disadvantaged groups, including migrants. Pension reform needs to go together with skills policies that focus on adapting the skills of individuals to changing labour market needs. In this context, it will be particularly important for governments to design high-quality, life-long, learning systems that will permit adults to regularly update, upgrade, and acquire new skills and competences in order to stay employed and/or find new employment. A comprehensive activation strategy for older workers requires a combination of rewarding work at an older age, removing disincentives on the side of employers to hiring and retaining older workers and improving the employability of older workers. Reducing labour taxes for older workers and policies that improve the job-matching process can encourage individuals to keep working or seek employment.

28. By contrast, in many emerging market economies with a young and growing workforce (e.g. India, Mexico, Saudi Arabia), the challenge will be to harness the full potential of the demographic dividend, ensuring that youth have the skills necessary to be gainfully employed and make a contribution to economic growth. Skills and educational policies, in these countries, should focus on providing high-quality initial education to all individuals, particularly by increasing educational attainment and by reducing school dropout rates, while ensuring youth are provided with skills that are needed in formal jobs. Additionally, these countries should focus on ensuring a smooth transition from school to work, for example by improving the capacity of the public employment services to reach out to youth, by strengthening family-friendly policies, and by providing youth with adequate income support.

Figure 7. The old-age dependency ratio will almost double in the next 35 years on average

Number of people older than 65 years per 100 people of working age (20-64), 2015-2050



Note: The projected old-age dependency ratios differ based on the sources used. This report is based on UN data for comparison reasons. The largest differences are the following: according to Eurostat the old-age dependency ratio (65+/20-64) would increase by 39 and 19 percentage points between 2015 and 2050 in Spain and Austria, respectively, against 47 and 29 points with UN data. On the other hand, it would increase in Latvia by 33 points based on Eurostat against only 21 points with UN data.

Source: OECD (2017^[23]), *Pensions at a Glance 2017: OECD and G20 Indicators*, https://doi.org/10.1787/pension_glance-2017-en.

29. In conjunction with other policies, migration can make a significant contribution to address demographic imbalances across countries and regions. In most OECD countries, immigration can help address shortages, but in many cases there is also a need for accompanying integration policies (OECD, 2019^[24]). This mainly relates to migrants coming for reasons other than employment, such as family (including accompanying family of workers) or humanitarian reasons. Indeed, such non-labour migration accounts for the bulk of immigration to most OECD countries. An example of good practice in integration is Sweden, where tailor-made introduction courses combining language and other training as well as work experience, are provided for refugees to facilitate stepwise integration into the labour market. In order to encourage employers to provide migrants with initial labour market experience, employers hiring newly-arrived refugees are able to benefit from a number of subsidised employment schemes (OECD, 2016^[25]). Countries with high shares

of low-educated migrants may also need to review their educational policies to ensure equal opportunities for children of these immigrants in terms of schooling as a precondition to avoid marginalisation in adulthood. In this context, increasing access to early childhood education with a specific focus on children with language obstacles is particularly important.

5. Conclusions

30. This paper has provided guidance on how to bring the policy recommendations of the new *OECD Jobs Strategy* to the national level. It has provided an illustration on how performance challenges could be identified for each country, by focusing on *relative* performance weaknesses (weaknesses in one area of labour market performance relative to another). Additionally, the paper has provided a set of broad policy packages to address the main policy challenges. Even for countries with potentially similar broad challenges, disaggregate performance gaps and the country-specific context differ significantly. Therefore, the paper has highlighted a range of other factors that need to be accounted for to develop operational country-specific policy recommendations, including macroeconomic conditions; fiscal and institutional capacity; past reforms; sequencing; social preferences; as well as demography. It also contains a checklist with key policy questions for each of the broad dimensions of labour market performance that should be considered when developing country-specific recommendations.

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