

## Labour market structure and wages: policies to reduce inequality in OECD countries

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*This paper draws on of the following OECD reports and initiatives:*

- *The OECD Inclusive Growth initiative (2018)*
  - *The OECD Jobs Strategy (2018, forthcoming),*
  - *The OECD Job Quality Framework (2014)*
  - *The Pursuit of Gender Equality – An Uphill Battle (2017)*
  - *OECD reports on inequality, in particular A Broken Social Elevator – How to Promote Social Mobility (2018) and - In It Together - why less inequality benefits all (2015)*
- All errors remain mine.*

### Introduction: High levels of inequality and their consequences

Over the past three decades, income inequality has risen in most OECD countries, reaching in some cases historical highs. Today, the Gini coefficient – a common measure of income inequality that scores 0 when everybody has identical incomes and 1 when all the income goes to only one person – stands at an average of 0.315 in OECD countries, exceeding 0.4 in the United States and Turkey and approaching 0.5 in Chile and Mexico. In the main emerging economies, income inequality is higher than in the OECD area (Figure 1).

Wealth is much more concentrated than income. On average, the 10% of the wealthiest households hold half of total wealth, the next 50% hold almost the other half while the 40% less wealthy own little over 3%.

Inequalities in education, health, employment and income start building up from early ages (OECD, 2017a). A 25-year old university-educated man can expect to live almost 8 years longer than his lower-educated peer, on average across countries; for women the difference is 4.6 years.

Inequality rose not only in bad economic times, but also in good times (OECD, 2015a). There have been periods when some countries have managed to contain the growth in income inequality, but these have rarely lasted for long.

This widespread rise in income inequality has been accompanied by growing public discussion and concern over the impact of the high and often rising gap between rich and poor on our societies, and over the way the fruits of economic growth are shared. In recent years, and especially since the onset of the economic downturn in 2008, these debates have moved to the top of the policy agenda in many countries.

Beyond its impact on social cohesion, growing inequality is harmful for long term economic growth. The rise of inequality, for instance, is estimated to have knocked 4.7 percentage points off cumulative growth between 1990 and 2010, on average in OECD countries for which data is available. The key driver is the growing gap between lower-income households – the bottom 40%, of the distribution – and the rest of the population. A main transmission mechanism

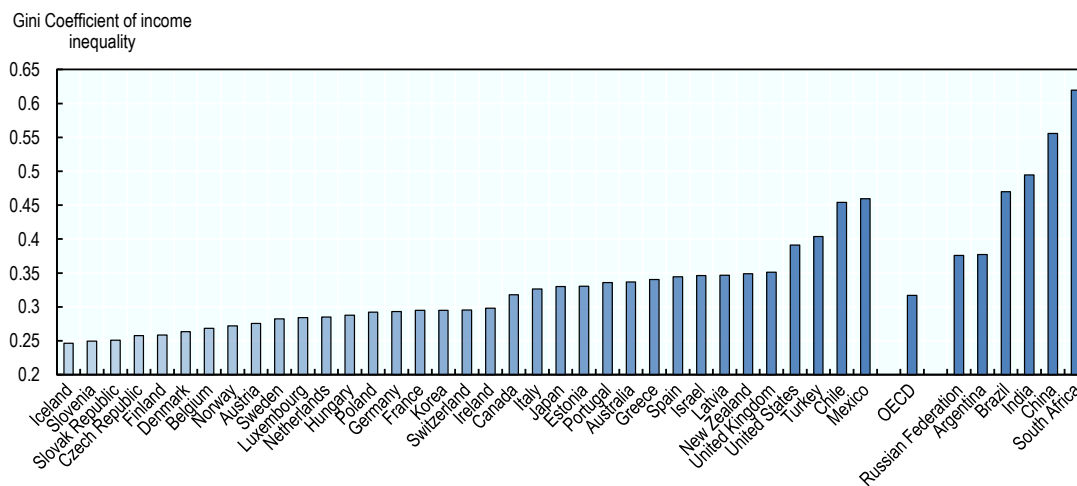
between inequality and growth is human capital investment. While there is always a gap in education outcomes across individuals with different socio-economic backgrounds, the gap widens in high-inequality countries as people in disadvantaged households struggle to access education. This implies large amounts of wasted potential and lower social mobility. Many potential talents missed out or remain underdeveloped. Many investment opportunities go unexploited and potential businesses never see the light. At the opposite end, a lack of mobility at the top translate into persistent rents for a few at the expense of the many (OECD, 2018a).

Individuals' labour market situation is the main driver of disposable income inequality. Two main dimensions matter in this respect: the quantity, but also the quality of jobs. The share of people out of work, either because they are unemployed or inactive shift many people to the bottom of the income ladder. On the other side, the quality of employment matters, as those in most precarious forms of work, such as temporary workers, part-time workers or self-employed, also drive inequality up.

An important finding is that job quantity and the different dimensions of job quality (see Box 1) tend to be positively related across countries, across population groups, and across individuals over the lifetime (Figure 2). This implies that with the right mix of policies and institutions it is possible to do well across all dimensions of labour market performance.

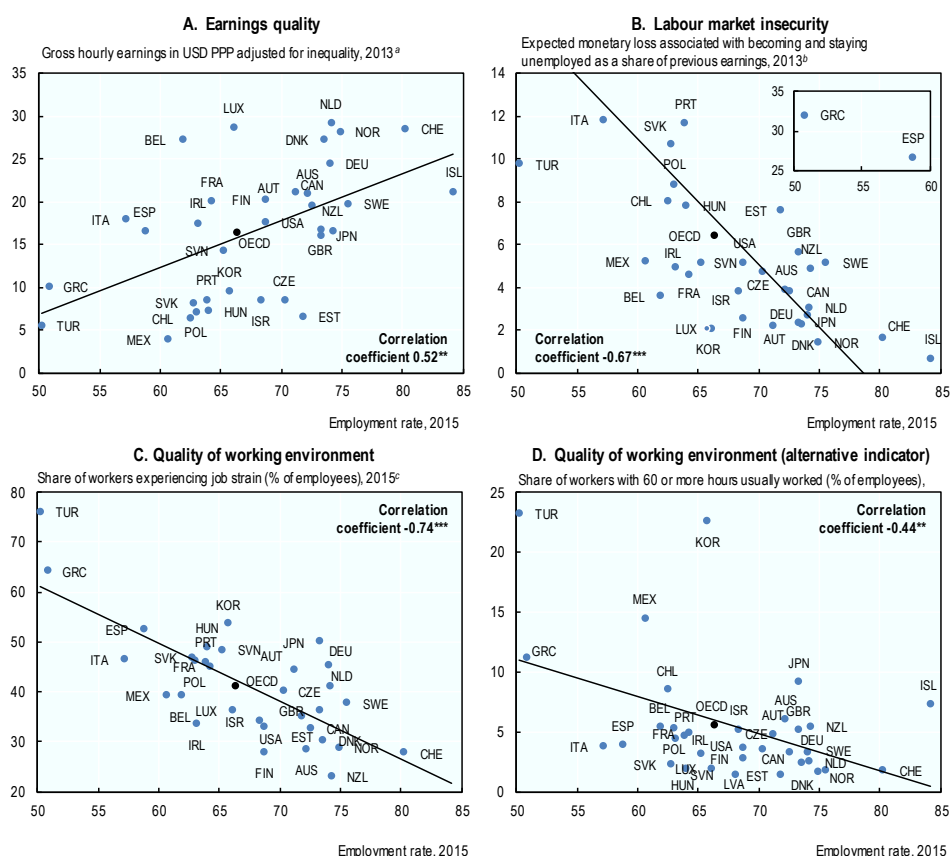
**Figure 1. Income inequality varies greatly across OECD countries and emerging economies**

Level of income inequality (Gini coefficient), 2016 or latest available year



Source: OECD Income Distribution Database (IDD), [www.oecd.org/social/income-distribution-database.htm](http://www.oecd.org/social/income-distribution-database.htm)

**Figure 2. Quantity and quality of employment are correlated**



Source: OECD Employment Outlook, 2017

To break this circle of increasing employment and higher income gaps, more inclusive labour market policies are needed which focus not only on the quantity but also on the quality of jobs. In this paper, we cover some of the key policy areas that could be used as engines to decrease inequalities. First, in order to increase the quantity of employment, labour market need to be made more inclusive, in order to allow groups with lower employment rates to fully participate. This could encompass women (**Section 1**), young people (**Section 2**), but also older workers, or people with disabilities (the two latter will not be covered). Second, the quality of jobs needs to be reinforced, in particular by avoiding gaps between temporary and permanent employment (**Section 3**). A sound regulatory framework can also enable better jobs, by making them more secure and sufficiently well- paid (**Section 4**). As education is key to improve labour market outcomes, **Section 5** develops which life-long learning policies can contribute to narrow income inequalities. **Section 6** covers the issue of social protection for workers, a key dimension to ensure that working lives are secured. **Section 7** discusses the challenges raised by the new forms of work. In emerging economies, job quantity and job quality often do not go hand in hand. **Section 8** widens the discussion to non-OECD countries and the specific challenges faced by these economies in terms of inequalities and labour market structures.

### **Box 1. The OECD Job Quality Framework**

**Job quality is an inherently multi-dimensional concept that refers to those job attributes that contribute to the well-being of workers. Building on the influential report by the Stiglitz-Sen-Fitoussi Commission (Stiglitz et al., 2009), which identified eight dimensions of well-being, the OECD Job Quality framework was developed (OECD, 2014). It is structured around three of those eight dimensions that are closely related to people's employment situation, namely material living standards, insecurity of an economic as well as physical nature, and personal activities including work. The development of the OECD Job Quality framework led to the construction of indicators for each of these dimensions (OECD, 2015b). Since this framework has been widely endorsed (for example, by the G20 at the summit in Ankara in September 2015), it is also adopted here as a key component of the labour market performance measurement framework for the new OECD Jobs Strategy. The OECD Job Quality framework measures job quality along three dimensions:**

**Earnings quality. Earnings quality refers to the extent to which the earnings received by workers in their jobs contribute to their well-being by taking account of both the average level as well as the way earnings are distributed across the workforce.**

**Labour market security. Labour market security measures the risk of unemployment (the risk of becoming unemployed and the expected duration of unemployment) and the degree of public unemployment insurance (coverage of benefits and their generosity).**

**The quality of working environment. The quality of working environment captures non-economic aspects of job quality and measures the incidence of job strain that is characterised by a combination of high job demands and few job resources to meet those demands. The incidence of very long hours of work is also used as an alternative indicator of the quality of the working environment since the data required to measure job strain are not available in most emerging economies.**

**Sources: OECD (2018b); OECD (2018c).**

## Box 2. Good jobs for all in a changing world of work: The OECD Jobs Strategy

Low productivity growth, high levels of income inequality, as well as rapid economic change related to technological progress, globalisation and demographic changes raise new policy challenges for good labour market performance. In January 2016, OECD Employment and Labour Ministers called for a new *OECD Jobs Strategy* that fully reflects these challenges and opportunities and, hence, continues to provide an effective tool for policy makers.

The new *OECD Jobs Strategy* goes beyond job quantity and considers job quality and inclusiveness as central policy priorities, while emphasising the importance of resilience and adaptability for good economic and labour market performance in a changing world of work. It recognises that flexibility-enhancing policies in product and labour markets are necessary but not sufficient. Policies and institutions that protect workers, foster inclusiveness and allow workers and firms to make the most of ongoing challenges are also needed to promote good outcomes. A whole-of-government response is needed, embedding the new *OECD Jobs Strategy* in the *OECD Inclusive Growth Initiative*. The key policy recommendations of the new Jobs Strategy are organised around three broad principles:

i) **Promoting an environment in which high-quality jobs can flourish.** This requires a sound macroeconomic framework, a growth-friendly environment and skills evolving in line with market needs. A key new insight is that during sharp economic downturns it can be beneficial to channel resources to short-term work programmes that seek to preserve vulnerable jobs that are viable in the long term. Moreover, it is important to provide a good balance in employment protection for workers in different contracts. Liberalising temporary contracts while maintaining high levels of employment protection for workers on open-ended contracts can lead to the excessive use of the former and low job quality, high levels of inequality and low resilience, without clear gains in overall employment.

ii) **Preventing labour market exclusion and protecting individuals against labour market risks.** Supporting job seekers for a quick (re)integration in employment remains essential, including by unemployment benefit and social assistance schemes that provide high coverage with rigorous enforcement of mutual obligations. But the new strategy emphasises the importance of addressing problems before they arise by promoting equality of opportunities and taking a life-course perspective that prevents the accumulation of individual disadvantages that require costly interventions at a later stage.

iii) **Preparing for future opportunities and challenges in a rapidly changing economy and labour market.** Product and labour market dynamism will be key to deal with rapid economic change. However, workers need to be equipped with the right skills in a context where the demand for skills is evolving rapidly. Workers also need to remain protected against labour market risks in a world where flexible forms of work may increase. This includes social protection and basic labour market regulations but possibly also expanding the role of non-contributory schemes, minimum floors to social benefits, and making social protection more portable.

The main policy recommendations for each of these principles will be presented in the *OECD Jobs Strategy* in December 2018 (forthcoming).

## 1. Women's participation in economic life

Gender inequality pervades all aspects of social and economic life, and affects countries at all levels of development. Young women in OECD countries now often obtain more schooling than young men, but women continue to be poorly represented in the lucrative science, technology, engineering and mathematics (STEM) fields. The number of women in the labour force has moved closer to that of men in the past few decades, but in every country women are still less likely to engage in paid work. When women do enter the labour force, they are more likely to work part-time, they are less likely to advance to management and they earn less than men. The median full-time female worker earns almost 15% less than her male counterpart, on average, across the OECD – a rate that has changed little in the past decade. Women are less likely to be entrepreneurs, and female-owned businesses tend to earn less than male-owned ones. Across countries, gender gaps increase with age, reflecting the crucial role that parenthood plays in gender equality. Motherhood typically has marked negative effects on workforce participation, pay and career advancement. Despite action taken in many domains, progress has been far too slow and the gender gaps persists (OECD, 2017b).

There is a broad strategy to foster gender equality common across countries. Key elements call in particular to further accompany the reconciliation of working and family life. Measures in this domain should encompass: 1) paid parental leave; 2) access to good quality and affordable childcare; 3) workplace family measures and 4) promoting the equal sharing of unpaid work responsibilities. Policies should also continue to focus on disadvantaged women, such as low-skilled women with children, to ensure that engaging in paid work "pays off".

## 2. Granting young people the right start

Providing youth with the skills and help they need to get a better start in the labour market and progress in their career is crucial to avoid high drop-out rates and careers in low-paid work. The *OECD Action Plan for Youth* recommends a set of measures to tackle the current situation of high youth unemployment, including expanding active labour market strategies and encouraging employers to expand quality apprenticeships or internship programmes, while strengthening the long-term prospects of youth through strengthening the education system, the role and effectiveness of Vocational Education and Training and assisting the transition from school to work (OECD, 2013a).

Helping high-school dropouts through second-chance programmes can be an effective way to ensure young people do not become stuck in low-paid jobs. It is also important that training and re-training opportunities are available to older individuals who have suffered job loss.

Often, there are also distinctive arrangements for unemployed youth including, such as the European Union *Youth Guarantee*. The EU Youth Guarantee aims at ensuring young people's successful transition into work by ensuring that, within four months of leaving school or losing a job, young people under 25 can either find a good-quality job suited to their education, skills and experience; or acquire the education, skills and experience required to find a job in the future through an apprenticeship, traineeship or continued education. In some countries, unemployed and inactive youth benefit from special activation programmes such as intensive counselling to avoid being trapped in benefit dependency. Youth guarantees require strong co-ordination between many service providers (health, social assistance, employment, career guidance, education and training, etc.) to solve special barriers such as lack of housing, health problems and devise a concrete development plan.

Youth from disadvantaged backgrounds are more likely to have left the education system early and without the necessary skills. As a result, they have a higher probability to be neither in employment nor in education or training (NEET): NEETs are 80% more likely than other young people to have parents with less than upper-secondary schooling and twice as likely to have parents who do not work (OECD, 2016). The *OECD Action Plan for Youth* recommends a set of measures including second-chance programmes and encouraging employers to expand quality apprenticeships or internship programmes that can help disadvantaged youth who did not pursue their education further.

A number of OECD countries have introduced financial incentives to incentivise employers to create apprenticeship places (OECD, 2016). Such measures include wage subsidies, tax credits and/or social security rebates and sub-minimum wages for youth.

## 3. Fostering the quality of jobs

Policies to reduce inequalities from the labour market need to consider the quality of employment and the bridges between the different labour statuses.

Temporary or part-time jobs and self-employment now account for about one-third of total employment in OECD countries. These forms of non-standard employment are often associated with lower job quality: lower hourly wages, less job security and less social protection. In addition, they may not be covered by collective bargaining arrangements



and/or some labour regulations (including working time, minimum wage). Workers with these jobs also tend to receive less training and suffer more job strain. Moreover, transitions towards standard employment are generally scarce, resulting in gaps widening with the passage of time. The challenge for policy is to reduce differences in treatment across different forms of work while, at the same time, encouraging job creation and the use of employment arrangements. This entails, to the extent possible, **equitable treatment between regular employees and those in other forms of work in terms of tax and transfer regulations** (see Box 3).

**Box 3. Examples of measures narrowing the dualism on the labour market**

**Italy and Japan share a common policy challenge as regards labour market institutions: a strong dualism on the labour market between standard and non-standard workers. Both countries took recently measures to address this issue.**

**In Italy, the Jobs Act has introduced a new open-ended contract since 2015. This new contract increases employment protection with job tenure, aiming at simplifying and streamlining dismissal rules while reducing labour-market dualism. Existing temporary contracts were transformed into open-ended ones by 2016, unless collective agreements set flexibility criteria for the use of temporary contracts (OECD, 2018a).**

**In Japan, where the gap between regular and non-regular workers is particularly marked (non-regular work is even referred to as *Hiseiki*, meaning “not legitimate” in Japanese), measures for “Equal pay for Equal work” are being developed. The package includes a legal framework ensuring fair and equal treatment of workers regardless of their status, in particular fixed-term workers or part-time workers, with respect to evaluation, working conditions and pay level.**

**Social protection for non-standard workers needs to be strengthened.** This could be achieved by aligning benefit rules across different contractual arrangements; adapting existing social insurance schemes to extend them to previously excluded categories of workers; complementing social insurance with non-contributory schemes; and/or making social protection portable (i.e. linking entitlements to individuals rather than jobs).

Addressing the coverage gap of non-standard workers by **collective bargaining arrangements** will also help narrowing income inequality. This may require adjusting other rules and practices for collective bargaining, such as competition regulations which, in some countries, prevent independent workers from bargaining collectively. Some new initiatives include non-standard workers setting up new unions or associations and/or integration into “traditional” unions. Another new development is the use of social media to help workers to organise and effectively express individual and collective grievances (OECD 2017c).

#### **4. A sound regulatory framework**

As put forward by the *OECD Jobs Strategy*, a sound regulatory framework combined with effective social dialogue and targeted information services can help support the conditions for learning and innovation in the workplace. A sound regulatory framework includes:

- **adequate standards for working conditions based on occupational health and safety regulations to reduce physical and mental health risks,**
- **working time regulations that limit excessive working hours and the use of night shifts, while establishing the right to rest breaks and paid leave**
- **balanced employment protection provisions that protect workers against possible abuses but at the same time do not prevent required job reallocation.**

**Minimum wages can help underpin the income of low-paid workers but this is conditional on two important factors. A statutory minimum wage can help ensure that workers at the bottom of the wage ladder also benefit from growing economic prosperity, particularly in the absence of encompassing collectively-agreed wage floors<sup>1</sup>; nevertheless, several OECD countries complement collective wage agreements with a statutory minimum wage. When minimum wages are moderate and well-designed, adverse employment effects can be avoided.**

**The following principles can help to enhance the design of minimum wage systems.**

- **First, make minimum wages pay while avoiding that they price low-skilled workers out of jobs by carefully considering their interactions with the tax-benefit system. For example, by reducing social security contributions around the minimum wage, it is possible to enhance the effectiveness of the minimum wage as a tool to reduce low pay and fight poverty while limiting the rise in labour costs for employers.**
- **Second, 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 and experts (e.g. independent commissions).**
- **Third, and where necessary, allow minimum wages to vary by group (to reflect differences in productivity or employment barriers) and/or by region (to reflect differences in economic conditions).**
- **Fourth, improve coverage of, and compliance with, minimum wage legislation.**

**Well-functioning collective bargaining institutions, particularly when associated with high coverage, can also be useful (OECD 2017a). They allow for more differentiation in terms of wages and working conditions than statutory rules, can foster skills development and skills use in the workplace, and allow for the effective dissemination of good working practices. Collective bargaining institutions and social dialogue can help promote a broad sharing of productivity gains. The best way of ensuring the inclusiveness of collective bargaining is by having well-organised social partners based on broad memberships. This allows social dialogue to be widespread at the firm-level among worker organisations and employers and to be based on representative social partners at higher levels (e.g. sector, country). 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 and allows labour relations to adapt to emerging challenges.**

## **5. Lifelong learning to build capacity throughout the lifetime**

Improving adult competencies is an essential component to ensure the continuous employability of workers and promote their career progression. Financial incentives, well-targeted interventions to help people out of low-skills/low-income traps, basic skills programmes can all contribute.

A rapidly changing world of work affected by globalisation, digital transformation and demographic changes makes lifelong learning even more essential, but also requires new approaches to update skills. Access to training among the low-skilled is typically much lower

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<sup>1</sup> The latter can be considered a functional equivalent of a minimum wage set by law insofar as most, if not all, workers, especially the weakest ones, are covered by them.



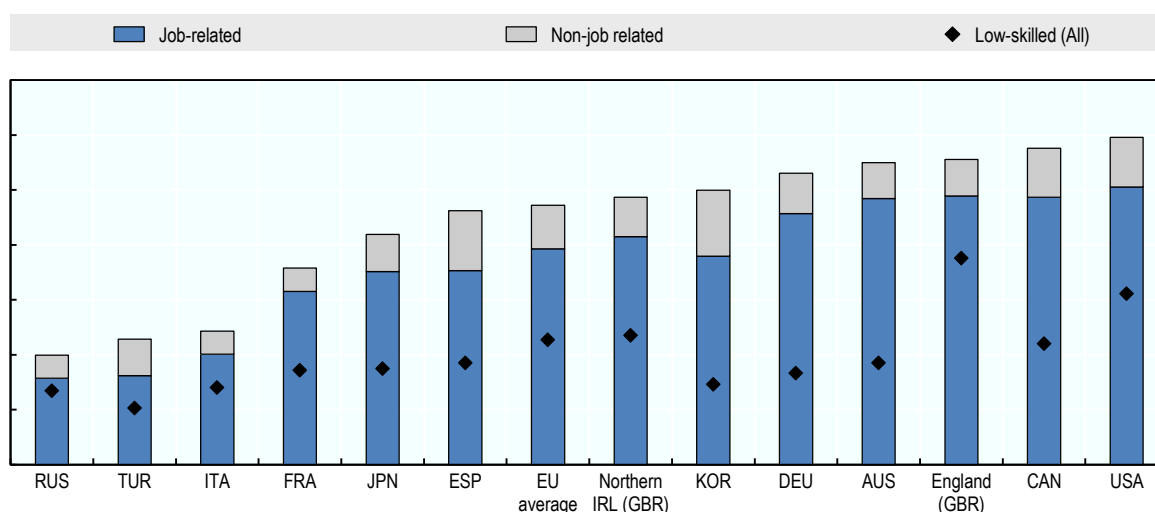
than among the high-skilled, so that most life-long learning system tend de facto to reinforce skills disparities observed when people leave education (Figure 3).

Specifically, policies aiming at improving training opportunities should focus on:

- **increasing and promoting the benefits of adult learning;**
- **helping individuals and firms overcome any financial and non-financial constraints they might face;**
- **helping individuals to make good vocational education and training choices by providing high-quality information, advice and guidance;**
- **fostering stronger business-education partnerships which ensure that training programmes are well aligned with the needs of employers.**

Such efforts should focus in particular on the low-skilled as well as SMEs.

**Figure 3. Incidence of training among adults, by skill level**



*Note:* Percentage of adults who participated in adult education and training during year prior to the survey. EU average refers to the unweighted average of training incidence in the 19 EU countries covered by the Survey of Adult Skills PIAAC.

*Source:* Survey of Adult Skills (PIAAC), 2012, 2015.

Training policies aiming at supporting the less educated should target those with low skills. The returns to training are unevenly distributed, with lower returns for low-educated workers. Proven approaches to target the low-skilled encompass basic skills teaching, e-learning, and contextualisation and embedding, especially in the workplace.

Structural changes of labour markets make lifelong learning essential and require new approaches to update skills in order to sustain career and wage growth for workers in mid-career, especially those who lack skills that are critical in today's labour market, such as ICT skills. Compared to workers who can only perform the most basic computer functions, those with more advanced ICT skills are paid 27% more, on average (OECD, 2016b). Future skills challenges will require a significant upscaling of adult learning opportunities as well as the development of new tools for incentivising skills investments.

A prominent challenge posed by the rise in non-standard forms of work pertains to the **portability of training rights** between employers, for instance, by creating and subsidising personal training accounts or promoting lifelong training rights. Such accounts provide individuals with a training subsidy that gives them more responsibility and control, allowing

for a better match between individual needs and appropriate training (OECD, 2017e). Examples from countries where adult learning is more prominent (such as Northern Europe countries) highlight the importance of the combination of attractive financial incentives for learners and employers, and a greater willingness to collaborate with unions on such initiatives (OECD, 2017e).

**Addressing skills mismatches** is also important, because about one-third of workers in OECD countries are not having a job matching their skills (OECD, 2013b), while a majority of them are under-skilled. Employers need to work with education and training institutions to ensure the provision of relevant skills, provide on-the-job training to facilitate the upgrading and adaptation of skills, and adopt forms of work organisation that make the most of existing skills. Local and national partnerships should be facilitated to reduce policy silos and bring social partners together with training organisations and other intermediaries to design strategies that seek to improve the adaptability of workplaces.

The relevance of skills formation can also be improved by having in place robust systems and **tools for assessing and anticipating skills needs**. Combining foresight and forecast exercises may help to improve the quality of forward-looking exercises. Foresight exercises rely upon consultations with stakeholders and experts to build scenarios about how the supply and demand dynamics of skills might change in the future. Data on skills needs should also be widely disseminated, both to policy makers and to individuals making human capital investment decisions.

## 6. Prevent labour market exclusion and protect against labour market risks

Preventing unemployment is the safer road to avoid its long lasting impact on career and skills. Some policy tools can contribute to prevent unemployment spells and job displacement. They must be paired with early intervention measures preventing the unemployment spell to spread in time. Proactive measures, which can begin during the notice period before the layoff occurs, can ensure a smoother transition in case of job displacement (OECD, 2018b). Mechanisms anticipating labour-market shocks, such as forecasting economic and labour-market trends and forward-looking management of skills and jobs, can potentially prevent some mass layoffs and plant closures in the first place, whilst improving the way firms adapt to change.

Effective **active labour market policies**, implemented within a mutual obligations framework of rights and duties, are instrumental in integrating jobseekers into good-quality employment and preventing unemployment spells to hamper future mobility. Policies to promote job-search are important to limit the long-term impact of unemployment on income trajectories. The *OECD Framework for Activation Strategies* focuses on the best ways to connect people with jobs (OECD, 2015b) by combining measures for the *motivation* of jobseekers to search actively and accept suitable jobs, *opportunities* (e.g. job-search assistance, direct referrals, subsidised employment) and interventions to increase the *employability* of the least employable (e.g. training and work-experience programmes). For hard-to-place workers, the provision of these services requires intensive counselling and skillful case management, whose effectiveness is typically enhanced by low staff caseload. In order to cope with scarce resources, effective profiling tools must therefore be used sufficiently early in the jobless spell as a way to efficiently allocate jobseekers to less or more intensive service streams.

**Profiling tools** play a key role for giving hard-to-place unemployed better opportunities to participate in the labour market and to move up, and they are now used in many countries (OECD, 2015b). **Intensive counselling interviews** during the unemployment spell are instrumental to detect opportunities to increase or update jobseekers' skills, review resumes, provide advice on job-search strategies or interview techniques and refer jobseekers to open vacancies.

## 7. New forms of employment

The transformation of economies resulting from technological progress, demographic change and globalisation requires that workers remain protected against labour market risks in a world where non-standard forms of work may increase. This includes ensuring that everybody has access to social protection and is covered by basic labour market regulations. Non-standard workers often have limited or no access to certain forms of social protection, such as workplace accident and unemployment insurance.

Policy solutions do exist across OECD countries – non-standard workers can be incorporated in “standard” social protection systems, or social protection systems could be reformed to either become more individualised or more universal (OECD, 2018c). Possible approaches for extending social protection coverage include: creating new, specially-designed benefit schemes for unemployment, pension, accidents, etc. or expanding the role of non-contributory schemes. Tying social protection entitlements to the individual, instead of the job is a possible way to adapt to mobility between jobs and sectors. A few OECD countries are currently planning to introduce “individual activity accounts” that collect entitlements at the individual level, and aim to provide individuals with more choice as to how/when they want to use their accumulated funds.

**Untying social protection from the employment relationship** – that is, defining individual entitlements to tax-financed benefits – would remove coverage gaps, as well as the necessity of tracking entitlements across jobs and over the lifecycle. A more radical solution currently discussed in some OECD countries would be to introduce a universal basic income. Simulations suggest however that it is unlikely that such scheme could provide effective protection to all individuals without significantly raising fiscal pressure or making some people worse off. A gradual move towards greater universality may nevertheless be desirable in countries where poorer population groups receive relatively small shares of overall benefit expenditures. Another alternative would be to keep mild eligibility conditions in place or have durations of basic income payments capped. A further option could be to introduce it gradually to different groups, such as future cohorts of young adults (OECD, 2017c).

## 8. Enhancing job quality in emerging economies

The main issue for emerging economies is not the lack of jobs, as such, since open unemployment tends to be low. Rather, it is the lack of quality jobs that raises the greatest concerns. This partly reflects the inadequacy of social security, which pushes workers into subsistence-level occupations.

Emerging economies perform worse than OECD countries in all three dimensions of earnings quality (a combination of average earnings and inequality); labour market security (risk of unemployment and risk of extremely low pay) and the quality of the working environment (measured as the incidence of job strain or very long working hours).

Earnings quality is generally lower in emerging economies compared with OECD countries. This difference is due to both a wide gap in average earnings and considerably higher levels of inequality. Labour market insecurity due to unemployment is similar to the OECD average for most emerging economies. However, the risk of falling into extreme low pay while employed represents a second significant source of insecurity. Overall labour market insecurity tends to be higher in emerging economies than in more developed economies. The quality of the working environment is generally lower in emerging economies compared with the OECD. For instance, the incidence of working very long hours is remarkably high in many Emerging economies.

**Youths and low-skilled and informal** workers typically hold the poorest quality jobs in Emerging economies. They tend to experience poor performance in terms of both job quantity (i.e. low employment rates) and job quality (i.e. lower earnings quality, higher insecurity and

lower quality of the working environment, as captured by working long hours). Women face some clear disadvantages. Sizeable gender gaps exist for both employment rates and earnings quality. Women also face higher labour market insecurity, as facing a greater risk of extreme low pay, but are not exposed to a significantly higher risk of unemployment.

**Informal employment is a crucial challenge** to address in Emerging economies. Workers with informal jobs tend to do worse on all dimensions of job quality: informal jobs display lower earnings quality, higher insecurity and lower quality of the working environment (as captured by a higher incidence of long hours). In addition, informal employment is not a stepping stone towards better jobs (OECD, 2015b). Most outflows from informal jobs are to unemployment and inactivity, rather than to formal employment. In particular, evidence suggests that starting a career with an informal job may have negative consequences for future labour market prospects.

From a policy perspective, the experience of the best performing OECD countries shows that high job quality can be coupled with high employment rates. Thus, measures to improve job quality should not be viewed as a necessary drag on job creation. Policies to foster high quality jobs in emerging economies can be summarised as follows (OECD 2015b):

**More effective social protection systems and labour laws to enhance the quality of existing jobs. Among the most important policy objectives are the development of adequate and effective social protection systems (e.g. unemployment compensation, social assistance programmes, such as cash transfers, and health care benefits) and the promotion of effective labour laws. In designing social protection schemes, an important challenge is to ensure an adequate balance between workers' protection and work incentives. The latter encompass incentives to participate and, crucially, to choose formal over informal employment. In the context of a large informal economy and often weak enforcement, another important area for policy action is improving the effectiveness of labour laws in protecting workers (e.g. working-time regulations, health and safety legislation, employment protection legislation).**

**It is important to assist workers to find high quality jobs early in their careers.**

**Given the possible deep scars that bad jobs can leave on future careers, it is important to help workers get onto a good career path early in their working lives. This is particularly important for low-skilled workers, who face the highest risk of being trapped in undesirable jobs with limited career prospects. Policy interventions in this area are very diverse and include a strengthened academic and vocational education, quality training and apprenticeship programmes, as well as carefully designed active labour market programmes.**

**Policies to curb informality can reduce the incidence of low quality jobs. Policy interventions to reduce informality should follow a comprehensive approach that rests on three pillars: increasing the benefits of formality, decreasing the costs of formalisation and improving enforcement methods.**

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