

# Editorial: From fear to action: Making labour and social policy central to the net-zero transition

At its core, the green transition to an environmentally sustainable society is a political choice. The 2015 Paris Climate Agreement was the moment the world came together to make that choice, responding to the most urgent public policy challenge of our time. Nearly a decade later, we know that reversing climate change will require many more such choices – at the local, national and international levels. It has also become clear that safeguarding the planet must include a simultaneous commitment to taking care of people affected by the green transition.

Indeed, the world stands at a pivotal juncture of climatic and societal forces. According to the Intergovernmental Panel on Climate Change (IPCC), maintaining the current emission levels until 2030 will irremediably compromise the chances of keeping global warming below 1.5 degrees. Yet such urgent warnings to governments to accelerate the transition come amid growing fears that the environmental policies to curb emissions and set global temperature limits will inflict a direct cost on people's livelihoods. The economic impact of the transition towards zero emissions also comes as other so-called "mega-trends" and societal transformations are piling up, including the lingering impacts of the cost-of-living crisis and scarring effects of the COVID-19 pandemic, along with the ongoing, deep and rapid digital transformation and acceleration of demographic change.

These multiplying challenges mean that governments must design and implement public policy solutions that respond to the economic and social impact of environmental policies. Such an approach that puts addressing the social impact at the core of the net-zero strategies – and not at the periphery as an after-thought – is not only the right thing to do, but also essential to ensuring the long-term public support that is vital for the net-zero transition to continue to move forward.

Still, despite the uncertainty and delays in reaching climate targets, there are reasons to be hopeful. Above all, the transition toward net-zero is in motion, and the economy in many sectors and locations is shifting to account for climate objectives. Moreover, data and informed analysis now exist that not only helps to measure the transition's impact on the environment, but also on society.

The *OECD Employment Outlook 2024* offers a unique evidence base and tool to gauge how environmental policies have begun to change the labour market, and foresee the best policy responses to address the challenges for those affected both by climate change and climate change mitigation policies.

Until now, forecasts about the employment impact of the transition have been divided between the enthusiastic promise of bountiful new "green jobs," and grim layoff forecasts as emission-intensive activities are phased out. However, the evidence presented in the Outlook is both more balanced and more far-reaching. We focus on "green-driven jobs", which include new jobs that emerge due to the green

transition, those whose demanded skills and tasks will be changing because of the transition and those producing goods and services that are key inputs for lower-emission activities. With this holistic view of green-driven jobs, we estimate that more than 25% of existing jobs will be strongly affected by net-zero policies, in both positive and negative ways. The transition will impact jobs well beyond the energy sector, touching many professions, from bus drivers to construction workers to farmers.

Policy makers should see this broader employment assessment as an opportunity to raise awareness and impart agency across the wide portion of the workforce that has a direct stake and role to play in achieving climate-mitigation objectives. At the same time, the transition will inevitably have its labour market “winners” and “losers,” which policy makers must respond to directly. That means being transparent with citizens and ensuring that climate change mitigation action is accompanied by social and economic policies that ease the negative consequences on individual jobs and households, while ensuring sustainable growth that is fair and equitable.

The net-zero transition will include a major reallocation of jobs across certain industries, occupations and regions. Some activities will thrive, notably those that directly contribute to reducing emissions and those that provide essential goods and services for low-emission activities. Other industries that have been historically high-emission producers will have to restructure, with some forced to downsize or even exit the market.

OECD projections suggest that, by 2030, employment in EU industries such as fossil fuel energy supply, transport services, mining and manufacturing of energy-intensive products – which account for 80% of emissions (although only 7% of employment) – is expected to decline by 14%. That is 9 percentage points more than in the business-as-usual scenario in which the planned policy trajectory is not implemented. On average, across OECD countries, workers displaced from high-emissions industries face a 24% larger decline in annual earnings in the six years following dismissal than people losing jobs in low-emission industries. They need support to facilitate their transition to emerging jobs via well-targeted training and mobility measures.

The potential economic weight of the net-zero transition extends beyond jobs, most notably in the knock-on effects of carbon price measures that can cut into household finances across the economy. The risk of sector-specific job and salary losses combined with a broader rise in the cost of living may prompt policy makers to slow down the pace of the transition – or simply renounce it altogether.

## Tangible measures

When discussing how to promote a fair green transition, one point should be clear: scaling back climate ambitions is not a viable option, with the long-term costs of rising temperatures sure to be far more serious. Some experts calculate that global GDP per capita could be 37% higher today if there had been no global warming after 1960. Looking to the present and future, estimates hold that each day that the temperature is above 40 degrees Celsius increases the risk of workplace accidents by more than 10%. Life expectancy is also at stake: with inaction against climate change, elderly mortality in a country like the United States could increase by more than 2% by the end of this century.

Looking at the estimated impact of the net-zero transition on the labour market, there are reasons to be optimistic. In OECD countries, 20% of workers are already in green-driven jobs. This is a tangible measure of the transition already well underway, and leaves the OECD member countries well-positioned to forge new economic opportunities, as well as help formulate the right policy responses.

Looking to the future, the transition is unlikely to trigger a major net decline or increase in the total number of jobs. Virtually all simulations based on comprehensive macroeconomic models forecast a close-to-zero change in the number of people employed due to the net-zero transition in the short term (by 2030), although these outcomes depend on the complementary policies that are put in place. In the long run

(e.g. by 2050), if the cost of inaction is taken into account, it is estimated that we may even add jobs to the economy.

But there are obvious large disparities in the job prospects of workers in the broadly defined green-driven occupations and those in the GHG occupations which should be duly taken into account. For many of those laid off from high-emitting activities there are alternative job opportunities provided they are supported in the transition by well-targeted policies. Indeed, one encouraging finding is that almost all vanishing jobs in high-emission industries have high-growth alternatives with similar basic competence requirements.

There are also regional disparities, with high-emission industries heavily concentrated in specific – mostly rural – regions. By contrast, the fastest-growing occupations boosted by the net-zero transition are skill-intensive and predominantly located in urban areas. Without policy action, low-skill workers and households in rural areas would bear most of the burden of the transition, while high-skilled urban workers would be in the best position to reap the benefits.

The urban-rural divide and skills gap raise questions of basic fairness, while adding to the tensions that can undermine the political support necessary for the net-zero transition.

Addressing these disparities in the impact of the net-zero transition is crucial for the success of the transition itself and especially to ensure it is fair. A recent study shows that, in all OECD countries, three main factors determine whether individuals will support climate mitigation policies. First is whether they believe that policy is effective in reducing carbon emissions; second is what they might gain or lose in the process; and third is how much they perceive the distribution of costs to impact vulnerable households. When people perceive that both the burdens and opportunities of a net-zero transition are not shared equally, they oppose climate action.

There is an interesting dynamic in public attitudes from recent surveys: workers fear both climate change and climate change mitigation measures. Citizens understand that the net-zero transition is “policy-induced” – in other words, it’s a choice taken by their elected leaders, and thus expectations are high that it will be managed well. And if it’s mismanaged, so that the negative side effects weigh heavily, the choice to halt the transition is always an option.

## Targeted action

So what are the ways to manage the social and employment impact of the net-zero transition?

First, we need to further develop the knowledge base about the potential new jobs and related skill sets to design training policies that are responsive to emerging needs. One method is the use of skills assessment and anticipation exercises (SAAs), which generate information about the current and future skill needs of the labour market and the skilled workers available to take on new jobs. Once parallels and similarities in skillsets are identified through “green” SAAs, public employment services and other actors who accompany workers through job transitions can use this information to identify feasible training pathways from the high-emission sector toward jobs that will be in demand.

Currently, only a minority of OECD countries report financially supporting employers to offer training or career guidance to facilitate the transition into green jobs. At the same time, workers in emission-intensive jobs at heightened risk of downsizing undertake less training than other workers. Strengthening career guidance by increasing its quality and coverage, as well as raising awareness of potential opportunities, is crucial to connect workers with training for, and career openings brought about by, the net-zero transition.

Evidence also suggests that, in the case of low- and medium-skilled workers, green-driven jobs that require no or limited training are often unattractive because they offer lower pay and poorer working conditions

than other potential alternatives. Beyond striving to equip these workers with the skills demanded by good jobs with high-growth potential, policies to improve wages and working conditions are needed.

Second, OECD evidence suggests that collective bargaining and social dialogue among different stakeholders can have a positive impact on working conditions, and yet the evidence suggests that workers in low-emission activities are less well represented in collective bargaining. Initiatives to foster collective bargaining and social dialogue in these industries and companies would therefore play an important role and may improve their attractiveness for low and medium-skilled workers.

A successful example of stakeholder involvement is the Job Security Councils in Sweden, which are established through collective agreements between employers and employees in different sectors. They provide an example of preventative measures that generally lead to rapid re-employment of most displaced workers. The Councils are actively involved in all stages of the process of firm restructuring and generally intervene before displacement has even occurred. Their intervention hinges on providing advice to both employers and workers at an early stage in the restructuring process.

Third, policies to ensure attractive wages for workers losing their jobs in high-emission industries could include time-bound wage insurance schemes. While evaluation must be carried out to hone the scope of application in the context of the net-zero transition, it would be important to carefully target such schemes. It would be important, for example, to limit the duration of wage insurance eligibility, or progressively reduce payment generosity, to reduce the risk of benefit dependency. As workers gain experience and develop job-specific competencies in their new activity, they will also gain efficiency and wage insurance will be less needed.

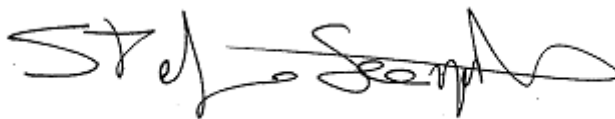
Fourth, as downsizing activities are concentrated in specific regions, place-based policies are also essential to address the disproportionate vulnerabilities that arise. For example, through the Inflation Reduction Act of 2022, the United States has planned to direct investments and incentives to enhance the net-zero transition in areas where people are most vulnerable due to dependency on high-emission activities.

In some cases, however, regions most affected by the downsizing of high-emission industries may have a limited comparative advantages in attracting emerging green activities. In such cases, complementary geographic mobility policies may supplement other policy support. Such initiatives would require an integrated approach to overcome different barriers to mobility, which might include job-search support, housing assistance and childcare support, among other forms of assistance. Available evidence indeed suggests that financial incentives for mobility alone may be insufficient and result in bad-quality and unstable jobs in the new location.

Fifth, beyond jobs and salaries, attention must also be paid to the impact on consumers. Within broad climate-mitigation packages, certain policy instruments like carbon pricing generate a considerable flow of government revenue. Channelling part of this revenue back to affected households would allow governments substantial scope for cushioning losses and shaping distributional outcomes. Linking transfers to effective household support needs will be crucial, however. In particular, such transfers should target low-income and rural households, who are particularly exposed to those climate-mitigation policies that raise the relative cost of carbon because they spend more on necessary goods and services with a larger carbon footprint, such as energy and food.

Finally, the other fundamental characteristic of the net-zero transition is that it must be a global process. National policy towards net-zero emissions and to support those affected by it should be integrated globally to be effective. Similar to the need to bridge the disparities within OECD countries, those between countries must also be accounted for – and developing countries will require additional structural adjustments and aid to move forward with a viable net-zero transition.

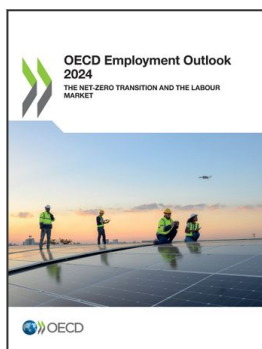
This is a moment to both renew and adjust the focus of Paris 2015: redoubling the world's commitment to cap emissions and limit global temperatures, forging policies that protect both the planet and its people.

A handwritten signature in black ink, appearing to read 'Stefano Scarpetta', written in a cursive style.

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