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## Designing Good Labour Market Institutions: How to Reconcile Flexibility, Productivity and Security?

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## ABSTRACT

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# Designing Good Labour Market Institutions: How to Reconcile Flexibility, Productivity and Security?

The world of work is in constant change. Demographic shifts, technological innovation, institutional reforms and global economic integration affect the way people work. Technological innovations have a major impact on occupations and industries, changing the ways economies in different world regions, in both developed and developing countries, work along with new division of labour that are facilitated by global economic integration. This paper is based on the joint work within the International Panel on Social Progress. It highlights three main areas of attention: a) skill formation, d) the challenges to collective bargaining, and e) social protection and labour market policies. Based on an assessment of the existing evidence, the paper suggests some policy principles and concrete policy options that might further those objectives, not ignoring some tensions that might exist between flexibility and security in the different labour markets. The ultimate direction of reforms in line with an idea of social progress lies in institutional arrangements that facilitate the reconciliation of flexibility and productivity with access to decent jobs and social protection. We argue that distinct policy options are available that can be implemented more globally in order to achieve these goals simultaneously.

**JEL Classification:** J21, J24, J52, J81

**Keywords:** future of work, industrial relations, skill formation,  
social protection, non-standard work

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## **1 Introduction**

The future of work has received tremendous attention in recent years from scholars, politicians and the general public, fuelled by the rapid transformations of the world of work. Demographic shifts, technological innovation, institutional reforms and global economic integration are all changing the way people work. Technological innovations have a major impact on occupations and industries, changing the ways that economies in different world regions, and in both developed and developing countries, work along with new division of labours that are facilitated by global economic integration. From a global perspective, there is a growing diversity in terms of job types ranging from permanent formal employment to different forms of nonstandard work and informality. This diversity is associated with growing job and economic insecurity on the part of individual workers. The extent to which precarious work translates into precarious lives depends on national and international labour market institutions and policies. In order to strike a new balance between flexibility for employers and security for workers, we need to address core policy areas such as education, training at different stages of life, collective bargaining and wage setting, and also the role of labour market regulation, social protection and active labour market policies. All of these key areas need to be examined at global, national, regional and sectoral levels.

The growing interest in the future of work is reflected in recent publications (e.g., OECD 2015; 2019; ILO 2019). There are also many ongoing international discourses and global initiatives such as the employment aspects in Goal 8 of the UN's 2030 Sustainable Development Goals (SDG) and the related ILO and EU Decent Work agendas. These writings have identified a large number of topics and related policies that are likely to become increasingly important as countries, firms and workers seek to adapt to the profound changes in work that are occurring throughout the world.

In this paper, we address three key issues related to the changing nature of work: a) skill formation, b) the contribution of and challenges to collective bargaining, and c) social protection and labour market policies. We summarize the existing evidence on these three areas and identify policy principles and concrete options that are likely to ease tensions that might exist between flexibility and security in different labour markets. The ultimate direction of reforms in line with an idea of social progress lies in institutional arrangements that facilitate the reconciliation of flexibility and productivity with access to decent jobs and social protection. We argue that distinct policy options are available that can be implemented more globally in order to achieve these goals simultaneously.

## **2 Challenges in the World of Work**

Changing political, social, technological and economic conditions in the last quarter of the twentieth century in all industrial countries prompted governments and employers to seek greater flexibility in their employment systems than was available through the standard employment

relationship, typified by the performance of work on a pre-set schedule at the employer's place of business, under the employer's control and direction, and involving a shared expectation of continued employment assuming satisfactory employee performance and often, but not always, full-time employment. (Cappelli 1999; Kalleberg 2011; 2018). Growing international and price competition and more fluid capital markets put pressure on firms to maximize profitability and respond to rapidly changing consumer tastes and preferences. Rapidly proliferating computer-based technologies and communication and information systems made quick adaptation to changing market opportunities both possible and necessary. Corporations outsourced many of their functions, leading to the “fissuring” of organizations and the proliferation of subcontracting relationships (Weil 2014). The expansion of the service sector made it necessary for some employers to staff their organizations on a 24/7 basis. The spread of AI and ITC eliminated some jobs but created others (e.g., OECD 2019).

Together, these changes have made fixed costs and overhead obligations less viable for employers and led to the rise of new normative forms of “nonstandard” work arrangements. We can distinguish between employment relations and work relations in which there is no employer (e.g., self-employment, independent contracting, freelancing). These forms of work are of course not new, but they are increasingly used in ways that reduce the permanent workforce and shift the risks of work to workers (as well as reduce worker's capacity for organization. The ILO (2015; 2016) reports that 75% of all workers in countries for which data are available (covering 84% of the global workforce) are employed on temporary or short-term contracts, in informal jobs, are “own account” workers (who are technically self-employed but do not have any employees) or have unpaid family jobs. Since 1985, a large and growing proportion of all employment across OECD countries is in nonstandard employment relations (OECD 2015).

We focus on three central issues related to the future of work that we will elaborate on in subsequent sections. First, while countries generally liberalized their labour markets in response to the kinds of macro changes note above, the form and extent of the transformation of work arrangements are intimately related to the weakening of labour relative to employers reflected in drops in collective bargaining coverage and union density. This has contributed to the shifting of the risks of work from employers and the government to workers.

Second, the likelihood that people are able to advance their careers depends greatly on their human capital, which has become more essential in order to participate successfully in labour markets characterized by jobs that require high levels of skill. Moreover, the skills required are likely to change over time, as technological changes make some jobs obsolete and create demands for new ones. Since employers are less likely to provide training for these skills given the more transactional nature of work arrangements, workers must look elsewhere for such training throughout their adult lives.

Third, the shifting of risks from employers to workers creates insecurity for workers at the same time as it provides employers with greater flexibility. But the extent to which liberalization of labour markets affects workers' job insecurity depends considerably on a country's active labour market policies and educational systems, while economic insecurity depends considerably on the social protections (e.g., health insurance provision, unemployment benefits) that are available to workers regardless of their human capital. This highlights the importance of linking a consideration of social welfare and labour law protections to the changes occurring in the future of work.

### **3 Skill formation**

The recent wave of technological change has raised the concern on the skill needed to the future. As expected, technological innovation leads to changes in the occupational structure in the labour market and to changes in the demand of abilities and skills. The pervasive application of the technology of information, robots and computers, artificial intelligence, etc., in the production of goods and services has led to dramatic changes in the labour market and thus raised new challenges to the process of skill formation.

Autor (2015) and Autor et. al. (2003) has documented these changes. They argue that these new technologies changed the structure of skill requirements. Workers perform several tasks in a given job and the current technological change has replaced routine tasks and increased the requirement of non-routine tasks. Routine tasks are explicit, repetitive and codified tasks. Several mid-skilled and manual activities have these characteristics. On the other hand, non-routine tasks are of two types: abstract and manual. Nonroutine abstract tasks are the ones in general performed by professional, technical and managerial occupations. They involve problem-solving capabilities, intuition and creativity; and requires inductive reasoning, communication ability and expert mastery. Non-routine manual tasks are the ones that requires situational adaptability and in-person interactions in general needed in several service occupations.

These new technologies, by substitution, has decreased the demand for routine tasks and, by complementarity, increased the demand for non-routine tasks. How this process might affect the overall employment prospects for the workforce in the near future hinges on several forces at play simultaneously. On the one hand, indeed, automation and artificial intelligence displaces workers in tasks that they are substitutes and leads to a decrease in the labour demand. Acemoglu and Restrepo (2017), for instance, find employment and wage decline in areas most exposed to the introduction of robots in manufacturing.

On the other hand, there are countervailing forces that mitigate the negative impact on labour demand. Acemoglu and Restrepo (2018) classifies these forces into the following categories: (i) productive effect: new technologies and automation reduces the cost of production of some goods

and services and thus the prices of these goods and services. The demand for these goods and services can increase and thus increase the labour demand in these sectors. This is the well-known scale effect. Moreover, households have more income to spend and thus there may be a greater demand for all goods and services including those not experiencing technological changes. The labour demand in these sectors might increase as well; (ii) capital accumulation: automation and new technologies lead to more capital accumulation at the extensive margin that may lead to higher labour demand; (iii) deepening of automation: Automation can lead to further automation in sector where they are already in place. This augments the productivity of capital and then raise the labour demand.

These countervailing forces may or not be sufficient to counterbalance the displacement effect of automation. As automation and new technologies substitute capital for tasks previously performed by labour, the set of remaining labour tasks reduces. If there is no increase in the set of labour tasks, the labour share of income might decrease. However, if new tasks are created there might be an overall increase in the labour demand. There is some evidence of that. Acemoglu and Restrepo (2016) shows that half of the employment growth between 1980 and 2010 in the US are due to the introduction of new tasks.

New tasks will probably be the key variable to determine the employment prospect of the near future and will pose several challenges for active labour market and skill formation policies. First, in the short run, the reallocation of current labour between sectors and tasks will be challenged by potential mismatches between skills and technologies. It will require the use of new forms of workers retraining and requalification. Second, in the long run, it will require changes in the curriculum and content of the formal education and professional and vocational education. Most of the new tasks to be created are unknown and the skills required for them are not yet determined. Indeed, firms are already facing these issues. For instance, in a 2017 survey from a representative sample of establishments in the food, information technology, and health industries in Sao Paulo state, Brazil, 41% of them declared having strong difficulties to fill in a vacancy due to lack of adequate competences of potential candidates. Among the most needed competences were social-behavioral skills and capacity to learn new ideas, methods or techniques (FGV EESP Clear (2018)).

All these issues bring to the forefront the new roles of human capital policies. Human capital formation has been central to the debate on the development of individual potentials and their performance in the labour market, and more broadly, on the success of societies to improve the overall wellbeing of their citizens. Human capital formation is the process of investment and accumulation of a set of skills, abilities and productivity characteristics that an individual acquire along her life cycle (Schultz (1961) and Becker (1962)). The human capital policies will be crucial to the prospects of employment the new world of labour. They will have to address several aspects of the skill formation that are demanded.



### *The technology of the life cycle skill formation*

Skill formation is a life cycle process. Skills are multidimensional and their acquisitions occur in several periods from childhood to adulthood. Abilities attained during early childhood are crucial to the development of lifetime skills of an individual. Cunha and Heckman (2007) argue that the process of skill formation exhibits two properties, self-productivity and complementarity. Self-productivity is the property that a skill obtained in one stage of life augments the subsequent attainment of other skills later in life. Complementarity is the property that a skill attained in one period increases the productivity of the human capital investment in future periods. Thus self-productivity and complementarity generate multiplier effects in skill formation. Skill investments at different stages boost each other and earlier investment must be complemented by later investment in order for the early investment to be productive.

The technology of skill formation has a dynamic implication for how human capital investment should be distributed across the life cycle. Skills are multidimensional and both cognitive and socio-emotional abilities are important for a successful adult life. Several studies have documented that cognitive abilities are important determinants of schooling, wages and other socio-economic outcomes in the adult life (Heckman 1995; Murnane, Willett and Levy 1995).

There are also evidences that socio-emotional abilities have important direct effects on adult outcomes. Abilities such as perseverance, motivation, time preference, risk aversion, self-esteem and self-control have direct impacts on schooling as well as on wages and crime behavior (over and above schooling) (Borghans, Duckworth, Heckman and ter Weel 2008; Bowles, Gintis and Osborne 2001; Heckman, Stixrud and Urzua 2006).

Ability gaps across individuals of different family and economic background appear at early ages and remains later in life (Cunha and Heckman 2007). There are evidences, however, that appropriate early childhood interventions can be very effective in reducing or even closing the ability gaps across children of different socio-economic backgrounds. For instance, the Perry Preschool Program, an early childhood program at Chicago targeted at disadvantaged children and which was evaluated experimentally, has significant impacts on several dimensions in adult life such as cognitive tests, employment, earnings, crime behavior and others (Heckman et al. 2013 ).

### *Higher Education*

The changing nature of the jobs due to the technological changes has imposed new demands and roles for the higher education. First, the new technology has increased the demand for higher-order general cognitive skills – such as complex problem-solving and critical thinking – that are in general acquired in higher education. Second, workers are expected to be engaged in a lifelong learning process. Universities, colleges, and higher education institutions are the natural places to meet this growing demand through its varied and flexible offerings of courses and trainings,

including online courses open learning systems. Finally, universities with their research activities can become an important engine of innovation themselves (World Bank (2019)).

### ***Vocational Education and Training***

The current systems of supply of vocational education and training in the world not seem to be prepared to this new world. Vocational education and training (VET) seeks to provide learning of practical experience and knowledge useful in the labour market. Countries differ significantly on the relative amount of investment in general and vocational education. Additionally, VET systems vary significantly across countries. Some countries rely heavily on general education such as Canada and others rely more on VET such as Austria (Eichhorst *et al.* (2015)).

Several studies that evaluated experimentally the impact of VET programs around the world have not find significant impact on employment in general (Attanasio *et al.* (2011 and 2017), Ibarrran *et al.* (2014), Hirshleifer *et al.* (2016), Blattman *et al.* (2014), Camargo *et al.* (2018)). However, some systematic results shed some lights on the debate of training programs. First, several studies find positive impact on women employment and earnings. It suggests that vocational education helps mitigate the gender gap on labour market, particularly for the younger workers. Second, some of the programs that have impact on labour market outcomes are programs with social-emotional labour market skill-training modules. It suggests that these contents may be obtained through training and are important for labour market results.

There are two concerns about vocational education. First, there is a broader concern about the right mix of general and specific knowledge a young individual should acquire. General skills that includes a minimum amount of culture that allows individuals to become an engaged good citizen are desired. Too early entry in the vocational track may hamper the acquisition of this type of general skills. Second, the rapid changing technologies increases the risks skill obsolescence. The challenge is to design a training system that allows individuals be retrained frequently.

The new technologies and automation poses a challenge for governments and the firms. How select and train the workers, what contents to train, etc. The answer to these questions will depend on the skill requirements of the new tasks that are emerging and will emerge. However, one ability is already known to be crucial: adaptability.

### ***Life Long Learning***

What about displaced adult workers? They are the ones that suffer most from the technological changes. They must be retrained and reallocated into the new tasks. The role of the active labour market will be to ensure full access to these opportunities and create an environment of mobility and low cost transition from one old occupation to a new good quality one.

First and foremost, adult learning programs must be in place and accessible for all. There must be an adult learning system that helps the worker to walk through the labour market along her working lifecycle. This system should encompass trainings from basic skill such as adult literacy to

reskilling and improving adaptability of older workers to entrepreneurship skills (World Bank, 2019).

Second, these programs have to be well designed to tackle the specificities of adult learning. The contents, methodologies and pedagogies have to be adequate for the adult learner. Also, they have to be integrated into everyday life so that the adult learner can have meaningful lessons and flexible schedules, modules and delivery channels (e.g., in class, mobile, on the job, etc.).

Third, the participation in the adult learning programs cannot be too costly for the individual and for the society. Adults face time and financial constraints. Financial incentives for training take-ups must be developed such as subsidies, wage replacement schemes, etc.

And finally, the programs must be linked as close as possible to employment opportunities. For that, there is the challenge to match the worker skills with the skills required by the tasks from the use of new technologies and occupations. Designing incentive systems that link worker efforts to acquire those skills with firms in need of new tasks can be one policy option. Adapting subsidies and voucher schemes, for instance, for on the job training programs and new curriculum programs based on social behavioural and complex task trainings can be promising.

#### **4 Collective Bargaining**

While it may be impossible to quantify the contribution of ‘good’ industrial relations, there is a ‘common sense’ view of what its contributing features are. Firstly, to be responsive to the needs and interests of its principal actors, workers and their unions, managers, firms and associations that represent them, while showing responsibility for the needs and interests of society. Secondly, to accommodate technological, structural or demographic change and be open to innovation. Thirdly, to perform these tasks in a context marred by diverse and often antagonistic interests, and do so without undue levels of conflict. Fourthly, to assure that the fruits of production and the costs and benefits of change are fairly shared. Preferably these qualities show at both micro- and macro-levels, in single firms and entire economies.

The key institution in all this is collective bargaining, understood as a process of negotiation between trade unions and employers or employers’ organizations. Collective bargaining fulfils various functions for workers and management: *protection* (ensuring adequate pay, establishing limits on daily and weekly working time, etcetera), *voice* (participation in the process of designing and controlling working conditions), *distribution* (securing a fair share of the benefits of training, technological change and productivity growth) and *conflict management* (resolving disputes through joint rules). Collective bargaining can work for few or many, be exclusive (leave out small firms, temporary workers or those classified as self-employed), or be designed inclusive.

Compared with the ideal worlds of planning or market, it is “muddled and untidy” and “judged by the tenets of any rigid doctrine of social organization collective bargaining has little to commend

it, for the reason that its principal virtue lies in its own lack of rigidity” (Flanders 1954: 325). While balancing the unequal power resources of individual workers and employers, collective bargaining “does not escape from the impersonal influences of the market, (but) is by no means their slave” (ibid, 318). Against legal measures, collective agreements have the advantages of *adaptability*, allowing for renegotiation in case of changing circumstances, *customization*, reflecting the particular conditions of an industry, occupation or firm, and *commitment* based on joint participation in negotiations. Together with participation in management decision making and social dialogue in the enterprise, it is the closest thing to democracy in the workplace. Together with the right of workers to freely associate in trade unions of their choice, collective bargaining is recognized as a fundamental right (UN and ILO statutes, and ILO conventions 87 of 1948 and 96 of 1949). Governments are called upon to do what they can to uphold these rights.

### **Centralization and the rise of collective bargaining**

Since its inception, some 150 years ago, collective bargaining has become in most industrial economies a key institution for the (self-) regulation of labour markets. Until 1914, the history of collective bargaining was largely the history of trade unionism and collective bargaining did develop only in industries and occupations with strong trade unions, especially among skilled manual workers (Flanders 1954). This changed when governments, motivated by wartime shortages, industrial unrest and changing public opinion, extended collective bargaining to workers and industries unable to establish permanent organization on their own account, and provided for mechanism of arbitration and mediation. The breakthrough came with the shift from *local* to *national* bargaining, and from *enterprise* to *industry* bargaining, based on negotiations not with single employers but with employers’ associations. In Britain, this happened before and during the First World War, in Germany in the turmoil following that war, in many more countries during the 1930s. Further expansion occurred during and after the Second World War. Following the early examples of New Zealand and Australia around the turn of the century, Germany in 1918 and South Africa in 1922, under the pressure of depression and war many countries allowed Labour Ministers or Courts to extend collective agreements to all employers and employees in a sector or occupation (Hamburger 1939).

In 1960, the *median* bargaining coverage rate in the OECD, calculated over 18 member states, was 70% of employed workers, rising to 76% in 1980 (24 member states). In 1980 there were just four OECD countries with a coverage rate below 50 percent—the US (25%), Canada (37%), Japan (31%) and Turkey (30%). These four countries had in common that collective bargaining was mainly conducted in single firms. In Western Europe collective bargaining typically occurred on a national basis, sustained by sectoral employers’ associations and trade unions. In North America, when employers practiced multi-employer bargaining it was mostly on a local basis, influenced by the regional concentration of industries (cars, steel, coal mining). In New Zealand and Australia employers’ organizations have been involved in arbitration and collective bargaining at the national

and sectoral level until their role as bargaining agent was (self-)reduced in the 1990s. In Japan, post-war industrial relations became based upon enterprise unionism, although the central employers' and union confederation maintained a coordinating role in wage setting.

### **Decentralisation**

Various authors have identified the early 1980s as the period when, beginning in the US, larger firms, confronted with more global competition, made a different *strategic choice*, prioritizing a decentralized framework for decision making over wages, working conditions and work organization (Kochan, Katz and McKersy 1986). Decentralisation, with more space for bargaining at enterprise level, first over working hours and later over wages and pay schemes, spread to Europe and became the main trend in industrial relations (Katz 1993). In Britain, New Zealand and Australia, multi-employer bargaining collapsed under the pressure of conservative governments which held that collective bargaining, and in particular any bargaining that allows solidarity of unions and workers across firms, distorts the market. In this *neoliberal* model, wage determination must be decentralized to the enterprise level with minimal influence of wider institutional forces aside from basic statutory protection based on individual worker rights (Colvin and Darbishire 2013). In South Korea, in Turkey after the military coup of 1980, Mexico after 1982 and in post-Pinochet Chile the political and legal framework was reset for enterprise bargaining. In Israel, where the last national agreement was signed in 1987, the influence of national union and employers' federations, and sectoral agreements, has been declining (Mundlak 2007). In the post-Communist countries of Central and Eastern Europe a legal framework for multi-employer bargaining was created, but despite support from the European Union, the ILO and unions from Western Europe, sectoral collective bargaining has remained exceptional, unstable and fragmented (Bohle and Greskovic 2012).

In sum, most of today's 38 OECD member states are now stuck with a model of *enterprise wage bargaining*, with *limited or no coordination* between firms and *low bargaining coverage rates*. Only in continental Western Europe, trade unions and employers' organizations have managed to retain, and in some cases reform, the post-war structure of sectoral and national collective bargaining, and articulate enterprise or individual bargaining within sectoral agreements with broad coverage. The *median* bargaining coverage rate in the OECD (38 countries) has decreased to 30 percent in 2016. There are still 12 countries above 70%; in 14 countries bargaining coverage is (far) below 20%.

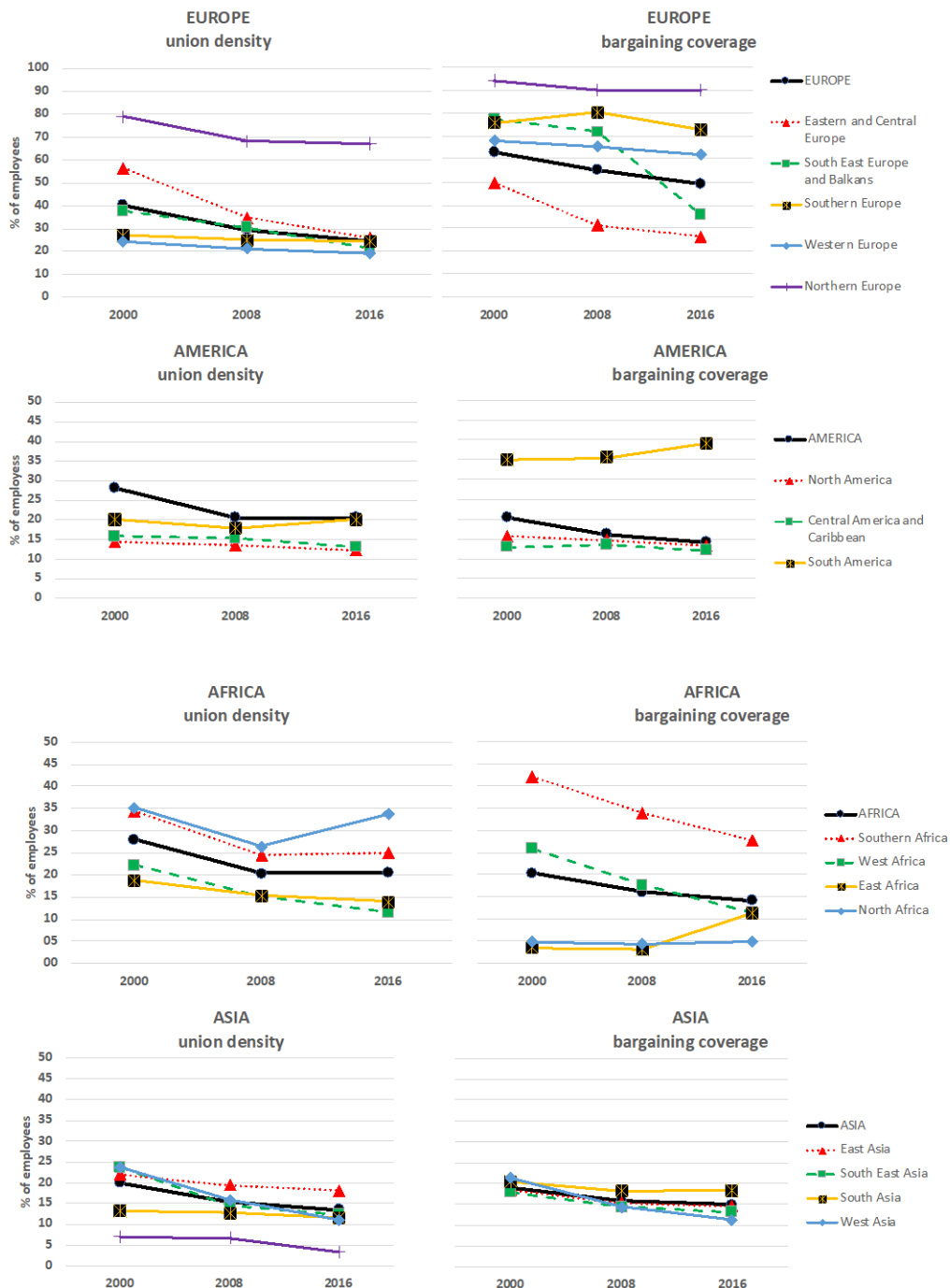
### **Globalisation and the weakness of collective bargaining**

The outsourcing of manufacturing in global production chains has created millions of jobs in the Global South, but not produced an upsurge in unionization and collective bargaining in emergent and developing countries, and it has put more pressure on trade unions in developed countries. Most emerging and developing countries have settled for a model of enterprise bargaining or it has

been imposed upon them as part of the *structural adjustment programs* negotiated with the IMF and the World Bank. The result is very little collective bargaining.

The ILO (2018) estimates that worldwide 61% of all jobs are informal, varying from 86% in Africa to 25% in Europe and Central Asia. Nearly none of the workers in these jobs has access to collective bargaining, in spite of union efforts to open their ranks to informal workers (Visser 2019a). The stylized data in Figure 1, for the years (closest to) 2000, 2008 and 2016, show the union density and bargaining coverage rates for formally registered workers. In Africa, the Americas, and Asia, about 15% of these formal workers have access to collective bargaining, in Europe about 50%. Outside Europe, there are just two world regions with higher coverage rates, both with still existing structures for multi-employer bargaining: South America (Argentina, Brazil, Uruguay) and Southern Africa, although sectoral bargaining is under great strain, extension is contested, and coverage rates have dropped (Godfrey 2018). In Europe, the fragility of collective bargaining shows most clearly in Central and Southern Eastern Europe.

**Figure 1: Stylized union density and bargaining coverage rates, 18 world regions**



Source: calculated from IRData and ICTWSS 6.0 (Visser 2019b)

The shrinking of bargaining coverage corresponds with the decline in union density, a trend that can be observed in nearly all regions. In many regions bargaining coverage rates hardly exceed union density rates or is lower due to the refusal of employers to bargain with trade unions; the absence of multi-employer bargaining and mechanisms for extension; a legal ban on collective

bargaining for public servants; or unions that consider the administration of semi-public benefits rather than collective bargaining as their main task. Clearly, collective bargaining is in trouble, world-wide and even in parts of Europe. A group of authors associated with the European trade union movement titled its recent study the ‘endgame’ for collective bargaining (Müller, Vandaele and Waddington, 2019).

### **Strengthening of collective bargaining**

The revitalization of collective bargaining requires engagement, policy changes and cooperation of four key actors: trade unions, employers (associations), governments and international organizations.

Collective bargaining depends upon the ability of *trade unions* to organize workers, express workers’ demands, wield power to make employers negotiate and commit to the results. Where unions have weakened to the extent that their representation and credibility is questioned, collective bargaining is threatened. Whether trade unions can stop current trends of membership decline, especially among young people, and whether they can hold on to current members and expand into new terrain (small firms, temporary and own-account workers, platform economy), are therefore critical issues also for the future of collective bargaining.

The next critical issue is whether multi-employer bargaining structures can be maintained or restored. There are five possible reasons why *employers* would want to negotiate together: offering collective resistance against the union tactic of forcing wage concessions by picking off one firm at the time (‘whipsawing’); creating a level playing field by taking wages out of competition; keeping distributional conflicts and unions away from the firm; and, especially for smaller and medium-sized firms, saving on transaction costs. Multi-employer agreements, moreover, offer a template for joint commitments and funding for training, pension schemes and social insurance. For all or some of these reasons, employers have in the past created organizations of their own and often they rather than the unions have been the centralizing force in collective bargaining (Sisson 1987; Swenson 1991). Given weaker unions and more sophisticated HRM strategies, some of these motives may have become less compelling. On the other hand, multi-employer agreements may become more attractive, if they offer a baseline for protection and set a framework for additional enterprise bargaining, with adequate conflict-solving instruments. This requires adequate union representation in the firm and guarantees that workers can express their choices on pay and working time packages freely and informed.

This is where the *government* comes in, to assure that bargaining in the firm is supported by adequate union and worker rights regarding representation, social dialogue and information. The goals are to create a more equal power balance, fairness in sharing, and commitment through participation. Actual policies will vary depending on starting conditions and national traditions. We advocate extended rights for workplace representation, union recognition and a duty to



bargain; and the possibility to extend collective agreements under conditions of sufficient representation, guarantees for minority rights and the possibility of appeal (Hayter and Visser 2018). Extension promotes multi-employer bargaining by defending organized employers against competitors who offer sub-standard wages while exploiting vulnerable workers pressed to accept lower wages.

Finally, *international organizations* must change course. In sharp contrast with the policies at the time of the 1930s crisis, during the crises in the past forty years, governments have been advised to decentralise collective bargaining (Visser 2016). In response to the European jobs crisis, the OECD (1994) advocated enterprise bargaining, lowering the minimum wage and phasing out of extension. During the 2008 recession and in following years, the European Union advised national policy makers to limit wage setting to the enterprise level (Bongelli 2018). IMF economists Duval and Loungani (2019), discussing IMF interventions in Greece, South Africa, Argentina, Chile, Philippines, Poland, Romania, and Serbia, conclude that in all cases the advice had been “to reduce the extent of centralisation of collective bargaining” (p.30).

The OECD has second thoughts and revised its Jobs Strategy. In 2018 the OECD found that the weakening of multi-employer bargaining may have destroyed the institutional levers needed to share-out the productivity gains in the technologically most advanced sectors, firms and regions, and this may be part of the explanation why, despite the recovery and record-high employment rates, in the decade since the Great Recession of 2008-9 real wages have stagnated for many and fallen for some workers in many member states (OECD 2018: ch.1). In the 2019 Employment Outlook General Secretary Guerra writes that “many people and communities have been left behind by globalisation and a digital divide persists in access to new technologies – resulting in inequalities along age, gender, and socio-economic lines” and concludes that “greater focus must also be placed on collective bargaining and social dialogue, both of which can complement government efforts to make labour markets more adaptable, secure and inclusive (OECD 2019:1-2).” IMF economists Jaumotte and Buitron (2015) have linked rising incomes inequality to the weakening of unions and in a recent policy document on “Designing Labour Market Institutions in Emerging Market and Developing Economies”, their colleagues Duval and Loungani cautiously plead for a strengthening of collective bargaining, even recentralisation if conditions of representation, trust and coordination are met. Alas, these papers “do not necessarily express the views of the IMF executive board and management”, hopefully they are preparing the ground for a most-wanted policy change.

## **4 Social protection and legislated labour market regulation**

Besides collective bargaining and wage setting as well as human capital policies that also provide elements of protection, legislated regulation of employment protection, unemployment benefits and active reemployment provide additional elements of security, but they also influence the flexibility of labour markets fundamentally. The main challenge, that has triggered both long-standing political and academic debates, is the search for the right balance of security and flexibility. Reliable security in terms of employment stability, income protection and reemployment chances is important to make flexible, open labour markets economically viable, societally acceptable and politically sustainable. Yet, each of these components is controversial, and policy debates have resulted in diverse reforms along these lines. What is the status of institutional development in the different areas, and what would be needed to ensure better institutions in employment protection, benefit systems and active labour market policies?

### **Reforming employment protection**

Looking at legislated employment protection first, many labour markets in industrialized and emerging economies exhibit some extent of labour market dualisms, driven and deepened by differential levels of regulation across types of employment. Employment protection and long-term job security for some, mostly based on legislated dismissal protection, sometimes with additional or substitutive role of bargained regulation typically goes hand in hand with protection gaps to the detriment of workers in non-standard employment, i.e. fixed-term contracts, temporary agency work, on-call work or different forms of self-employment, including economically dependent own-account work, contracts for labour and platform-based activities. Employers face strong incentives to use short-term labour market arrangements (and take them up) under certain conditions, in particular if no specific skill is required, and jobseekers tend to be confined to non-standard jobs particular when trying to (re)enter the labour market, or in vulnerable labour market position. Empirical studies have shown that regulatory duality brings about excessive turnover in the secondary segment of the labour market, associated with adverse working conditions, limited access to training and obstacles to make positive transitions to standard employment. From economic point of view, a lower level of productivity could result (Boeri, Cahuc, and Zylberberg 2015, Eichhorst 2014, Scarpetta 2014).

Hence, this model is not efficient economically, nor fair from a societal point of view, but typically an institutional duality is hard to change given existing politico-economic factors. However, after the crisis, the politico-economic environment changed in many countries, responding to steeply increasing youth unemployment, unsustainable dualisms and external pressure from financial markets and supranational actors (Eichhorst and Marx 2019). In such a situation, some countries have questioned established levels of employment protection and tried to reduce the regulatory

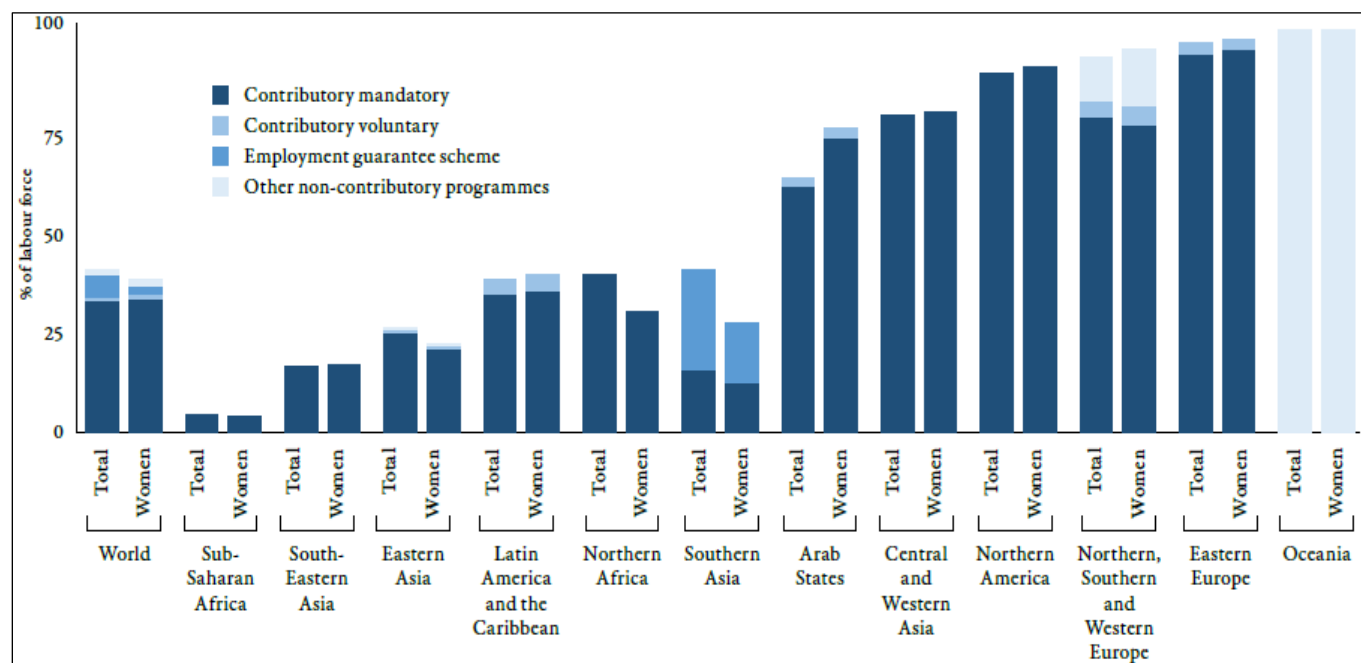
gap between permanent and temporary types of employment. This was done by simplifying dismissal procedures, redefining the notions of fair and unfair dismissals, reducing severance pay entitlements associated with long tenure and replacing reinstatement rules by the principle of severance pay. In some instances, this was complemented by stricter rules and higher costs on non-standard work as well as by incentives to convert fixed-term into open-ended contracts. While some have criticized the deregulatory nature of some of these reforms, there is a potential for a better access to quality jobs under the revised institutional arrangements. However, real effects seem limited and the evidence is mixed so far. It looks like practical details seem important, in particular the perception and application of the post-reform rules by market actors and labour courts. Furthermore, there is a pending issue regarding regulatory duality between temporary and permanent contracts, so that short-term fixed-term contracts are still being used. In the specific context, this might still require a reconfiguration of employment protection and associated incentives, moving towards a more universal labour law, also with respect to taxes, contributions or severance pay. Finally, the training aspect of temporary contracts needs to be strengthened.

### **Accessible and reliable social protection**

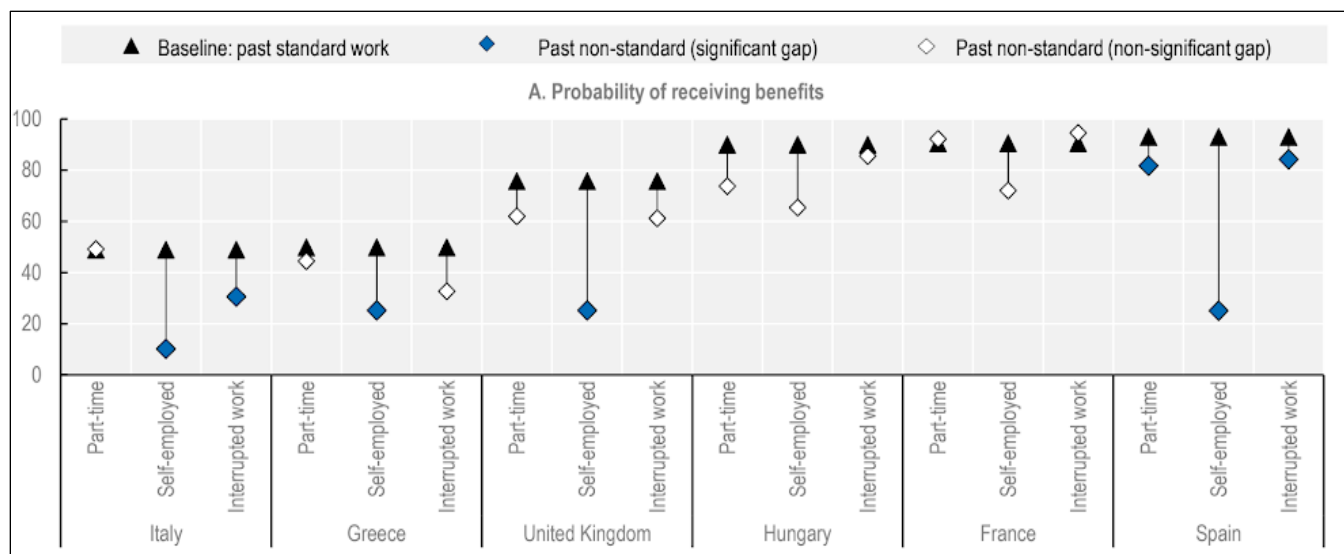
Unemployment benefits, both earnings-related insurance benefits and means-tested income support schemes, play an important role both in stabilising individual income when facing unemployment and as automatic economic stabilisers when a country is hit by a business cycle shock. Yet, not all workers have equal access to these benefits, and in particular those who exhibit the highest risk of unemployment due to non-standard, oftentimes temporary employment face a double disadvantage of employment instability on the one hand and lack of support through the welfare state on the other. These problems also arise with many types of self-employed and informal workers who are not or only marginally attached to social protection systems that were designed to help mostly dependent employees with permanent contracts (OECD 2019). Hence, one main policy challenge is to reduce inequalities in social protection so as to provide reliable and appropriate income replacement for all in the labour force, distinguishing less by type of employment, and creating less regional protection gaps (Figures 2 and 3). This would ensure the full stabilising effect of unemployment benefits and make a flexible, dynamic labour market politically more acceptable. Modernising unemployment in this sense entails a more universal coverage of social insurance catering for income-related benefits, . This is relevant in particular for self-employed and freelance workers as well as those in the grey zone between dependent and self-employed statuses. Further, insurance benefits should be made more accessible to workers with interrupted employment records or frequent changes of contract type or hybrid labour market status forms. Of course, this is also a question of proper funding. A more universal unemployment insurance also requires more universal funding mechanisms that also include income from self-employment and/or potential contributions from clients or online platforms. If multiple types of income are to be taken into account in the calculation of benefits, they would also be included on the contribution side, making the distinction between main and side job obsolete. The second tier

benefit system, minimum income support, is equally important. Here, an appropriate level of support, combined with assistance in getting a job, is the better alternative to proposals to introduce unconditional basic income support. In fact, unconditional benefits would undermine the concept of an integrative labour market and deepen social divides while risking the sustainability of welfare states as we know them.

**Figure 2: Coverage by unemployment benefits in major world regions**



**Source:** ILO, World Social Protection Database, World Social protection Report 2017-19

**Figure 3: Coverage gap of non-standard workers**

**Source:** OECD Employment Outlook 2019

### Targeted active labour market policies

Active labour market policies play a major role in an inclusive labour market setting. First, active labour market policies, if well targeted and effectively administered, it can speed up re-entry into gainful employment. By now, there is a large body of evidence on what works for whom, highlighting in particular the potential for job search assistance, training schemes and hiring benefits, or combinations of these programmes (Card, Kluve and Weber 2010, 2017). Second, following the paradigm of activation, active labour market policies are an important lever to keep in contact with benefit recipients and draw feasible roadmap back to employment. In this sense, linking benefit receipt to active participation in job search and active schemes is still a valid proposition. This combines demanding and enabling elements. Institutionally, this calls for a close link in the administration of benefits and active measures, with particular demands on the case management that needs to assess individual circumstances systematically. Activation that puts too much emphasis on demanding elements, including sanctions, might just lead to short-term, precarious types of labour market attachments, however, large-scale untargeted active labour market programmes are equally problematic.

Unemployment benefits and active labour market policies have a long tradition in developed countries, designing proper benefit systems and ALMP delivery structures is an unsolved issue in many developing countries and emerging economies, in particular when there is a high share of informal workers and self-employed. In the formal sector, employment protection and severance pay often ensure against income losses. Non-contributory schemes can play a role here as can steps

to establish conditional income support schemes that help move to the formal sector (Robalino 2014). On the ALMP side, public works programs can act as a partial replacement for income support in these cases. All in all, a benefit system combined with active labour market policies generates significant demand for fiscal resources as well as administrative capacities to ensure proper delivery.

## **5 Discussion and Conclusions**

All countries are faced with the basic problem of balancing flexibility and productivity for employers and security for workers. This is a difficult problem to manage successfully, as an economic agenda based on competitiveness and growth is often in conflict with a social agenda built on social protections and skill acquisition. To tackle this problem, policies in three general areas are needed: social protections that collectivize risk and help people cope with insecurity; more access to early, formal and adult education and retraining; and labour regulations and laws designed to protect individuals in all types of work arrangements (e.g., Kalleberg 2018). Policies cannot just be designed and assumed to be implemented easily, however. Beyond specific issues regarding the policy areas discussed, politico-economic factors play a major role as the political and institutional capacities to achieve this are not easily available and cannot be taken for granted. Moreover, starting conditions are quite diverse, and national models cannot be taken as benchmarks, certain policies cannot easily be transferred, hence, policies reforms need to be context-specific

We have discussed three key issues related to this set of policies in this paper. First, any attempt to address this problem needs to recognize the unequal balance of power between employers and workers, and address the issue of collective bargaining. Second, the rapidity of technological change and the uncertainty that the new skills required will be provided by firms points to the necessity to provide workers with greater skill certainty. And third, we have outlined some of the needed social protections required in view of the new risks created by dynamic economies.

Our discussion in this paper has suggested a number of observations about these three issues. First, it will not be easy to establish effective collective bargaining in regions and sectors where it is non-existing or to reverse the long-lasting decline in bargaining coverage observed in many countries. Some support must come from the state (e.g., by encouraging negotiated solutions supplementing legal provisions or extending agreements) and from international organisations, but major responsibilities lie with workers and employers. On the one hand, in well-organized sectors collective agreements need to establish a deal on modes of flexibility that reconciles firm and worker interests, and the social partners need to find ways to integrate those workers who currently fall outside their scope or tend to lose from the transformation of work. On the other hand, trade unions or new types of associations need to search for strategies to organize growing sectors and

categories of workers such as temporary workers, young people, high-skilled professionals, freelancers and the self-employed.

Second, vocational education and training in the dual apprenticeship model might be a preferable setting to smooth the transition from school to work. However, such a model has only emerged over a long period of time in some countries such as Germany and its neighbours. Similar issues arise with continued vocational training for adults which is particularly developed in some Scandinavian countries. These broadly applied training regimes can hardly be transferred and implemented fully elsewhere. To undertake steps in the direction of vocational training, collaboration is required among governments, employers, associations and trade unions, at least at a regional or sectoral level. In such a case a minimum level of standardization of training content and schooling agreed upon by the different parties involved might be sufficient, but a critical mass of employers interested in running vocational training in a certain sector or region is essential.

Capacities regarding funding and delivery of unemployment benefits and active labour market policies as well as human capital formation through the educational system require effective agencies and sound, reliable funding. This cannot be taken for granted but will likely require a stepwise approach in the desired direction, triggered by economic growth and increasing fiscal capacities, but also a political orientation that sees the medium- and long-run economic and societal benefits of such a developmental strategy. Benefit systems and active labour market policies can hardly be measured against benchmarks of the Scandinavian or Continental European model. In particular, this requires the political capacity and acceptance of major redistribution via progressive taxation and the social insurance system.

Reducing labour market segmentation deepened by asymmetrical regulation of standard and non-standard contracts and changing highly protective rules regarding some segments of the labour market while leaving others in less protected segments is not an easy task. Labour market reforms narrowing the gap between different types of employment are more feasible if there is a capacity to establish broader policy agendas, including benefit systems, active labour market policies or other policies, with the government and social partners. Moreover, breaking with long-standing regulatory paths is more probable in a situation of crisis, e.g. with high youth unemployment. Finally, such a strategy becomes more feasible and acceptable if a credible expansion of social protection and reemployment policies can be implemented.

Going beyond formal rules governing the labour market, the future of work and the actual quality of jobs depends on the working environment at the firm level. Hence, creating 'good' and healthy jobs depends on employers' initiatives to organize work in a sustainable and productive way. While standards can be set by legislation and collective agreements, and while this can be supported by incentives given to firms, the ultimate responsibility for developing good working environments lies with individual employers and management in day-to-day activities, using different forms of effective employee representation and participation.

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