

## Editorial

# *The backlash against globalisation: What does it mean for employment policy?*

### **The populist backlash against globalisation fundamentally challenges employment policy**

2016 was a paradoxical year for employment policy. While an expanding majority of OECD countries had finally closed the massive jobs gap that opened during the Great Recession and unemployment continued to fall, people in a number of countries expressed increased dissatisfaction with economic performance and, in some of them, clearly indicated they did not believe that policy makers were effectively representing their interests. While the Great Recession left deep scars in many countries, the economic discontent also centres on the perception that deeper international economic integration disadvantages many workers while offering the lion's share of the benefits to large corporations and a cosmopolitan elite. The perception that the international economic system is "rigged" clearly challenges the democratic legitimacy of current policies and thus needs to be taken seriously. It also challenges the policy advice offered by international organisations like the OECD, which has long emphasised the economic benefits of global integration, but only recently adopted an inclusive growth approach that pays due attention to the distribution of those benefits across the population. In view of the current scepticism about the policy orthodoxy, this editorial begins the process of reassessing which choices labour market policy makers have got more or less right and which they have got wrong and where a change of approach is required. These reflections are intended to contribute to the broader rethinking of the full range of economic policies that is currently underway at the OECD and elsewhere.

The topics that are addressed in this edition of the *OECD Employment Outlook* provide valuable new evidence about the extent to which the populist backlash is grounded in a real failure of existing policies to promote inclusive growth. They also identify a number of policy directions that should allow governments to better address the legitimate concerns driving the recent backlash against globalisation. However, much additional research and dialogue will be required to fully flesh out an adequate policy response and restore public trust.

### **Many of the concerns underpinning the backlash against globalisation are real**

Since the economic crisis of 2008, both OECD and non-OECD economies have been on a lower growth trajectory than before the crisis. Indeed, the cumulative loss in output per capita in the OECD area, relative to the pre-crisis trajectory, amounts to about 50% of annual GDP per capita. This slower pace of economic growth has aggravated the stagnation of real income growth that people on lower and middle incomes were already experiencing due to the longer-term trend increase in inequality. Across the OECD area, the average

disposable income of the richest 10% of the population is now more than nine times that of the poorest 10%, up from seven times 25 years ago. Labour market trends – particularly rising pay differentials between workers on the upper and lower rungs of the jobs ladder – have played an important role in increasing income inequality. Accordingly, it is important to assess whether labour market policy choices – including those consistent with OECD policy advice – have inadvertently contributed to a growth model that has not prevented a disproportionate share of the gains from economic growth to benefit already high-income segments of the population.

This Outlook analyses questions at the heart of the growing backlash against globalisation, examining how globalisation and technological change have interacted with labour market policies to affect the distribution across the workforce of the benefits and costs associated with economic change. Notably, almost all OECD countries have been experiencing occupational polarisation during recent decades – that is, a decline in the share of total employment attributable to middle-skill/middle-pay jobs, which has been offset by increases in the shares of both high- and low-skill jobs. In the OECD area, the middle-skill share of employment fell by 7.6 percentage points between 1995 and 2015, while the employment shares of high- and low-skill occupations rose by 5.3 and 2.3 percentage points respectively. About one-third of overall polarisation can be attributed to shifts in employment away from manufacturing and towards services, leading to factory workers who have lost their jobs often being forced to take up lower paying jobs in the service sector. However, the remaining two-thirds reflect rising polarisation within industries.

### **Popular perceptions tend to exaggerate the role of trade in inequality, but new technologies have had an effect**

Rising polarisation has coincided with both the rapid development and deployment of information and communication technologies (ICT) and the deepening of global value chains (GVCs), i.e. the location of different stages of production in different countries. The empirical evidence suggests that both of these factors are at play, but not equally. Technology and trade are mutually reinforcing and their effects can be hard to separate. Nonetheless, the evidence suggests that technological change almost certainly played a major role in increasing labour market polarisation, whereas the impact of deepening GVCs is difficult to detect and probably small. There is, however, some indication that rising import penetration from China has a small effect in depressing employment in manufacturing. Other research has shown a stronger adverse effect on employment and earnings from rising import penetration from China, especially in local labour markets specialised in the products directly competing with Chinese imports. The analysis also shows that the size of the impact of new technologies on polarisation depends on labour market policy settings – overly strict employment protection tends to strengthen the link between the introduction of new technologies and greater polarisation, whereas strong unions and a higher minimum wage tend to weaken that link.

### **An integrated policy strategy is needed to better share the benefits of globalisation and new technologies**

An integrated policy strategy spanning product market competition and financial market regulation, in addition to labour market policies, is required to address the labour market concerns underlying the backlash against globalisation. This strategy will need to foster job creation, by better harnessing the potential gains from trade, while also ensuring

that all workers have the resources and support they need to successfully navigate the ongoing transformation of the labour market and benefit from the opportunities opened up by new technologies and deepening international economic integration. The new OECD Jobs Strategy – which was requested by OECD ministers at their meeting in 2016 and will be put to member governments for their endorsement in 2018 – will provide such a comprehensive framework. Work is already well under way and this Outlook presents the conceptual framework for the new Jobs Strategy. This framework stresses the need to analyse labour market policy strategies in terms of their ability to improve a broad range of outcomes that encompass many of the concerns underlying the backlash against globalisation, namely: i) the quantity but also the quality of jobs; ii) labour market inclusiveness; and iii) labour market resilience and adaptability.

The new Jobs Strategy will provide a comprehensive framework for responding to the concerns underlying the backlash against globalisation and achieving good labour market performance more generally. However, the devil is in the details and the challenge will be to identify the concrete policy steps that will be needed to achieve the desired results. The rest of this editorial fills in some of these policy details, drawing on results presented in this publication, while also signalling areas where further research is needed.

### **Help workers to build the right skills and adapt them during their working lives**

One key to helping workers navigate a rapidly transforming labour market is to enable them to build the right skills and adapt these throughout their working lives in response to new demands. This is not a new challenge, but one that has gained even more importance because of the rapid pace of change in the skills demanded in many if not all occupations. Education and training systems need to better assess changing skill needs in order to adapt curricula and guide students towards choices that lead to good labour market outcomes. Even when workers have sufficient skills, inefficient use of their skills or skills mismatches result in lower productivity and pay. Promoting the use of high-performance work practices (e.g. team work, job rotation, bonus pay and flexibility in working hours) can play a crucial role in improving skill use on the job, while more effective recognition of skills learned informally at work (e.g. via credentialing) can reduce mismatch. Another priority is to reduce the number of workers lacking basic digital skills, both by ensuring that initial education provides these skills to all future labour market entrants and by expanding opportunities for existing workers to acquire these skills and participate in lifelong learning more generally. This is a daunting challenge in all countries – the OECD Survey of Adult Skills shows that more than 50% of the adult population in OECD countries can only carry out the simplest set of computer tasks, such as writing an email and browsing the web, or have no ICT skills at all. At the same time, despite the increasing need for workers to adapt their skills in the face of structural transformations, low- and medium-skill workers are the least likely to receive training in all OECD countries, even though they may be facing the greatest risk of job loss. This is partly the reflection of limited opportunities offered to these groups, and partly the result of lower returns on training, which weaken incentives for workers' participation.

### **Scale-up active employment programmes for laid-off workers and adapt social protection to the emergence of new forms of work**

A second policy priority is to adapt activation and social protection policies so that they can more effectively assist workers to cope with economic changes that are potentially disruptive. Doing so will not change the basic principles of activation and social protection,

but it will require them to be organised and applied in new ways. It is particularly important to adapt social protection systems to rapid structural change and emerging forms of employment, potentially by making entitlements more portable from one job to the next or by making it easier to cumulate contributions from multiple jobs. It is also necessary to more effectively assist workers who lose their jobs due to economic change to move from declining sectors and occupations to the sectors and occupations where new jobs are being created. Some of the most successful examples of re-employment assistance for these workers are those – such as Job Security Councils in Sweden – where the social partners play an active role in providing adjustment assistance to workers who will be laid-off, tailoring the assistance offered to the specific needs of the affected workers and beginning to deliver that assistance during the notification period prior to the workers becoming unemployed.

### **Collective bargaining can contribute to worker-friendly adjustments to potentially disruptive change**

While labour market adaptability depends, in considerable part, on providing individual workers with the skills and other resources they need to navigate a rapidly evolving labour market, it also requires employers and workers to collaborate in adapting to changing conditions. In particular, labour market adjustment to structural change is likely to proceed more smoothly and leave fewer workers behind if trade unions or other forms of worker representation allow workers' interests to be taken more fully into account. This edition of the *Employment Outlook* provides an exceptionally rich overview of collective bargaining institutions and practices, as they function today. Profound changes in the process of collective representation and negotiation have occurred over the past decades, in response to technological and organisational changes, globalisation, the decline of the manufacturing sector, the emergence of new forms of work and population ageing. In many OECD countries, these factors – sometimes in combination with important policy reforms – have led to a decentralisation of collective bargaining. Decentralisation, together with a long-standing decline in union membership rates and increasing individualisation of employment relationships, has severely tested the relevance and functioning of collective bargaining systems in some countries, even as effective forms of co-ordination, including multi-level bargaining, have emerged in others. At the same time, new forms of social dialogue, collective organisation and bargaining are emerging to meet the challenges posed by new forms of work.

### **A resilient labour market is also a necessity**

The economic crisis of 2008 illustrates the importance of fostering labour market resilience, that is, the capacity of the labour market to withstand temporary adverse shocks. Resilience is related to, but distinct from, the adaptability of labour markets to secular trends such as digitalisation and globalisation. The important role of international financial markets in causing and propagating the crisis also illustrates how deepening globalisation can create high volatility and hence undermine worker well-being, if economic policy does not react appropriately.

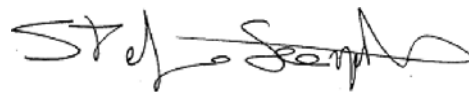
Almost all OECD countries experienced a significant rise in unemployment in the wake of the crisis, but the size and persistence of that increase varied dramatically across countries. For example, unemployment rose less sharply in countries where the adverse shock to aggregate demand was absorbed to a greater extent by wage moderation and reductions in hours worked, an adjustment pattern that is more common in countries where

collective bargaining is either quite centralised or effectively co-ordinated. While the OECD average unemployment rate is now back to its pre-crisis level, it remains well above this level in a number of countries, including those with deeply segmented labour markets and a weak capacity to respond to the rise in unemployment because of insufficiently developed employment policies or severe budget constraints. Even in most of the countries where the post-crisis increase in unemployment has fully reversed, productivity growth remains depressed, resulting in lower wage growth than would have occurred if the pre-crisis trend had continued. To some extent, resilience in unemployment (i.e. the absence of a long-lasting effect through a rise in the structural rate of unemployment) may have been achieved at the cost of some reduction in job quality.

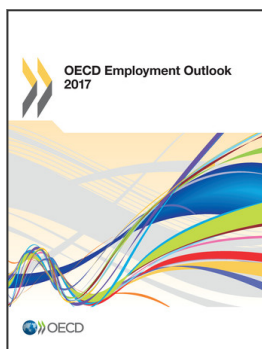
Policy choices can make a contribution to enhancing labour market resilience. Large gaps in employment protection between permanent and temporary contracts can reduce resilience, while collective bargaining – provided it is quite centralised or co-ordinated – can increase resilience. There is a need for a whole-of-government approach to achieving labour market resilience. In particular, expansionary fiscal policy during economic downturns can play a key role in shoring up the economy and, hence, also the labour market. Counter-cyclical fiscal policy is particularly effective at limiting the rise in unemployment during a downturn, when it takes the form of public investment and expanded spending on active labour market programmes.

## The road ahead

The key remaining challenge in developing the new OECD Jobs Strategy is to map different policy choices against the different aspects of national labour market performance and then to identify the most effective policy packages to achieve inclusive growth in each country. As is illustrated by the labour market performance scoreboard presented in this *Outlook*, the starting point for meeting this challenge differs widely across OECD economies and these differences will affect policy priorities. The resulting policy guidelines will also need to be forward looking and reinforce the adaptability and resilience of labour markets. If this is the case, then the new Jobs Strategy could go some way towards assuaging the legitimate concerns fuelling the backlash against globalisation and hence contribute to a less divisive political environment, while also promoting better labour market performance.



Stefano Scarpetta,  
OECD Director for Employment,  
Labour and Social Affairs



**From:**  
**OECD Employment Outlook 2017**

**Access the complete publication at:**  
[https://doi.org/10.1787/empl\\_outlook-2017-en](https://doi.org/10.1787/empl_outlook-2017-en)

**Please cite this chapter as:**

OECD (2017), "Editorial. The backlash against globalisation: What does it mean for employment policy?", in *OECD Employment Outlook 2017*, OECD Publishing, Paris.

DOI: [https://doi.org/10.1787/empl\\_outlook-2017-2-en](https://doi.org/10.1787/empl_outlook-2017-2-en)

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to [rights@oecd.org](mailto:rights@oecd.org). Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at [info@copyright.com](mailto:info@copyright.com) or the Centre français d'exploitation du droit de copie (CFC) at [contact@cfcopies.com](mailto:contact@cfcopies.com).