

Chapter 6. Detailed policy recommendations

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

Introduction

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

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

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

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

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

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

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

- Promote business dynamism and competition in both manufacturing and especially services to revive productivity growth, by implementing labour market and other policies that facilitate entry of new firms, reallocation of workers

towards the most productive firms and the restructuring or orderly exit of the weakly productive ones.

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

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

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

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

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

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

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

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

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

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

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

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

Collective bargaining systems differ widely across countries in terms of their coverage and the flexibility that they provide to firms. Moreover, these differences tend to be deeply rooted in their socio-cultural fabric. The challenge is to adapt collective bargaining systems to a changing world of work within the broad terms of the existing national

industrial-relations tradition. Systems characterised by predominantly sector-level bargaining tend to be associated with high coverage, but also risk undermining employment and productivity growth if not well-designed. In countries characterised by predominantly firm-level bargaining, coverage tends to be limited to large firms and their workers, the main question is how the reach of collective bargaining and social dialogue can be extended.

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

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

Consistent with the OECD Skills Strategy:

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

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

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

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

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

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

- Promote access to quality education for disadvantaged children and youth. Promoting access to pre-school programmes for children from disadvantaged backgrounds is particularly important, but countries should also ensure equal access to post-secondary education.
- Tackle the problem of school dropout through early identification and targeting of at-risk students. For individuals who leave education with very low levels of skills, second-chance options for education can provide a way out of a low skills/poor-economic-outcome trap.
- Develop policies to tackle discrimination in the labour market against women, older workers, LGBT, ethnic minorities, migrants and disabled through enforced regulations, suitable incentives and information campaigns encouraging employers to hire, promote and/or retain these workers.
- Following the Recommendation of the Council on Gender Equality in Public Life (OECD, 2015^[1]), Recommendation of the Council on Gender Equality in Education, Employment and Entrepreneurship (OECD, 2013^[2]), countries must step up efforts to ensure that public policy truly reflects inclusive labour markets

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

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

- Use policy and social dialogue to encourage and enable people to develop, maintain and upgrade skills at all ages, making sure that the appropriate skill mix of vocational education and training opportunities vary according to workers' barriers and evolve throughout the working life.
- Provide workers with the right incentives to avoid early withdrawal from the labour force, consistent with the Recommendation of the Council on Ageing and Employment Policies (OECD, 2015^[3]).
- Consistent with the Recommendation of the Council on Mental Health, Skills and Work Policy (OECD, 2015^[4]), shape incentives, define regulations and provide guidance to adapt working conditions to workers' strengths and needs over the life cycle, including enhancing reconciliation of work and family life, thereby avoiding impinging on workers' physical and mental health. This can be done by: i) developing a rigorous legislative framework for physical and psycho-social risk assessment and risk prevention; ii) using appropriate financial incentives; and iii) making the business case for management and organisational practices that result in better working conditions.

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

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

- To help ensure that activation measures reach all people facing barriers to work it is important that income support in the form of unemployment, disability and social assistance benefits cover a large part of the potential target population.
- Consider temporarily extending the maximum duration of unemployment benefits during a recession in countries where the maximum duration of unemployment benefits is short and unemployed workers have limited access to second-tier benefits (e.g. social assistance). Complement these extensions with enhanced access to training programmes.
- Embed activation and income-support measures in a rigorous mutual-obligations framework which makes income support and effective re-employment services conditional on beneficiaries taking active steps to find work or improve their employability. This requires making sure that job seekers efforts are strictly monitored and that warnings and sanctions are articulated in a balanced way.

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

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

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

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

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

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

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

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

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

- Minimise post-displacement costs by beginning the adjustment process during the notification period through early interventions by the public employment service and/or initiatives by the social partners to provide counselling and training before workers are laid-off. In order to make early intervention possible, countries should allow for at least a short advance notice period, while taking care that this does not undermine job reallocation and hiring on permanent contracts, and provide firms and workers with incentives to cooperate and connect with employment services as early as possible.
- Partner effectively with other actors who have the requisite contacts and expertise, such as private labour market intermediaries and public and private vocational training providers as well as employers and trade unions.

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

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

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

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

D. Implementation

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

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

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

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

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