

POLICY PAPER SERIES

IZA Policy Paper No. 122

**Labor Market Institutions and the
Future of Work: Good Jobs for All?**

Werner Eichhorst

JANUARY 2017

POLICY PAPER SERIES

IZA Policy Paper No. 122

Labor Market Institutions and the Future of Work: Good Jobs for All?

Werner Eichhorst

IZA

JANUARY 2017

Any opinions expressed in this paper are those of the author(s) and not those of IZA. Research published in this series may include views on policy, but IZA takes no institutional policy positions. The IZA research network is committed to the IZA Guiding Principles of Research Integrity.

The IZA Institute of Labor Economics is an independent economic research institute that conducts research in labor economics and offers evidence-based policy advice on labor market issues. Supported by the Deutsche Post Foundation, IZA runs the world's largest network of economists, whose research aims to provide answers to the global labor market challenges of our time. Our key objective is to build bridges between academic research, policymakers and society.

IZA Policy Papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the author.

ABSTRACT

Labor Market Institutions and the Future of Work: Good Jobs for All?*

Work and employment around the globe change continuously, but there are potentially more rapid and fundamental transformations ahead as new technologies can have major impact on what jobs will exist in the future, how people will work and how the global division of labor will evolve. This contribution tries to assess the current outlook into the foreseeable future and highlights the importance of labor market institutions that can effectively influence the future of work. The paper in particular addresses the need to reform and update labor market regulation, social protection and active labor market policies as well as the education systems.

JEL Classification: J24, J58, J65, J88

Keywords: labor market institutions, job quality, non-standard employment, future of work

Corresponding author:

Werner Eichhorst

IZA

Schaumburg-Lippe-Str. 5-9

53113 Bonn

Germany

E-mail: Eichhorst@iza.org

* This document was presented in the context of the activities of the project "Strengthening the capacities of Latin America and Asia to develop and improve labour training systems and to protect workers against unemployment" (ROA-236-8). This paper was elaborated starting from a presentation given at the ECLAC/ESCAP seminar on unemployment protection and vocational training, Santiago de Chile, on 19 October 2016, and refers also to work done within the framework of the International Panel on Social Progress (IPSP), chapter 7 (Eichhorst, Portela de Souza et al. 2016). The author is grateful to Jürgen Weller for comments on an earlier draft. The views and opinions expressed in this document, which has not been reviewed by the Economic Commission for Latin America and the Caribbean, belong to its author and may not coincide with the ideas of the organization.

Contents

Contents	3	
I. Introduction	4	
II. Future trends	5	
A. Job characteristics, tasks and skill requirements	5	
B. Forms of work and forms of flexibility	9	
III. Designing good institutions.....	12	
A. The role of labor market institutions	12	
B. General principles and policy implications	12	
C. Education	13	
D. Labor market regulation	15	
E. Social protection and active labor market policies	16	
F. Institutional capacities and political economy considerations	19	
IV. Conclusion and Outlook	20	
References	21	
Graphics		
Figure 1	The automatibility potential in OECD countries	6
Figure 2	Estimated Decadal Changes in Employment Shares of Major Occupation Groups, 1998-2014.....	6
Figure 3	Patterns of polarization: Changes in Shares of Hours Worked over 1993-2010 for High-, Middling, and Low-Paying Occupations	7
Figure 4	Long-term developments of employment rates, 1995 and 2015	8
Figure 5	Non-standard employment by type, in % of total employment, 2013	10
Figure 6	Informal employment outside agriculture	10
Figure 7	Job Strain	11
Figure 8	Structure of the working-age population (25-64) by level of education in 2015	14
Figure 9	Participation in continuous training	15
Figure 10	Effective coverage of unemployed persons by unemployment benefits	17
Figure 11	Risk of becoming unemployed and its expected cost as a share of previous earnings.....	18
Figure 12	Spending on active labor market policies in percentage of GDP, 2014	18

I. Introduction

The world of work and employment is constantly changing, however, over the last years, and in the face of a new wave of technological innovation, this long-standing issue has started to attract renewed and additional attention both in the academic and the policy community (see, e.g. Eichhorst 2015a). Against this backdrop, the paper studies the development of paid work in developed, emerging and developing economies, highlighting the global challenges, but also pointing at persistent differences across world regions even in the light of ever closer links between them.

The paper is organized as follows. First, this paper assesses the recent and expected changes in work and employment in different world regions, starting from the joint influence of technological progress and globalization, but addressing also issues of institutional flexibility and a diverse workforce. It will then continue to discuss the main policy areas that shape the functioning of labor markets before outlining policy reforms that might be needed and implemented in order to be better prepared for the requirements of the future. The paper argues for policies that can combine flexibility and security through different mechanisms of protection against labor market risks, rebalancing the role of employment protection, unemployment benefits, active labor market policies and training. As policy reforms depend on the capacities to adopt and deliver the paper discusses the preconditions of successful institutional change in a ‘progressive’ direction.

II. Future trends

The future of employment is influenced by four main factors that interact with each other: globalization, technology, demographic change and labor market institutions. Through these factors, future potentials for productive engagement, economic growth and societal wealth are given, implying also further rises of standards of living, productivity and good quality jobs. However, there are also risks involved, in particular an increase in inequality or polarization in the world of work as some world regions or socioeconomic groups will find it easier to benefit from these opportunities than others. Hence, from a policy point of view creating or maintaining and adapting inclusive labor markets that provide for access to quality employment are crucial.

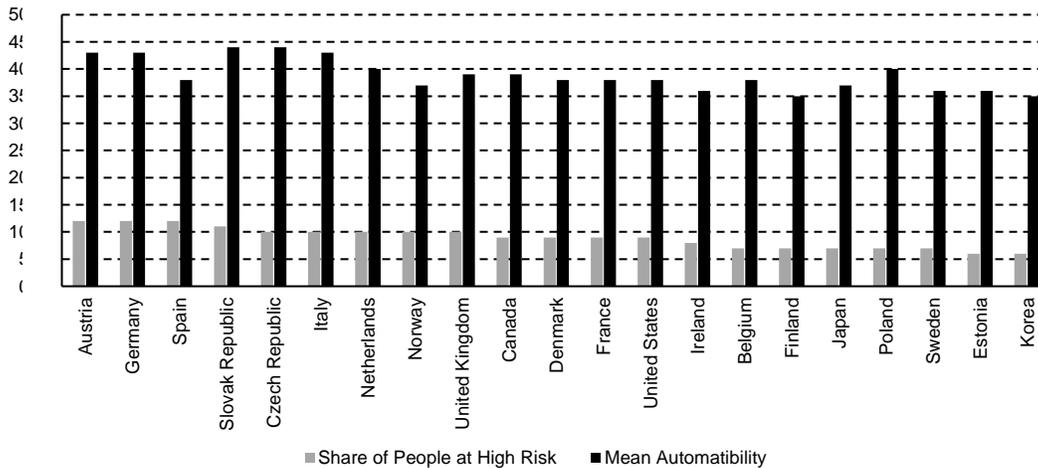
Taking a global perspective one has to acknowledge that despite progressive global economic integration and technological innovation acting as universal driving forces, distinct regional, sectoral and occupational differences in employment continue to exist. We see specific patterns of diversity in employment patterns, job characteristics and job quality.

From the point of view of policy making, the challenge implied by this is to keep pace with potentially deep and accelerating structural changes in economic activities. This has implications for global value chains and more complex divisions of labor, both locally and globally, and to prepare labor market institutions in a way that they can contribute to positive socio-economic outcomes. However, specific national circumstances and starting conditions have to be taken into account.

A. Job characteristics, tasks and skill requirements

Technological progress leading to ever increasing opportunities for automation as well as the global economic integration question the future existence of routine jobs both in manufacturing and services, i.e. jobs that can easily be automated with available technology or relocated (see in particular Frey and Osborne 2013; Arntz et al. 2016). This is not only a question of blue collar manufacturing jobs or elementary occupations in some services, but this can also affect medium-skilled white collar work to the extent that available technologies allow for automation and / or relocation to countries with lower costs at given skill levels. Hence, either capital will substitute for labor, in particular in high-income countries, or jobs will continue to be relocated to places with lower wages.

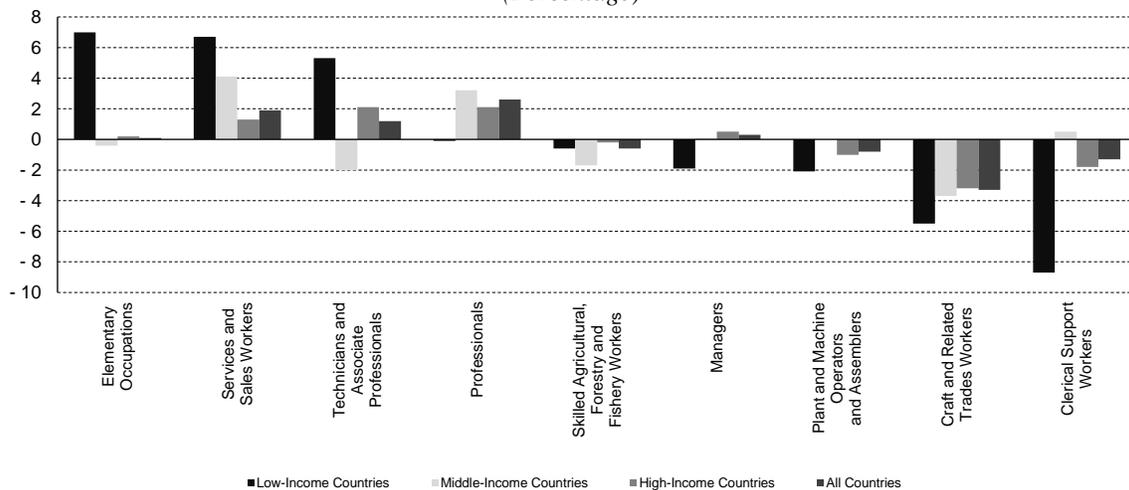
Figure 1
The automatibility potential in OECD countries
(Percentage)



Source: Arntz, Gregory, Zierahn (2016): Table 4, page 33.

As regards high-income countries this development implies a continued growth of jobs (and the respective shares of employment) in areas and occupations that are less likely to be automated or offshored to low-wage countries. This holds for jobs characterized by innovation, creativity, coping with complex information and decision making under conditions of uncertainty as well as interactions between human beings (Brynjolfsson and McAfee 2014). These are core human competences not likely to be replaced by machines, and stable direct employment will continue to be an option, in particular if high productivity based on specific skills and experiences is required. In general, employment prospects are favorable where human capacities and skills are complementary to technological possibilities.

Figure 2
Estimated Decadal Changes in Employment Shares of Major Occupation Groups, 1998-2014
(Percentage)



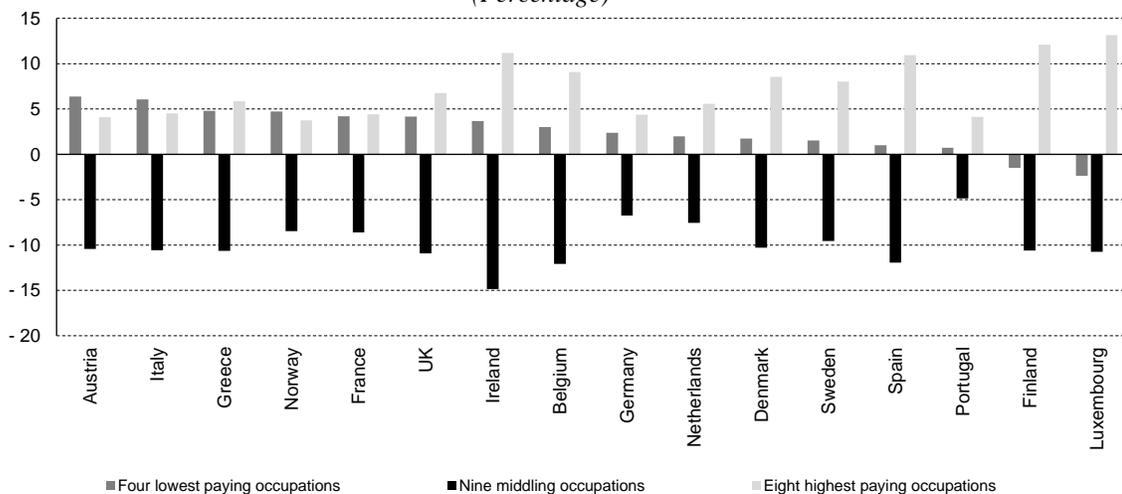
Notes: these are estimated changes in percentage points over a decade from an unbalanced panel for 1998-2014 in which the weights designed to add to total employment in the world and correct for the probability of data on the occupational structure of employment being observed.

Source: calculation by Alan Manning in Eichhorst, Portela et al. (2016).

These changes are not something entirely new, and even the potentially disruptive character of digital technologies often assumed has yet to be shown. For the time being, we can rather expect a more evolutionary development along the lines that can already be observed in empirical studies covering the last decades. These studies highlight the growth of knowledge-intensive work, in particular in science, research and development or creative occupations as well as employment in health, education and social services, where a strong interactive component is present. In many of these occupations additional jobs have been created, and working conditions, not least earnings potentials have increased over the last years.

The current employment situation is shaped, and the future development will likely continue to be characterized by a strong premium on the capacity to cope with complexities and uncertainty, to innovate, create and interact as well as on speedy adjustment or even first mover advantages. Growth of highly skilled and oftentimes highly paid jobs tends to increase inequality in labor markets in developed countries. This distinguishes the development in this segment of the labor market from medium-skilled jobs with a predominantly routine-oriented task content which tend to exhibit employment and wage stagnation due to stronger technological rationalization as well as competition from outside. At the same time, more elementary occupations in the service sector that are difficult to automate or offshore due to their personal and local nature can still expand, albeit with less attractive or declining working conditions. Hence, in a stylized fashion, polarization of labor markets in developed countries, but also elsewhere results (Autor, Levy and Murnane 2003; Goos, Manning and Salomons 2014). However, polarization is anything but uniform as there are marked differences between countries and periods studied (see also Eurofound 2016) pointing at the crucial role of the macroeconomic environment on the one hand and institutions on the other hand.

Figure 3
Patterns of polarization: Changes in Shares of Hours Worked over 1993-2010 for High-, Middling, and Low-Paying Occupations
(Percentage)



Source: Goos, Manning, Salomons (2014), Table 2, page 59

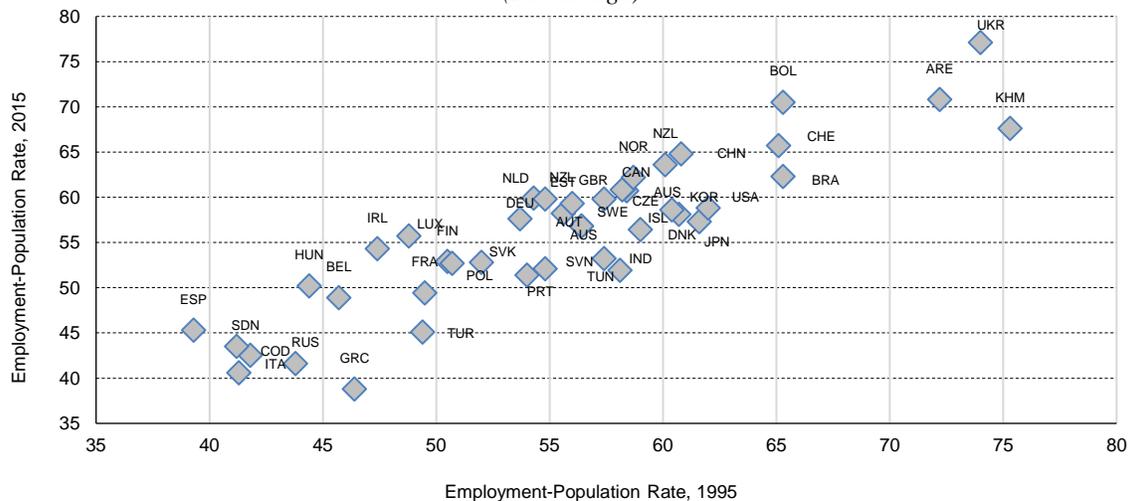
Taking a global perspective, the positive employment and income situation of the highly skilled in developed countries goes along with a stagnation or even a decline of the economic prospects of the low and medium skilled segment of the labor force in high-income countries (Milanovic 2016). At the same time, in many medium-income economies a new middle class has emerged due to the integration of their countries into the global division of labor.

Hence, in a situation of increasing technological penetration of production processes in manufacturing and services we can expect the labor market of the future to rather be dominated by tasks and related job profiles characterized by specific human capacities which cannot easily be replaced by technological solutions – at least for the foreseeable future which will, however, still be characterized by a continuing race with or against the machines. Hence, human work that is complementary with technological solutions or is performed in areas quite remote from automatability will become most important. That also means that future jobs, generally speaking, will be more and more shaped by the individuals performing them so that individual skills, capacities, motivation, experiences are of crucial importance for high productivity, high performance and effective use of skills (see, e.g. also OECD 2016).

Going beyond these general trends, we cannot expect that all sectors and world regions will be affected by the use of the latest technology at the same time and at the same speed as observable in the most advanced sectors, firms or countries. In fact, there is some room for variation of change and delay as regards the diffusion of technology. Some countries will embark on this path somewhat later, and some sectors will be more advanced than others. While this means that first or early mover advantages will not be realized under such circumstances, the asynchronous, significantly delayed implementation of latest technologies gives some time to adjust and catch up.

Despite all of this emphasis on productivity increases driven by technological innovations, there is no substantial hint at a structural decline of paid work at a global scale, not even in world regions with high levels of technological penetration. Hence, the hypothesis of massive technology-induced net job losses or a new era of mass unemployment due to technological change and automation has still to be proven. For the time being, it seems more plausible to expect continuous change and ‘creative destruction’ with some jobs disappearing, others undergoing more or less fundamental change and new jobs emerging. This transformation can be managed successfully if markets and firms can adapt regarding their products and services as well as operational processes and workers’ skills can be updated to the demands of the near future. Hence, while changes in employment will occur and are not only inevitable, but create new opportunities, the paths labor markets will take can be shaped by policy action.

Figure 4
Long-term developments of employment rates, 1995 and 2015
(Percentage)



Source: ILOSTAT Database.

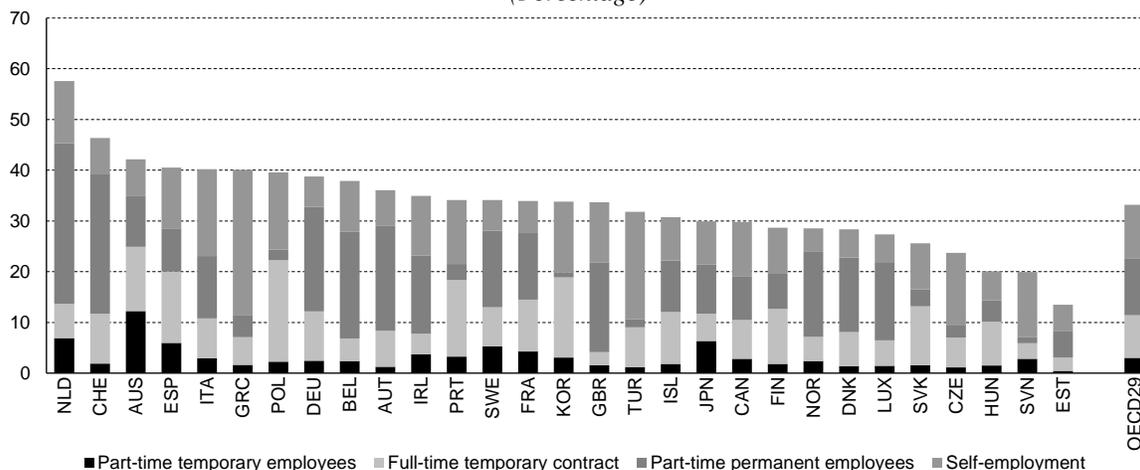
B. Forms of work and forms of flexibility

It seems fair to say that modern technologies reducing communication and coordination costs in conjunction with open borders can deepen both global competition and collaboration at the same time. Global integration, technological solutions, but also institutional changes allowing for flexible employment tend to lead to ever more diverse types of employment and a further ‘fissuring’ (Kalleberg, Reynolds and Marsden 2003) of work as it is organized within and between firms. Current trends in terms of flexible forms of work within and at the margin of firms tend to dissolve clear-cut borders of firms through the emergence of a more flexible workforce that is in one way or another linked to firms, but not integrated fully and permanently while firm staff itself is working in a more flexible manner. This can be observed both in the local context, but also at a global scale with more and more elaborate forms of contracting, implying also longer and more complex value chains.

Flexible forms of work will be used when available in order to shift risks and costs of adaptation. This holds for established types of flexible or non-standard employment (ILO 2016; OECD 2015; Kalleberg 2009; Eichhorst and Marx 2015) such as fixed-term contracts, temporary agency work, but also on-call work or ‘zero hours contracts’ as well as different types of work performed outside dependent employment such as self-employment with or without employees, freelance work, project-based collaboration, ‘crowdworking’ or even more casual or informal types of work. The latter are still dominant in many low and medium income countries while non-standard forms of work are relevant to a varying degree in developed countries. The use of specific forms of highly fluid or flexible employment options depends on a number of factors such as the labor market regulation in place, the level of economic development, but also on labor demand and supply patterns that differ across sectors, countries and regions. Long-lasting direct, dependent and formal employment, which is still taken as a benchmark in many contexts due to its above-average working conditions and social protection, will still be a realistic option if skill needs are specific, with experience, motivation, loyalty being of crucial importance to employers and their business models (Eichhorst and Marx 2015). Staff able to perform such high performance, often demanding jobs is not easily found on the external labor market, and these types of tasks cannot be easily outsourced or automated.

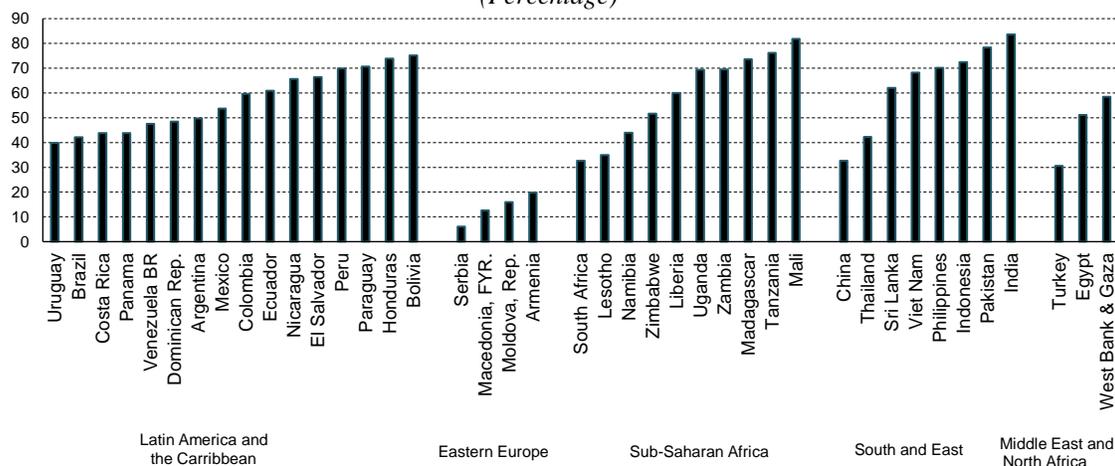
In principle, new phenomena such as ‘crowdworking’ using online platforms as intermediaries can question the viability of direct (formal) dependent employment as the dominant category of work in developed countries if one assumes that more and more jobs or tasks can be assigned to providers using online platforms with a global reach. However, to date this phenomenon has only played a minor role, with limited relevance in some professional and service activities, often performed in addition to traditional dependent or self-employed work (see, e.g. Berg 2016; Harris and Krueger 2015; Katz and Krueger 2016; Huws and Joyce 2016).

Figure 5
Non-standard employment by type, in % of total employment, 2013
(Percentage)



Source: OECD (2015): Figure 4.1, page 140

Figure 6
Informal employment outside agriculture
(Percentage)



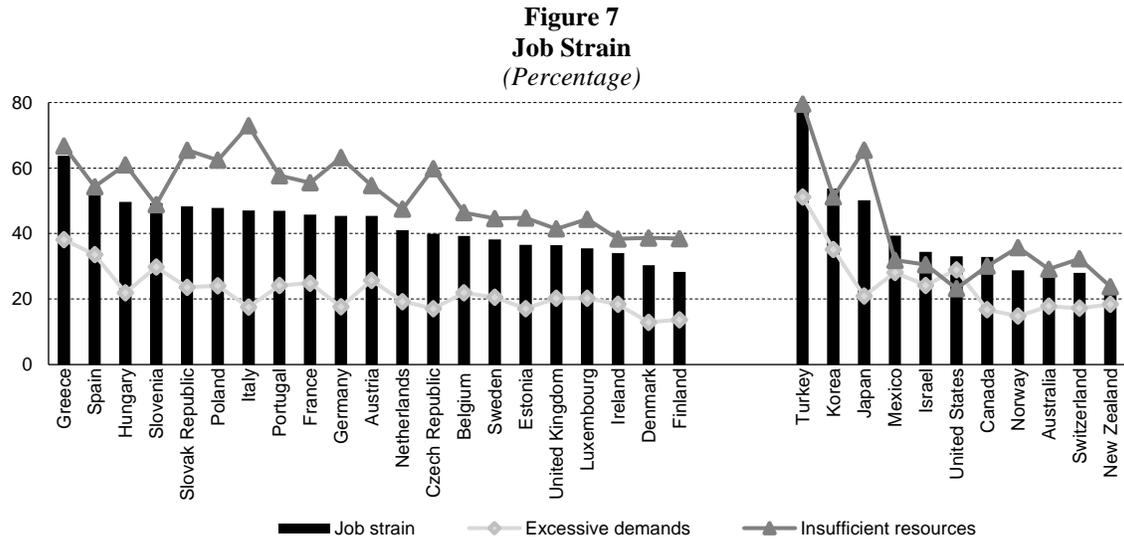
Source: ILO (2013): Table 2.1, page 10/11

But employment relations do not only become more diverse as regards the formal contractual status, even with permanent and directly employed staff, intra-firm or internal flexibility is on the increase. This holds for flexible remuneration and working time, mobile working, but also more performance-oriented, project-based work in the framework of stable employment relationships.

Apart from this more or less advanced polarization of the labor market, associated with employment opportunities and job quality in terms of pay and employment stability, new risks emerge at workplaces in modern economies. While traditionally, accidents and occupational diseases resulted from physical hazards in sectors such as manufacturing, the highly flexible and productive world of work growing in developed economies exhibits new risks due to intense or even excessive psycho-social demands, resulting in mental health issues if the work environment is not supportive. If work is not

organized in sustainable ways, negative side effects of work in terms of psycho-social disorders might become more prevalent in the future (see, among others, Siegrist and Wahrendorf 2016).

This can be monitored using indicators on job quality developed by the OECD addressing job strain that emerges if job demands are excessive and not appropriately balanced by job-related resources (see Cazes, Hijzen and Saint-Martin 2015, cf. also Eurofound (2016).



Note: data on Turkey are based on results of the 2005 European Working Conditions Surveys (EWCS).

Source: OECD Job Quality database (2016) based on the 6th European Working Conditions Survey for 2015 and International Social Survey Program Work Orientations Module III for 2005.

Hence, given the differences in skills, we will also see a tendency towards inequality in access to good jobs, with some groups being confined to less attractive types of work regarding lower job stability, low pay or lack of social protection. Again, with well-designed policies, inequalities can be mitigated.

III. Designing good institutions

A. The role of labor market institutions

Despite technological innovations and global economic interactions, labor market institutions will not lose their relevance. In fact, they will shape the functioning of labor markets also in an era of technological progress and global economic integration. The impact of technology, globalization and other factors on employment will be mediated through institutions, as this has been the case in the past. In particular, the institutional arrangements of labor markets impact on the directions employment can take, referring to the channels of adjustment via types of employment, working time and wage flexibility, the skill profiles of the workforce or firm organization, to name just a few. Hence, the quantity and the quality of future jobs depends on institutional conditions, and the better they are suited to future requirements, the better the chances of creating more and better jobs. This is far from uniform. Different national and sectoral employment models have emerged in the past, and in a modified form that is suitable to the current and expected challenges these paths will be relevant for the future (see, e.g. Amable 2003; Hall and Soskice 2001; Estevez Abe, Iversen and Soskice 2001; Thelen 2014). Of course, path dependency is ambivalent. On the one hand it makes fundamental changes more difficult, on the other hand mutually supporting elements can create opportunities that would not be available otherwise.

B. General principles and policy implications

What can ‘social progress’ mean in the context of the future of work? What would a ‘progressive’ design of labor market institutions and reforms look like? From the point of view of IPSP this would mean developing institutions in a way so that “good jobs for all” become more realistic. But what are good jobs, what is a well-designed set of labor market institutions? In our understanding, “good jobs

- are free of major characteristics of precariousness, such as a lack of stability and a high risk of job loss, a lack of safety measures and an absence of minimal standards of employment protection
- enable working persons to exert some control on matters such as the place and the timing of work and the tasks to be accomplished, and these jobs place appropriately high demands on the working person, without overtaxing their resources and capabilities and without harming their health
- provide fair employment in terms of earnings and of employers’ commitment towards guaranteeing job security
- offer opportunities for skill training, learning and promotion prospects within a life course perspective, thereby sustaining work ability and stimulating individual development
- prevent social isolation and any form of discrimination and violence
- aim at reconciling work and extra-work demands by implementing appropriate rules in day-to-day practices” (Eichhorst, Portela et al. 2016).

In line with this, good labor market institutions should be able to balance flexibility and security and achieve a fair distribution of opportunities and risks, access and mobility to employment. In

particular, they should aim at reducing additional layers of polarization and segmentation induced by labor market institutions so that some segments of the labor market enjoy certain privileges and are relatively closed whereas other employment types are of low job quality, effectively separated by barriers in mobility to good jobs for some groups or establishing labor market segments that do not offer opportunities. Hence, well-designed institutional arrangements should be capable of preparing everyone to participate successfully in the labor market, achieve a reasonable, acceptable job quality at least at a minimum, and with a realistic change to move beyond.

While such criteria for good jobs and good institutions can be formulated at a very general level at the global scale, they need to be substantiated in more concrete forms, addressing relevant policy issues and feasible solutions in the respective economic and institutional context.

There are three main areas of intervention in favor of social progress along the lines defined above: a) education, b) the regulation of labor markets and c) social protection and active labor market policies. These policies areas and potential solutions in these fields are not necessarily new, but there is need and scope for further reform in most countries as regards an updating and modernization of existing routines and rules to match the requirements of a changing world of work.

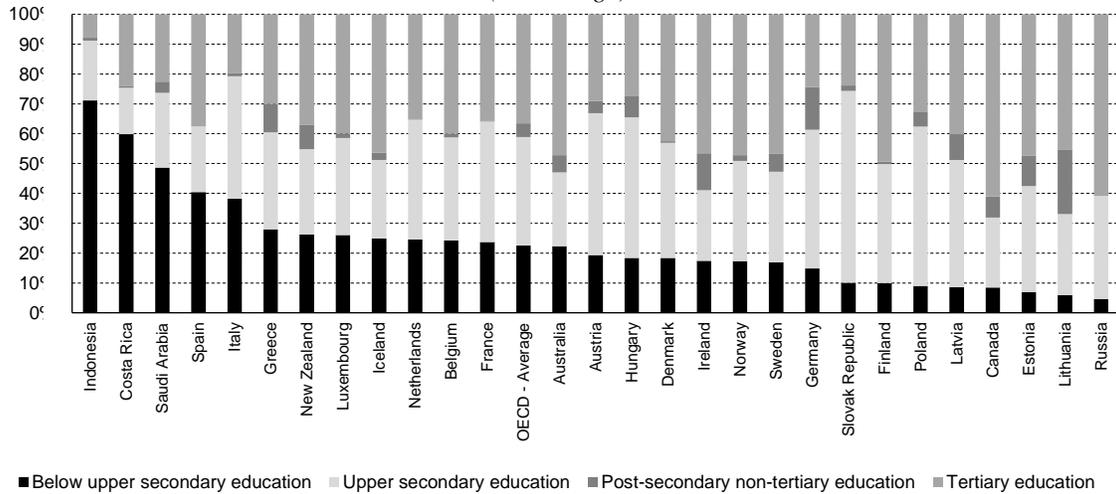
C. Education

The first core area of public policy is education. Investment in human capital is of utmost importance when it comes to create good jobs and ensure individual employability and productivity in the future. This holds for all types of education and training over the different stages of the life course. From a policy angle, ensuring both the best quality available and universal access, not sacrificing one objective for the other is a major issue in most countries. The main orientation should be to provide, first, a basic skill foundation for everyone to ensure employability in the labor markets of the future, and then to provide education that makes the most out of individual potentials to progress further. In the context of European and other developed countries this is often described as a “social investment” approach (Hemerijck 2015), pointing at the ‘investive’ character of human capital formation.

- Quality-oriented early childhood education can provide the basic foundation for benefiting from further education and training, and it has been shown that the cost/benefit balance is particularly positive at this stage, making a case for strong investment in this phase of life (Cunha et al. 2006). As regards schooling, a reliable base of general education for all young people is crucial for further skill developments later in life.
- Vocational education and training can provide an effective pathway from school to work at the upper secondary level (below higher education). The combination of structured learning in firms with more general education in schools helps avoid situations of high youth unemployment and protracted trajectories of transition into the labor market (Eichhorst et al. 2015, Eichhorst 2015b). However, it is important to keep vocational training attractive to both apprentices and employers in order to avoid a long-term decline of this medium segment of qualification. This calls for a regular adjustment of occupational profiles and curricula, a viable reconciliation of general and specific skills as well as for pathways to and combinations with higher education and continuous education to upgrade and update skills acquired via vocational training while opening up also professional careers beyond the medium range.
- Tertiary education has a particular role as many of the dynamically growing occupations characterized by creative, innovative, interactive and analytical features require a high level of qualification, both with professional and general competences. This calls for a sufficiently large academic sector, where access is not limited to privileged groups, and for an articulation of higher education and the world of work.

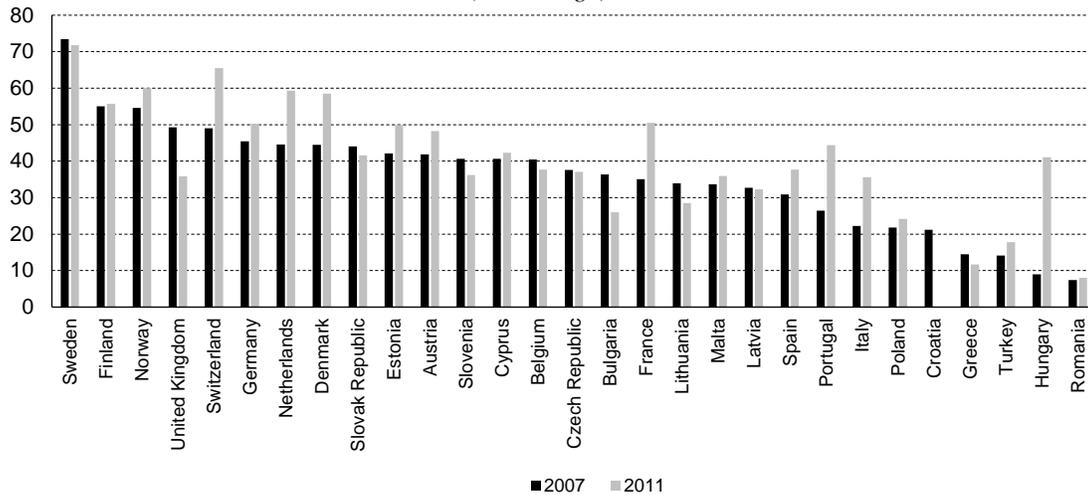
- Continuous vocational education and training will be important not just for high-skilled and younger workers that often benefit from employer-led initiatives in this field. Rather, all in the labor force will need a timely adjustment and updating of their skills. Given observable deficits in access of workers to further education in many countries currently, this would involve some systematic engagement of employers, social partners and the public side.

Figure 8
Structure of the working-age population (25-64) by level of education in 2015
(Percentage)



Source: OECD Education and Training database

Figure 9
Participation in continuous training
(Percentage)



Source: *OECD World Indicators of Skills for Employment*

D. Labor market regulation

Labor market regulation can add an additional, institutionally-induced layer of labor market segmentation, resulting in a compartmentalization of employment systems and barriers to mobility. To facilitate mobility and a fair distribution of labor market risks, a balance between flexibility and security is desirable from a social progress point of view. This means moving from protecting (existing) jobs to protecting workers by providing access to good jobs and ensure a chance for making ‘good’ transitions, i.e. not getting stuck in vulnerable types of employment (Boeri 2011; Scarpetta 2014).

More concretely, as regards the regulation of contract types, this means questioning strict dismissal protection for those on open-ended contracts and developing better protection of those on the different forms of non-standard contracts. While there are substantial reasons for flexible types of employment such as short-term, temporary contracts or agency work, the risks involved with these types of jobs can be minimized by appropriate models of regulation.

It makes sense to smoothen the transition from an entry position, often used to screen workers, into a more stable employment relationship, avoiding the one critical moment when employers have to decide on the establishment of a fully protected open-ended contract. This would mean a stepwise phasing in of employment protection (severance pay) in line with tenure. Irrespective if there are still both fixed-term or open-ended contracts or if there is only one type of contract, workers with short tenure would acquire some minimum severance pay entitlement, and if employment continues, they would accumulate further entitlements. Overly rigid protection in case of very long tenure can be avoided by introducing a maximum threshold of severance pay after some years of service. Reducing regulatory gaps and differential treatment of contracts will then reduce incentives for contractual arbitrage based on different regulatory requirements and resulting variation in non-wage labor costs. A similar argument can be made about incentives to create formal employment relationships. Reducing the administrative costs of formalization and designing benefits only available in case of formal employment can set incentives to formalize jobs and businesses, making formal employment more attractive to market actors.

Also in the future, some of the new forms of work such as freelance, self-employment, own-account work will operate outside labor legislation that focusses on the protection of dependent workers. However, some principles of worker protection should also apply to them, in particular in the realm of social protection (rather than labor law) such as unemployment insurance, old-age and disability pensions. This is less clear with regard to typical labor law regulations applying only to dependent employees such as working time and minimum wages (see, e.g. Harris and Krueger 2015).

Last but not least, balancing different aspects of flexibility regarding the organization of work within firms is a core parameter of productive and sustainable employment in the future. This hold for aspects such as working time, availability, mobile working. In general, these areas require some agreements at the firm level or in relevant subgroups, but there is some scope for broader frameworks set by legislation and / or collective agreements. To create good or better working environments, incentives to firms that care about their employees and limit negative external effects in terms of a termination of employment due to sickness or disability (or in case of dismissals for economic reasons) might be considered (see, e.g. De Groot and Koning 2016; Koning 2016).

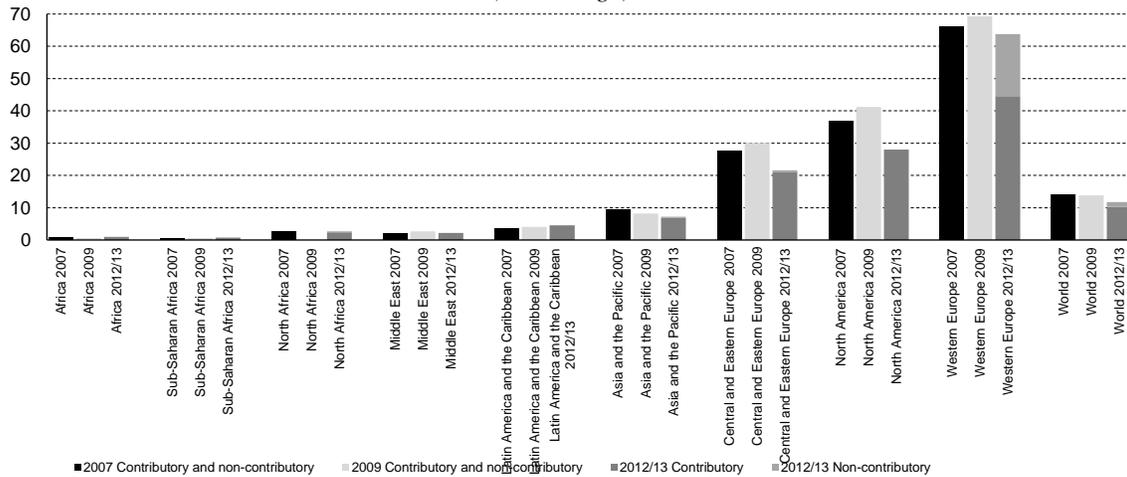
E. Social protection and active labor market policies

Unemployment benefits and active labor market policies can be a superior tool compared to employment protection as they protect workers rather than jobs and facilitate a more dynamic employment regime with higher mobility between jobs, between occupations and sectors rather than trying to stabilize existing jobs (Scarpetta 2014).

Unemployment benefit can smooth individual income during phases out of work and stabilize aggregate income in times of recession. If too generous and long-lasting, incentives to reenter employment might be weakened, in particular after longer phases out of work. Most developed countries have some system of unemployment benefits in place. Large variations in term of accessibility, generosity and availability criteria exist. Furthermore, coverage is far from universal. The situation is even more diverse when looking around the globe. In this policy area, improving legal and actual coverage and establishing a reasonable generosity of unemployment benefits both for short-term and long-term unemployed is part of the policy package that also needs to comprise effective and well-targeted active labor market policies.

When employment protection is eased, hiring and firing of (permanent) staff is potentially encouraged. In such a case severance pay and/or experience-rated employer contributions to unemployment insurance could act as a layoff tax (Blanchard and Tirole 2007), encouraging a reasonable level of flexibility within the firms over hiring and firing or temporary layoffs and recalls which would lead to external effects to the detriment of unemployment insurance schemes. Hence, in such a model, contributory systems could set incentives for sustainable employment practices favoring internal adjustment and continuous training. The same logic applies to short-time work schemes (ie. a partial unemployment benefit covering hours not worked and paid) that help stabilize employment relations for a certain period in a situation of a temporary labor demand slump.

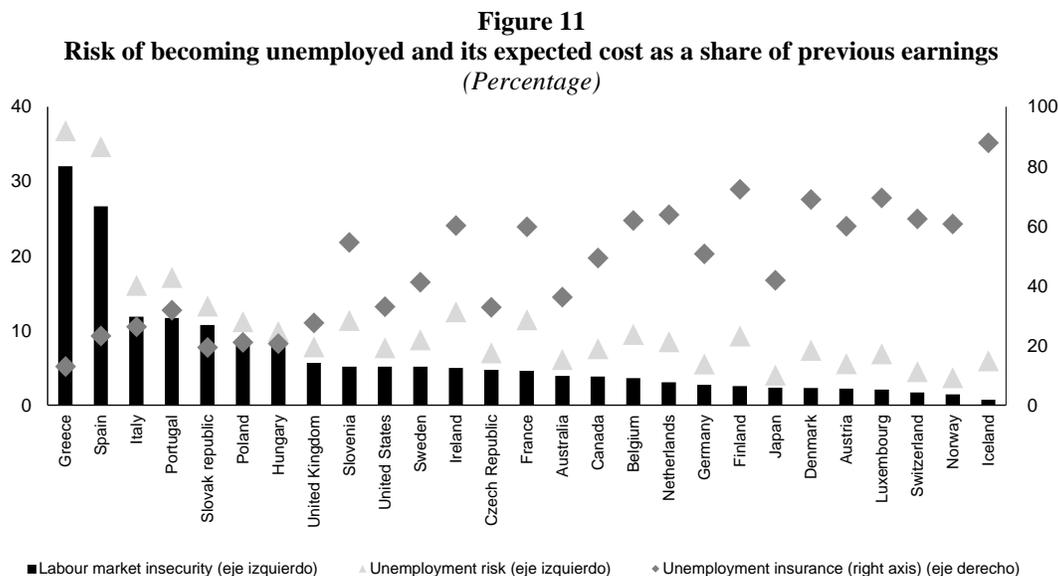
Figure 10
Effective coverage of unemployed persons by unemployment benefits
(Percentage)



Notes: Numbers of unemployed receiving unemployment benefits collected from national social security unemployment schemes. Global average weighted by the labour force.

Source: ILO World Social Protection Report 2014/15.

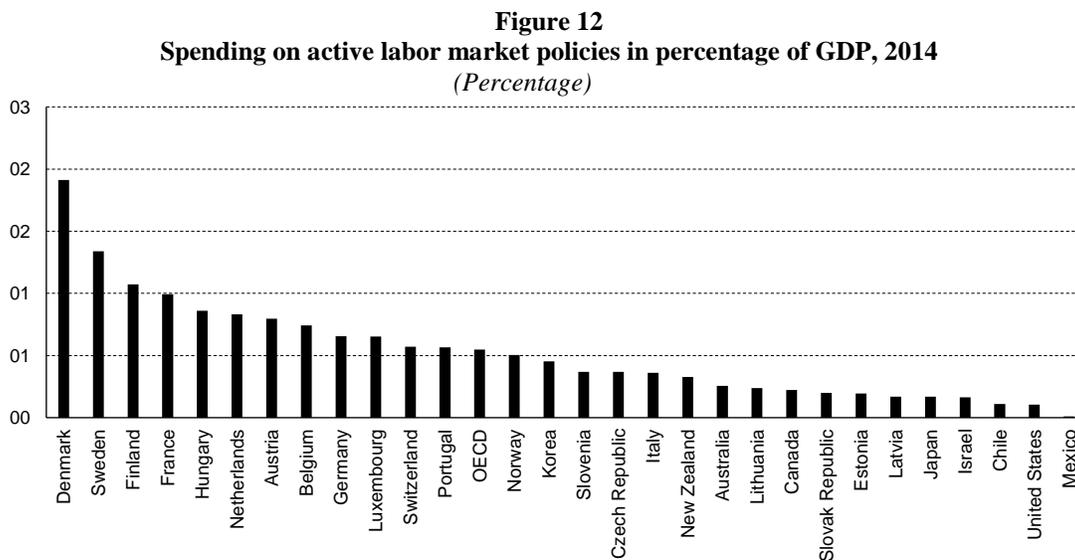
As a general principle social protection via contributory schemes should be extended to all types of workers, not only to certain types of jobs or categories of workers. Of course, this also requires a regular liability to pay taxes and social security contributions by workers (and their employers or clients), irrespective of the type of earnings. A particular challenge arises when it comes to extending benefit coverage in legal and actual terms to workers that are typically not or only partially covered. This holds for non-standard workers in the formal sector when their employment spells are too short to accumulate sufficient entitlements to unemployment insurance benefits, for many forms of self-employed workers or freelancers that operate outside a dependent employment, and for informal workers who still represent a major category of employment in developing and emerging economies. Also in these cases it makes sense to open up access to contributory unemployment insurance schemes and to means-tested income support funded through taxes. In case of self-employed, freelancers and crowdworkers using online platforms there is no employer, but clients or intermediaries that should take part of the responsibility to contribute to the insurance fund. This would not only improve the protection of these workers, but also establish a level playing field between firms employing dependent staff and (networks of) freelancers.



Note: data for Chile refer to 2011 instead of 2013.

Source: OECD Job Quality database (2016)

A major insight from policy reforms and empirical research over the last decades is that benefit access of working-age people should not be unconditional, but depend on the availability for work and participation in active labor market policy measures that can facilitate the (re)entry into work (Martin 2015). The evidence available shows that supportive programs need to be targeted, and that in many cases training (of the unemployed, but also those at risk) can generate positive medium- and long-term effects (see Card, Kluve and Weber 2015a and 2015b for overview papers). For more vulnerable people job search assistance and monitoring is not sufficient.



Source: OECD (2016).

F. Institutional capacities and political economy considerations

Policies cannot just be designed and assumed to be implemented easily. First, beyond specific issues regarding the policy areas discussed, politico-economic factors play a major role when it comes to establishing a set of institutions that is expected to work are not easily available. The political and institutional capacities to achieve this are not easily available and cannot be taken for granted. Second, 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, e.g. by world region. Some issues are of particular interest here:

- Capacities regarding funding and delivery of unemployment benefits and active labor 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 labor market policies can hardly be measured against benchmarks of the Scandinavian or Continental European model (see, e.g., Weller 2009). In particular this requires the political capacity and acceptance of major redistribution via progressive taxation and the social insurance system. Furthermore, in a world characterized by global economic integration, standards for taxation of income need to be coordinated across countries, in particular as regards corporate taxes and cross-border transactions.
- Reducing labor market segmentation deepened by asymmetrical regulation of standard and non-standard contracts and changing highly protective rules regarding some segments of the labor market while leaving others in less protected segments is not an easy task. Labor 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 labor 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.
- Vocational education and training in the dual apprenticeship model might be a preferable setting to smoothen 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 neighbors. It can hardly be transferred and implemented fully elsewhere. To undertake steps in the direction of vocational training, collaboration of governments, employers, associations and trade unions is required, 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, however, a critical mass of employers interested in running vocational training in a certain sector or region is essential.
- Establishing effective collective bargaining in regions and sectors where it is non-existing or reversing the long-lasting decline in bargaining coverage and effectiveness observed in many countries is not an easy task either. Some support can come from the state (e.g. by encouraging negotiated solutions supplementing legal provisions or extending agreements), but major responsibilities lie with the two parties involved as regards the self-organization of workers and employers, respectively. This is true both for established unions or new associations that need to find ways to combine two objectives. 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 and develop those who would otherwise lose from the transformation of work. On the other hand trade unions or new types of associations need to find ways to organize growing sectors and categories of workers such as high-skilled professionals or

freelancers. Here, attractive offers have to be made to potential new members, e.g. professional social protection or (re)training for freelancers.

- Going beyond formal rules governing the labor market, the future of work and the actual quality of jobs depends on the working environment at the firm level. Hence, creating ‘good’ 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 lies with individual employers and management in day-to-day activities, using different forms of effective employee representation and participation can help develop good working environments.

IV. Conclusion and Outlook

This paper argues that ‘good’ labor market institutions should reconcile flexibility and security and achieve a fair distribution of opportunities and risks as regards employment quality and access to the labor market. This paper points out that the future of work in developed, but also in developing countries poses major challenges for the design and adaptation of ‘good’ labor market institutions so that they allow for the creation of productive, sustainable jobs in a globalized and technologically changing economy. However, given the evolutionary and permanent character of labor market transformations, countries can also make use of established mechanisms to cope with change. Hence, capacities to deal with change in a societally and economically sustainable way are crucial.

References

- Amable, Bruno (2003): *The Diversity of Modern Capitalism*. Oxford University Press.
- Arntz, Melanie/Terry Gregory/Ulrich Zierahn (2016): *The Risk of Automation for Jobs in OECD Countries: A Comparative Analysis*. OECD Social, Employment and Migration Working Papers No. 189.
- Autor, David H./Frank Levy/Richard J. Murnane (2003): "The Skill Content of Recent Technological Change: An Empirical Exploration," *Quarterly Journal of Economics*, 118(4), November, 1279-1334.
- Autor, David (2015): "Why Are There Still So Many Jobs? The History and Future of Workplace Automation," *Journal of Economic Perspectives* 29: 3–30.
- Berg, Janine (2016): "Income security in the on-demand economy: Findings and policy lessons from a survey of crowdworkers". ILO CONDITIONS OF WORK AND EMPLOYMENT SERIES No. 74
- Blanchard, Olivier/Jean Tirole (2007): "The optimal design of unemployment insurance and employment protection: A first pass," *Journal of the European Economic Association* 6(1): 45–77.
- Boeri, Tito (2011): "Institutional reforms and dualism in European labor markets." In: Orley Ashenfelter and David Card (eds). *Handbook of Labor Economics*. Volume 4b. Amsterdam: Elsevier, 2011.
- Brynjolfsson, Erik and Andrew McAfee (2014): *Second Machine Age: Work, Progress, and Prosperity in a Time of Brilliant Technologies*. Norton & Company, New York City.
- Card, David/Jochen Kluge/Andrea Weber (2015a): "Active Labour Market Policy Evaluations: A Meta-Analysis," *Economic Journal*, Royal Economic Society 120(548): F452-F477
- Card, David/Jochen Kluge/Andrea Weber (2015b): "What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations," IZA DP No. 9236.
- Cazes, Sandrine/Alexander Hijzen/Anne Saint-Martin (2015): *Measuring and assessing job quality: The OECD job quality framework*. OECD Social, Employment and Migration Working Papers, No. 174
- Cunha, Flavio/James J. Heckman/Lance J. Lochner/Dimitriy V. Masterov (2006): "Interpreting the evidence on life cycle skill formation", in Hanushek, E. and Welsch, F. (eds.), *Handbook of the economics of education* vol. 1, Amsterdam: Elsevier.
- De Groot, Nynke/Pierre Koning (2016): *Assessing the Effects of Disability Insurance Experience Rating: The Case of the Netherlands*, IZA Discussion Paper 9742.
- Eichhorst, Werner (2015a): *Do we have to be afraid of the future of work?* IZA Policy Paper
- Eichhorst, Werner (2015b): *Vocational Training*, IZA World of Labor.
- Eichhorst, Werner/Paul Marx (eds.) (2015): *Non-standard employment*. Cheltenham: Edward Elgar.
- Eichhorst, Werner/André Portela de Souza et al. (2016): *The Future of Work: Good Jobs for All? The IPSP Chapter on Employment*, First Draft, www.ipsp.org.
- Eichhorst, Werner/Nuria Rodriguez-Planas/Ricarda Schmidl/Klaus F. Zimmermann (2015): "A road map to vocational education and training in industrialized countries," *ILR Review*, 68:2, 314-337.
- Estevez Abe, Margarita/Torben Iversen/David Soskice (2001): *Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State*, in: Peter A. Hall/David Soskice (eds.): *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*. Oxford University Press, Oxford.
- Eurofound (2016): *6th European Working Conditions Survey*.
- Frey, Carl Benedikt/Michael A. Osborne (2013): *The Future of Employment: How Susceptible are Jobs to Computerisation?*, University of Oxford.
- Goos, Maarten/Alan Manning/Anna Salomons (2014): *Explaining Job Polarization: Routine-Biased Technological Change and Offshoring*. *American Economic Review* 104(8), 2509–2526.
- Hall, Peter A./David Soskice (2001), *An Introduction to Varieties of Capitalism*, in: Peter A. Hall/David Soskice (eds.): *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. Oxford University Press, Oxford.

- Harris, Seth D./Alan B. Krueger (2015): A Proposal for Modernizing Labor Laws for Twenty-First-Century Work: The 'Independent Worker'. The Hamilton Project Discussion Paper 2015-10.
- Hemerijck, Anton (2015): The Quiet Paradigm Revolution of Social Investment, Social Politics (Summer 2015) 22 (2): 242-256.
- Huws, Ursula/Joyce, Simon (2016): Crowd working survey: Size of the UK's 'Gig Economy' revealed for the first time. University of Hertfordshire.
- ILO (2013): Women and men in the informal economy: a statistical picture (second edition) / International Labour Office. ILO, Geneva
- ILO World Social Protection Report 2014/15. ILO, Geneva.
- ILO (2016): Non-standard work around the world. Understanding challenges, shaping prospects. ILO, Geneva.
- Kalleberg, Arne L./Jeremy Reynolds/Peter V. Marsden (2003): "Externalizing Employment: Flexible Staffing Arrangements in U.S. Organizations," *Social Science Research* 32(4): 525-552.
- Kalleberg, Arne L. (2009): "Precarious work, insecure workers: Employment relations in transition," *American Sociological Review* 74: 1-22.
- Katz, Lawrence F./Alan B. Krueger (2016): The Rise and Nature of Alternative Work Arrangements in the United States, 1995-2015 (http://scholar.harvard.edu/files/lkatz/files/katz_krueger_cws_v3.pdf).
- Kluve, Jochen (2010): "The effectiveness of European active Labor market programs," *Labour Economics* 17: 904-918.
- Koning, Pierre (2016): "Privatizing sick pay: Does it work?" *IZA World of Labor*.
- Martin, John P. (2015): "Activation and active labour market policies in OECD countries: stylised facts and evidence on their effectiveness," *IZA Journal of Labor Policy*, vol. 4(1), pages 1-29, December.
- Milanovic, Branko (2016). *Global Inequality: A New Approach for the Age of Globalization*, Cambridge: Harvard University Press.
- OECD (2015): *In It Together: Why Less Inequality Benefits All*. OECD, Paris.
- OECD (2016): *OECD Employment Outlook 2016*. OECD, Paris.
- Scarpetta, Stefano (2014): *Employment protection*, *IZA World of Labor*.
- Siegrist, Johannes; Morten Wahrendorf (eds.) (2016): *Work stress and health in a globalized economy: The model of effort-reward imbalance*. Dordrecht: Springer.
- Thelen, Kathleen (2014): *Varieties of liberalization and the new politics of social solidarity*, Cambridge: Cambridge University Press.
- Weller, Jürgen (ed.) (2009): *Regulation, Worker Protection and Active Labour-Market Policies in Latin America*. ECLAC, Santiago de Chile.