



**OECD Labour and Employment
Ministerial Meeting**

Building More Resilient
and Inclusive Labour Markets

Paris, 15 January 2016

Issues paper

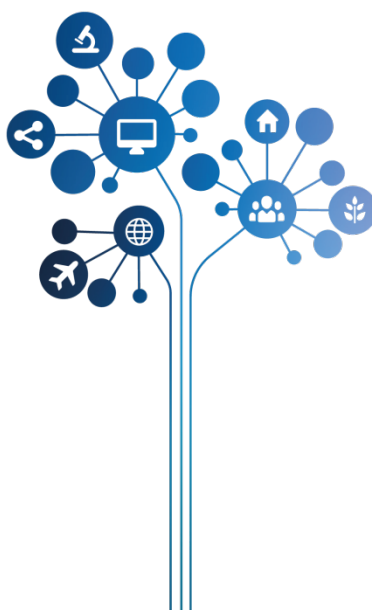
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OECD Labour and Employment Ministerial Meeting

Building More Resilient and Inclusive Labour Markets

Paris, 15 January 2016



Issues Paper



Session 1.

Promoting greater labour market resilience and inclusiveness (10:00-12:30: Room CC12)

Key facts

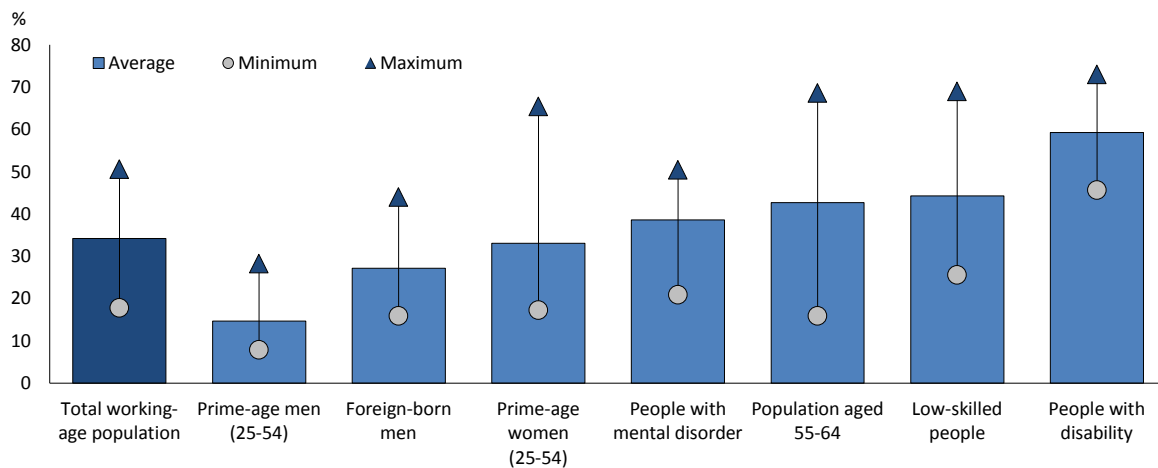
- Just over 40 million persons are unemployed in the OECD area, 8 million more than before the crisis.
- More than 1 in 3 of the unemployed have been out of work for a year or more, that is 14 million people, and the size of this group has increased by 65% since 2007.
- 1 in 6 youth across OECD countries are neither in employment, education nor training, and around half of these are not actively looking for work.
- 2 out of 5 workers in emerging economies are in low productivity informal jobs and lack social protection.

After a long period of high unemployment and underemployment and stagnant if not falling real wages, labour market conditions are finally improving even in those countries hit hardest by the global financial and economic crisis. Nevertheless, further policy action is needed to foster resilient labour markets that can weather economic downturns with limited social costs and to promote inclusive labour markets that allow under-represented groups to participate in rewarding and sustainable employment.

The wide cross-country variation in terms of persistence and composition of income losses following negative shocks calls for understanding which sets of structural policies help strengthening labour market resilience. Available evidence suggests that many policies and programmes that are effective in reducing the structural (i.e. non-cyclical) rate of unemployment and improving employment performance are generally good for resilience. For instance, collective bargaining institutions that favour a better alignment of wages on productivity may allow firms to use other margins of adjustment than simply cutting jobs, such as wages and working-time adjustments. Similarly, some countries have found it necessary to reconfigure their unemployment insurance systems in order to limit the initial impact of negative shocks and reduce their persistence. By contrast, policies like short-time work schemes or a temporary extension of the maximum duration of unemployment insurance within a framework marked by job-search requirements help to support the most affected groups. However, since these policy settings or temporary interventions require additional public resources, it is important to consider introducing automatic mechanisms to adapt resources for labour market interventions over the business cycle.

The many faces of non-employment

Non-employment rates, 2014 or last year available (OECD averages^a in each group, in %)



^a) Weighted averages for the total working-age population, prime-age men, prime-age women, older population and low-skilled people. Unweighted averages for foreign-born men, people with mental disorder and people with disability.

Source: OECD databases and publications.



The groups most at risk of labour market exclusion or low-quality employment vary from country to country, but often include women with young children, older and long-term unemployed, youth with few qualifications and low-skilled workers generally, people with a disability or a mental disorder. For male immigrants, the employment gap is relatively small, but many face substantial skills mismatch, low and/or intermittent wages and poor career prospects. Providing effective help, support and encouragement to move into rewarding and high-quality jobs are essential to foster inclusive labour markets, which in turn contribute to reducing income inequality and poverty and strengthening economic growth. Yet, the OECD's thematic reviews on activation policies, family-friendly employment policies and specific groups (youth, older workers, immigrants, workers with health problems and disabilities) show that labour market exclusion and underemployment are not solved by simply addressing supply-side or demand-side problems in isolation. A comprehensive framework is needed.

Opportunities, employability and motivation are the three key building blocks of such framework to promote effective activation and contribute to more resilient and inclusive labour markets. Bringing more people into employment involves expanding employment *opportunities* by: i) addressing demand-side barriers through actively engaging and assisting employers in hiring and retaining workers and addressing high non-wage labour costs, as well as reaching out to employers to utilise new recruitment tools; and ii) lifting the jobseekers' barriers to participation, such as lack of affordable (child)care arrangements, discrimination, or other social problems, as well as lack of access to new job search tools and technology and insufficient workplace accommodations for people with health problems. At the same time, careful design is needed to ensure, for example, that subsidies that support activation remain targeted and do not become permanent. Where a rapid return to work is unlikely, additional support is needed to improve jobseekers' *employability*. Some may require intensive case management, placement services, training or integrated health and employment services to increase their chances on the labour market. Finally, the *motivation* of jobseekers to accept a job can be promoted by: i) ensuring that work pays through tax and benefit policies; and ii) tackling disincentives to work through mutual obligation frameworks in different benefit systems. These different building blocks interact with one another and can be mutually reinforcing. For example, if there are more job opportunities, it is easier to motivate people to look for jobs or to work on their skills; when jobseekers are motivated, employers are keener to register their vacancies with the PES.



Effective and efficient institutions and policies are needed to shape the overall strategy and manage the implementation of the different elements. Among those institutions are the various public actors such as social protection services and health, education and tax authorities. However, governments and public sector organisations cannot do everything alone; co-ordinated support and incentives have to come from all stakeholders, including private employment services, employers, unions and NGOs, and naturally the people themselves.

Questions for discussion

- What is your country doing to increase labour market resilience?
- What is your country doing to help the hard-to-place and long-term unemployed into stable employment?
- Which recent measures to promote participation of under-represented groups have been successful and which lessons learned are worth sharing?
- How can employers contribute to labour market resilience and be encouraged to minimise job shedding in economic downturns? How can they be encouraged to hire and retain vulnerable workers?



Working lunch

A review of the OECD Jobs Strategy
(12:45-14:15: Château, Room Roger Ockrent)

A short history of the OECD Jobs Strategy

The original OECD Jobs Strategy, adopted in 1994, contained ten broad policy recommendations that were primarily targeted on tackling high and persistent unemployment, the key policy challenge at that time. In 2003, Employment and Labour Ministers asked the Secretariat to reassess the Jobs Strategy in light of new evidence and emerging challenges. The Reassessed Jobs Strategy was adopted in 2006, with a policy framework built around four pillars, including macroeconomic management, incentives to work, incentives to create jobs, and skills development. A notable innovation in the Reassessed OECD Jobs Strategy was the recommendation that governments combine measures to achieve high employment rates with policies to foster high job quality (“more and better jobs”). The Reassessed Jobs Strategy also placed greater emphasis on interactions between different policies and institutions, and hence the importance of combining reforms into coherent policy packages.

For more than two decades, the OECD Jobs Strategy has provided a valuable framework for countries to identify structural policy reforms that can promote better labour market performance (see box above for a short history of the content and relevance of the OECD Jobs Strategy).

Last updated in 2006, it appears timely to review the OECD Jobs Strategy and update it to fully reflect the lessons learned from the global economic crisis and the policies that have been implemented to address the consequences of the crisis, as well as to address the current policy challenges all economies are facing, including the trend increase in earnings and income inequality; the impact of ongoing technological changes on labour demand, work organisation, social security and employment protection; demographic changes; environmental challenges and globalisation.

It is proposed to carry out the review and update with reference to four over-arching policy goals:

- More resilient and adaptable labour markets.
- Increased labour market participation and job creation.
- Improved quality of jobs.
- A fairer distribution of opportunities and outcomes.

A supplementary goal of the review and update would be to make the OECD Jobs Strategy more relevant to emerging economies.

The review will seek to deepen OECD analysis on a number of key emerging issues in order to draw out the new policy lessons that should be incorporated into an overall strategy to promote a more resilient and inclusive labour market. The proposed topics are as follows:

- **Job quality:** While the 2006 OECD Reassessed Jobs Strategy already devoted considerable attention to the importance of promoting not only more but also better jobs, it lacked a conceptual framework for assessing job quality and how labour market policies and institutions affect job quality. The OECD job quality framework developed in the 2014 and 2015 editions of the OECD Employment Outlook (see Session 2, Theme 1) will be integrated into the OECD Jobs Strategy to better delineate how labour market policies and institutions can foster job quality.
- **Labour market resilience and adaptability:** The global financial crisis that erupted in 2008 highlighted the importance of policies and institutional arrangements that increase the resilience of labour markets to large adverse shocks. The key lessons from recent country experiences and the OECD analysis of the factors influencing labour market resilience – including both underlying policies and institutions, and temporary crisis measures – will be incorporated into the Jobs Strategy and would fill an important gap in the policy guidance that it offers.
- **Short-run effects of structural reforms:** The 2006 OECD Jobs Strategy provided little guidance to governments concerning the timing or political economy of structural reforms. One way this gap can be closed is to incorporate the analysis that the OECD is currently undertaking on the transitory and distributional costs, and other side effects that may be associated with new structural reforms, and how these may need to be tailored to gain public support for reforms.



- **Skills development, activation and use:** Since 2006, the OECD has deepened considerably its analysis of skills development, activation and use, as well as in the design of effective national skills strategies. An updated Jobs Strategy should better reflect these new insights and provide more detailed and useful guidance on how labour market policies can promote effective investments in skills throughout the life course to achieve better employment outcomes.
- **Labour market exclusion and inequality:** A number of socio-demographic groups face considerable barriers to finding a job or entering the labour market, or are chronically underemployed or low paid when working. An updated Jobs Strategy could include an in-depth assessment of how labour market policies can reduce exclusion and underemployment so as to contribute to better labour market performance while also promoting inclusive growth. This assessment will also address the challenge of integrating migrants, in terms of labour market entry and the extent of precarious or undeclared work.
- **Labour relations and wage bargaining:** A number of recent developments have underlined again the key role that labour relations play for labour market performance. At the same time, profound and on-going changes in the world of industrial relations should be recognised. New forms of employment relationships are emerging and technology is transforming the way we work. These developments suggest a need to broaden the consideration of labour relations and wage bargaining in the OECD Jobs Strategy and to examine an array of tools and arrangements for dialogue and collaboration between workers and employers.
- **Consistency of social and employment policies:** Drawing out the implications for employment policy of the lessons that have emerged from the extensive work that the OECD has conducted on policies related to disability, pensions, families and children, older workers and gender could promote a life-course perspective on employment policy that highlights the best ways to promote employment and career progression for persons who may enter, leave and re-enter the labour market multiple times.
- **Policy complementarities and trade-offs between policy goals:** Interactions between different policies underlie the importance for achieving good labour market performance of many policies in areas outside of labour market policies (e.g. housing policy, policies affecting firm entry and exit, and financial market policies). Guidelines for aligning a wide range of policies could therefore be considered. However, lengthening the list of policy goals also puts greater emphasis on the need to manage policy trade-offs. The updated strategy would thus need to identify the most important trade-offs and provide guidance for managing them successfully.
- **Greater international economic linkages and policy spillovers on domestic labour market outcomes:** The growing importance of Global Value-added Chains is affecting where and how work is organised, the links between jobs across national boundaries and the way national policies affect labour market outcomes. A related issue is the increased international mobility of labour. The review of the strategy will assess the impact of these developments on the labour market and their implications for policy.

The review of the OECD Jobs Strategy would be undertaken by the Directorate for Employment, Labour and Social Affairs in collaboration with the Economics Department, under supervision of their committees – the Employment, Labour and Social Affairs Committee (ELSAC) and the Economic Policy Committee (EPC) – and in consultation with the social partners. It is proposed to allow for an intermediate stock-taking in 2017 and to have the new Jobs Strategy adopted at the 2018 Meeting of the Council at ministerial level.

Questions for discussion

- Do you agree with the four over-arching policy goals that are proposed for the review of the OECD Jobs Strategy?
- Of the key emerging issues identified above, what would be the top priority issue(s) for your country?
- Is there any other important issue that should be addressed in the review?



Session 2. Ministerial Break-out Sessions

Theme 1. Enhancing the quality of working lives and work-related well-being (14:50-16:30: Château, Room E)

Key facts

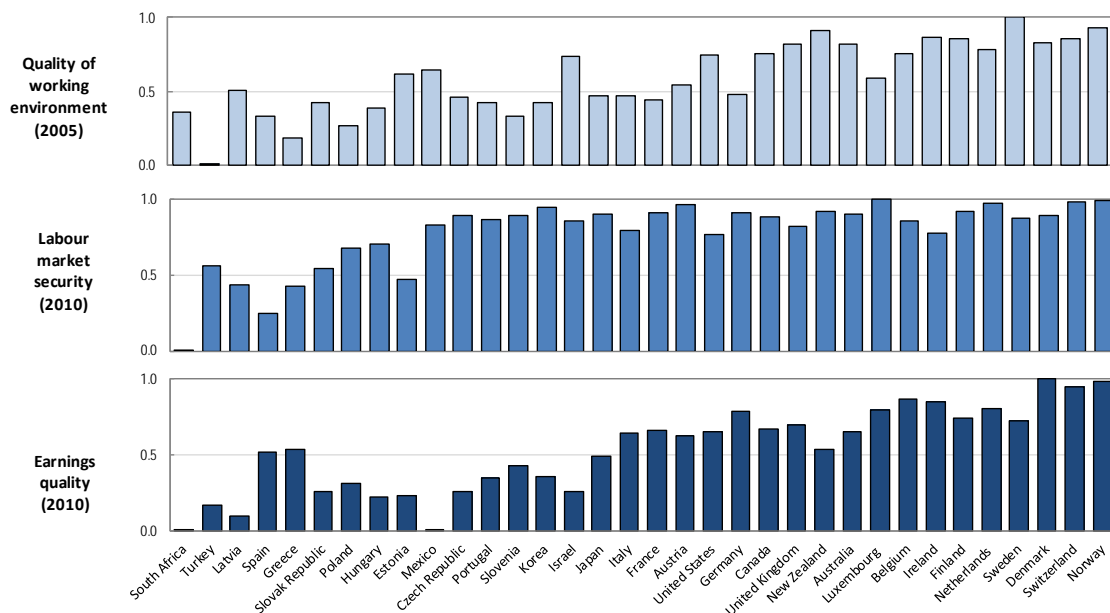
- Differences in life-time earnings are largely determined in the first ten years of workers' careers.
- Earnings mobility reduces inequality by about 21% over the working life, on average.
- A poor working environment can double the risk of work-related health problems.
- Low-skilled workers cumulate low employment rates with poor outcomes in earnings quality, labour market security and working environment quality, while high-skilled workers have access to more jobs and the best quality jobs along all three dimensions.

People spend a considerable part of their time at work, and work for a significant part of their lives. It is therefore of interest to understand how the quality of work affects individual well-being and how it affects labour force participation, worker commitment and, ultimately, labour productivity and social cohesion.

The OECD has developed a comprehensive framework to measure and assess job quality along three key dimensions: i) earnings quality (how much do I earn, and how does that compare with others?); ii) labour market security (what is the chance that I will lose my job, and if I do, what kind of income support will I get?); and iii) quality of the working environment (how stressful or physically demanding is my job; does my manager give me the support I need; are my hours of work reasonable; do I have some say in how I do my work or do others decide this for me?). Many people will accept low pay or long hours for a time if they think that this will lead to better jobs in the future but this is often not the case and those trapped in low quality jobs need targeted support.

Job quality across OECD countries and selected emerging economies

Normalised country scores of the respective job quality indicators



Source: OECD Employment Outlook 2014 and 2015.



Each of these three aspects of job quality touches on long-standing policy debates and raises important policy challenges:

- **How to promote rewarding careers and limit earnings inequality?** Skills are important as they increase both employability and earnings. The accessibility and quality of education and training are therefore crucial (see Session 2, Theme 2). Minimum wages also help to increase earnings and if they are set at an appropriate level, need not have a negative impact on employment. Close co-ordination with the tax and benefit systems (for example, by pairing minimum wage increases with employer tax relief) can raise incomes for workers without raising costs for employers.
- **How to make workers' careers more secure?** Labour market security is determined by the interplay of employment and social protection and active labour market policies. The promotion of stable job matches is crucial to avoid a vicious circle between unemployment and precarious work. Temporary contracts can provide a bridge to work, but also a source of insecurity. Balanced employment protection provisions across different types of contracts can help reduce labour market duality. Unemployment benefits play a major role in mitigating income risks due to joblessness, but also reduce overall earnings inequality in the long-term, especially in countries where coverage is high. Benefits for those who are without work need to be balanced with activation policies – the more effective are the latter, the higher benefits can be without destroying jobs (see Session 1).
- **How to ensure good working conditions and healthy working lives?** Key policies that affect healthy working lives include: occupational health and safety regulations, the availability of flexible working-time arrangements, social dialogue and employers' social responsibility. Indeed, "who you work for" is critical, since firms that tend to do better on some aspects of job quality tend also to do better on others, e.g. they offer higher wages, invest more in training and skill upgrading, and provide a better working environment. Flexible working-time arrangements facilitate the reconciliation of work, private and family life, and promote employment participation of people with a disability or mental disorder. Yet, the economic crisis has had a significant impact on working-time arrangements in an attempt to reduce the number of layoffs. New concerns have been raised about the rise in involuntary part-time work. Not only do many workers on these contracts work very short hours, the hours they work can also be highly variable.

Technological changes pose challenges but also provide opportunities to foster job quality. Many new jobs are created, but others are destroyed or have to be significantly re-tooled in the process. New ways of working will become more widespread, creating greater flexibility for employers and individuals but at the risk of greater job insecurity. Changes in skill requirements (see Session 2, Theme 2) and the organisation of work will create pressure on job quality, family-work balance, inequality and social inclusion. Also the gradual weakening of the traditional employee-employer relationship could put pressure on job security and access to non-wage benefits for some workers, and might increase the pressure on individuals to invest in themselves (e.g. training).

All in all, comprehensive and effective labour market and social policies should focus not only on fostering job creation, but also on promoting the quality of jobs. In the advanced countries, both measures of job quality and the quality of working lives suggest that there does not appear to be a trade-off between the quality and quantity of employment opportunities: job quantity and the different dimensions of job quality tend to be positively related across OECD countries as well across individuals at a point in time and over the life-time. This finding implies that with the right mix of policies and institutions it is possible to do well across different dimensions of labour market performance. In emerging economies, the main issue is not the lack of jobs. Rather, it is the lack of quality jobs that raises the greatest concerns, as inadequate social security pushes workers into subsistence-levels occupations.

Questions for discussion

- What are the most promising strategies to improve the career prospects of people stuck in jobs associated with low pay, high insecurity and poor working conditions? How can one prevent such workers from becoming demotivated, experiencing work-related health problems and withdrawing from the labour market?
- What could be the role of the social partners in promoting better outcomes in terms of both job quantity and job quality?
- How can the required efforts to foster job creation in emerging economies be best reconciled with the need to improve their quality?



Session 2. Ministerial Break-out Sessions

Theme 2. Skills for resilient and inclusive labour markets (14:50-16:30: Room CC18)

Key facts

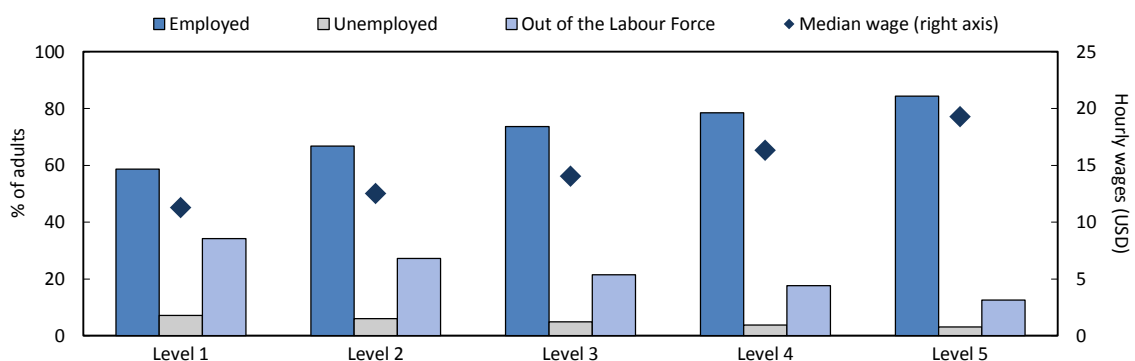
- Wages of the most skilled workers are more than 60% higher than those of the least skilled workers.
- 80% of youth who are NEET (neither in employment, education nor training) hold at the best an upper secondary qualification.
- Skill mismatches in the workplace are pervasive, with young people particularly affected by the problem of over-qualification for jobs.
- Participation in adult education is twice as high in Northern Europe as in Southern Europe.
- The aggregate costs of field-of-study and qualifications mismatch can amount to more than 1% of GDP.

Investing in skills is crucial to foster stronger and more inclusive economic growth and to strengthen social cohesion. A highly skilled population, with competences that are transferable to emerging sectors and jobs, also ensures that labour markets are more resilient in the face of economic or technological shocks. In the context of rapid population ageing in most OECD countries and some emerging economies, further gains in GDP per capita will become even more dependent on gains in productivity driven by skills development, innovation and knowledge-based capital. In OECD countries with relatively young populations, investing in skills will be critical to ensure the “demographic dividend” is realised and can contribute to stronger growth and reduced poverty and exclusion. From an individual’s perspective, building adequate skills and adapting them over the working life boosts earnings and enhances job opportunities and well-being.

Despite significant progress in providing access to, and improving the quality of, education and training, some individuals still lack the skills that are needed in increasingly dynamic and inter-dependent economies. Moreover, there is evidence that skills are often not used at their full potential. A comprehensive approach is required that acts on three fronts in order to: i) raise and update skill levels through training and education; ii) improve the match between the demand and supply of skills; and iii) develop the demand for skilled work to make full use of available skills.

Investing in skills that are relevant to the labour market improves both general and individual labour market outcomes and productivity and promotes inclusiveness. However, countries often struggle to collect good information about current and future skills demands and gaps and, more importantly, often fail in turning this information into useful insights to guide education and training, employment and labour mobility policies and practice. Better collaboration between governments, employers and the education and training sector can help ensure that these policies are adapted to the evolution of skills used in the labour market.

Labour market outcomes by level of proficiency in literacy, 2012



Note: Level 1 corresponds to those at the lowest score in the literacy scale compared to level 5, those at the top end of the literacy scale. For details see *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*.

Source: Survey of Adult Skills (PIAAC), 2012.



Workplace learning has the advantage of linking training provision more closely to employer needs. It also provides a strong learning environment and can improve transitions from school to work by allowing employers and potential employees to get to know each other. Despite these advantages, countries face challenges in engaging employers and potential trainees. Country responses typically comprise the provision of financial incentives to both employers and trainees, including direct subsidies, special tax breaks and arrangements to share the training costs between groups of enterprises. But in some instances, more experienced and qualified individuals have benefitted the most from an expansion in the provision of workplace training rather than younger, less skilled individuals.

Adapting and updating the skills of those already in the labour market has become increasingly important. Rapid changes in technology, globalisation and longer working lives as a result of population ageing mean that targeting skill improvement programmes to the new entrants to the labour market will not be sufficient. Over the lifecycle, skills that are not used tend to depreciate. Also, rapid technological change requires continuous upskilling and re-skilling. This calls for expanding training opportunities for workers to avoid skills obsolescence and depreciation, and to help ensure the workforce is resilient in an ever changing environment. At the same time, it is also important to certify skills acquired in the labour market during the working life. But a key issue here is how to tackle the large gap in most countries in training participation between less-qualified and more-qualified workers.

Skills development is more effective when the world of learning and the world of work are better coordinated. Greater opportunities for gaining some career-related work experience while studying can help learners acquire knowledge that is relevant to the workplace and “soft” skills – such as teamwork, communication and negotiation – that are essential in today’s labour market. Social partners can work together with governments and other stakeholders to develop curricula that include broader, transferable skills and to ensure that good-quality training is available to all workers. Thus, an important challenge is to foster strong long-term partnerships, when useful, between stakeholders spanning both the policy areas of education and employment, including employers and trade unions.

Improving the use of skills is another major challenge. Substantial underuse of skills occurs as a result of non-participation in the labour market or because employers are not making full use of the skills of their employees. An effective activation strategy is required to reduce the duration of unemployment or inactivity spells as well as to promote the labour market participation of under-represented groups (see Session 1). Measures that help managers to identify effective work and organisational practices need to be promoted. These include encouraging innovation and adopting technologies and practices that complement the existing skills base. Successful practices also include employee engagement and high performance organisation of working and learning, which involves job flexibility and delegation of authority. Reaching out to micro and SMEs is a particular challenge for policy in this area.

Finally, there are major gains to be made from reducing the large disparities across individuals in the acquisition and upgrading of skills. Technological change, notably the IT revolution and digitisation, has significantly shifted skill demands toward high-level cognitive skills. In countries with a low supply of these skills relative to demand, technological change is associated with higher returns to skill and higher wage inequality. A more equitable skills distribution will require additional investments to ensure that the least-skilled do not fall behind in a world where high-level skills are increasingly in demand. It is particularly important to invest in the skills of certain sub-groups. Differences in the distribution of skills explain a sizeable part of the wage gaps by gender, geographic origin, socio-economic background and age. In particular, policies promoting equity in education and training opportunities are needed to improve the labour market participation of the most vulnerable and reduce skill mismatch.

Questions for discussion

- What measures are in place in your country to assess skill needs and translate them into policy actions? How best to turn information about current and future skills demands and gaps into useful insights to guide education, employment and labour mobility policies and practices?
- How can labour market institutions support firms to ensure that skills are better utilised in the workplace?
- How can life-long learning policies be designed in a way that they benefit those who need them most?
- Are there trade-offs between allowing wages to rise to reflect skill shortages and tackling rising wage inequality?



Session 2. Ministerial Break-out Sessions

Theme 3. Addressing inequalities in the labour market (14:50-16:30: Room CC16)

Key facts

- The richest 10% of the population earns nearly 10 times higher than those of the poorest 10%.
- Women are still about 21% less likely to be in paid work than men.
- In most OECD countries, both parents need to work full-time at the minimum wage to ensure that children do not grow up in poverty.
- Just over 1 in 4 workers are members of trade unions, and this proportion has fallen by over 15% since 2000.

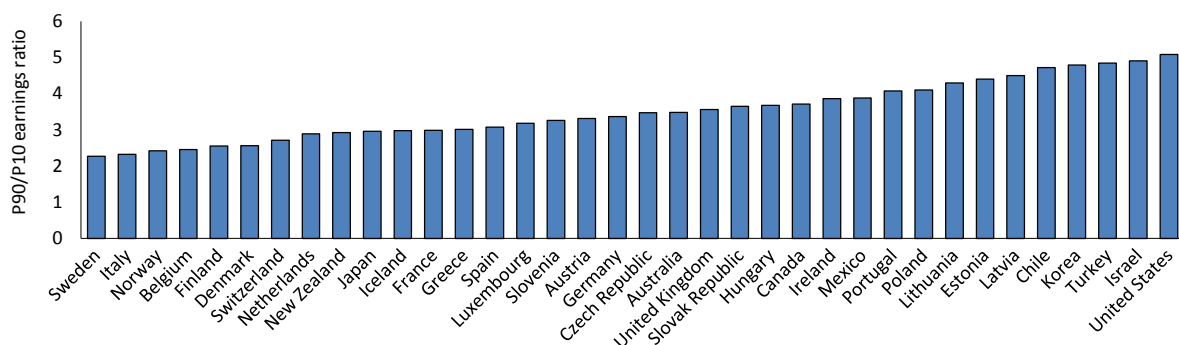
In most OECD countries, income inequality is at its highest level in 30 years and it remains high in most emerging economies. In OECD countries, today the richest 10% of the population earn 9.6 times the incomes of the poorest 10%. In the 1980s, this ratio stood at 7:1, rising to 8:1 in the 1990s, and to 9:1 in the 2000s.

High and rising inequality not only affects social cohesion but also comes at a significant economic cost. It has been estimated that the rise in income inequality between 1985 and 2005 knocked 4.7 percentage points off cumulative growth between 1990 and 2010, on average, across OECD countries. A main transmission mechanism between inequality and growth is human-capital investment. While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access quality education. This implies large amounts of wasted potential and lower social mobility.

The rise in income inequality is, to a large extent, driven by trends in wages and employment, given that earnings are the largest component of household income. Thus, promoting access to sustainable and high quality employment and addressing inequalities in earnings (including low pay) are critical to halting and possibly reversing the trend of rising income inequality.

In recent years, the distribution of both wages and employment has been deeply affected by global forces, such as rapid technological change that has increased demand for high-skill jobs (which in turn has led to job polarisation and a decline in middle-wage, routine jobs) and the increased interconnectedness among countries (which has resulted in the off-shoring of many low-skilled jobs). Despite these global trends, large differences in earnings and employment inequalities exist across countries. Yet, with the right combination of policies, countries can promote a more inclusive labour market that is efficient and yet less unequal. In particular, policies are required to: i) improve the labour market outcomes in general, and for certain groups in particular (e.g. women, youth, low-skilled people, migrants, individuals with a disability or mental health problem and senior workers); and ii) boost the wages of those at the bottom of the distribution by helping them to acquire and adapt their skills and promoting a better functioning and more inclusive labour market, including through social dialogue and collective bargaining.

There are large differences in earnings inequality across countries
2013 or latest available year



Source: OECD Earnings Distribution Database.



While many countries have implemented policies and/or introduced reforms of labour market programmes to help people gain better access to jobs, much remains to be done to improve the employment rates of under-represented groups in the labour market. Women, for example, have made substantial progress in narrowing the participation gap with men, a key factor to counteract the trend rise in inequality. But women are still about 21% less likely to be in paid work than men, reflecting a variety of barriers they face. Further adjustments in the tax system, out-of-work transfers, (child)care support and parental-leave provisions are therefore needed to continue reducing gender inequalities. The barriers faced by other groups, such as youth, low-skilled people, people with a disability or mental health problem and senior workers are different, and will require tailored policy packages to be overcome.

Inequalities in wages can be addressed through labour market policies, programmes and practices, including: training targeted at non-standard workers, long-term unemployed people and other groups who are under-represented among training recipients, minimum wages set at adequate levels, in work benefits and tax credits. Constructive industrial relations and effective collective bargaining can also help to ensure that wages progress in line with workers' productivity and that earnings are commensurate with workers' skills and effort. Countries with dual labour markets should aim to close the gap in employment protection between temporary and open-ended contracts and regular/permanent employees to avoid labour market segmentation and labour income inequality.

A cross-cutting policy priority in addressing labour market inequalities is to help individuals to develop the right skills and adapt them throughout the working life. Low-skilled people tend to have lower employment rates and wages, and these are key determinants of wage inequality. Technological change and greater integration in the global economy tend to reward disproportionately high-skilled workers, both in terms of higher demand and earnings. While the demand for low skills may hold up, in part due to factors such as ageing population and increased demand for associated services to older people, occupations requiring intermediate, routine, skills will continue to face lower demand. It is therefore critical that countries develop the right skills to respond to the needs of the labour market, and provide lifelong opportunities for retraining and up-skilling to workers whose skills are no longer in demand.

In emerging economies, labour market inequalities can also be tackled through policies aimed at reducing informality. While the informal sector is heterogeneous, most, especially low skilled, workers are in the informal sector by necessity and have lower earnings, limited career prospects and more labour market insecurity than otherwise similar workers in the formal sector. To address labour market inequalities, emerging economies will therefore need to invest in more effective social protection systems, as well as foster incentives for firms to register themselves as well as their workers and improve the design and enforcement of labour laws that enhance the quality of jobs.

Finally, social protection can also play an important role in reducing labour market inequalities, both directly and indirectly. Most obviously, income support for the unemployed ensures that those who lose their work are supported financially while they search for a new job, preventing them from falling into poverty and helping them obtain a better match in the labour market. In emerging economies, where unemployment insurance systems are often less well developed, this role can be fulfilled by individual unemployment benefit savings accounts, targeted cash transfers, and/or employment guarantee programmes. In all countries, however, it is important that such measures are accompanied by strong employment services and effective activation strategies that motivate people to work, strengthen their employability and expand the set of available employment opportunities.

Questions for discussion

- What policies are effective for reducing wage and labour market inequalities? What lessons learned can you share regarding efforts to improve the labour market outcomes of temporary, part-time and self-employed workers?
- How can governments promote better industrial relations and boost the bargaining power of workers, particularly those who earn a low and moderate income?
- What policy or combination of policies is effective in combating in work poverty?

For more information:
www.oecd.org/employment/ministerial

