

Issues for discussion

Moving beyond the COVID-19 crisis to a better labour market that works for all

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Plenary

Maximising resilience: Learning from effective policies to cushion future economic slowdowns

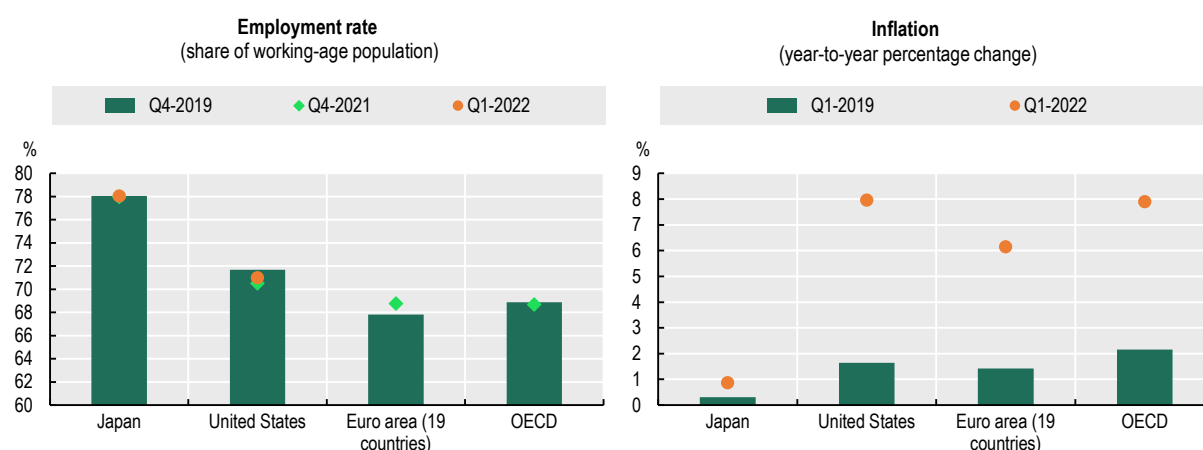
A protracted jobs crisis following the COVID-19 crisis has been largely avoided. While the economic and labour market impact of the COVID-19 crisis has been unprecedented, it has not led to a protracted jobs crisis. Instead, the impact of the crisis has largely taken the form of reductions in working time or temporary jobs losses, which have tended to recover quickly once economic activity bounced back. On average across the OECD, the employment rate stood at 68.7% in Q4 2021, just below its level in Q4 2019 (Figure 1). The strength of the jobs recovery mirrors the speed with which jobs were shed at the start of the crisis, and varies widely across countries depending on whether countries privileged supporting job retention (e.g. Europe, Japan, New Zealand) or providing income support to displaced workers (e.g. United States). In most OECD countries, labour markets are now relatively tight, as witnessed by record-high levels of job vacancies and growing labour shortages (OECD, forthcoming^[1]).

The cost of living and risks of another crisis have risen. Bottlenecks in supply chains and the collapse in exports from Ukraine and Russia are now fuelling energy and commodity prices, adding to inflationary pressures. At the same time, labour shortages do not appear to have translated into significant wage increases in most countries so far, and even in the United States where nominal wage growth has increased it falls short of the increase in the cost of living. As a result, inflation is hitting real incomes, particularly those of the most vulnerable households. Lower-income households tend to spend a larger share of their budget on food and energy and tend to have limited scope to offset increases in the cost of living by drawing on savings or reducing discretionary expenditures. While there is considerable uncertainty about the inflation outlook, many OECD countries have taken action to cushion recent rises in energy prices.

The unfolding refugee crisis poses important challenges for the integration of refugees in labour markets. The Russian aggression against Ukraine has generated an unprecedented humanitarian crisis affecting millions of people. This is placing huge pressures on host countries with respect to the provision of food, housing and medical care. For refugees who stay, an important priority will also be to help them become active participants in the labour markets of their host countries. This is complicated by, amongst others, uncertainty about the length of stay, barriers related to language and the recognition of their skills and mental-health issues due to the trauma of war. The Ministerial Folder contains a separate one-pager on the refugee crisis for the Working Lunch, which will focus on the fallout from Russia's aggression against Ukraine.

Figure 1. A protracted jobs crisis has been averted but the cost of living is rising

Q1 2019/ Q4 2019 and Q4 2021/ Q1 2022



Source: OECD Short-term labour market statistics; OECD Main Economic Indicators database.

The remainder of this paper will address two key questions. What are the policy lessons from the COVID-19 crisis that can help to enhance the resilience of labour markets to withstand future economic crises at limited social costs? What measures are needed to navigate the multiple challenges that labour markets are facing in the short and medium term?



To discuss these questions, this note builds on the OECD Jobs Strategy (OECD, 2018^[2]) by considering three broad policy objectives:

- Responsive labour demand management: from preserving jobs to promoting job creation
- A central focus on inclusiveness: preventing labour market exclusion and poverty
- Forward-looking policies: preparing for future risks and opportunities

Responsive labour demand management: From preserving jobs to promoting job creation

The demand for labour closely follows the evolution of economic activity, but there is no one-to-one relationship, particularly in the short run. Responsive demand management can play an important role in protecting labour markets from excessive fluctuations in economic activity in bad times and helping to prevent the economy from overheating in good times.

During sharp economic downturns, such as the COVID-19 crisis, job retention schemes can promote labour market resilience by partially insulating employment from the volatility in economic activity by preventing valuable job matches that are temporarily at risk from being permanently destroyed. Indeed, in most OECD countries, job retention schemes along with other liquidity support measures (e.g. credit facilities, loan guarantees, tax deferrals) were at the heart of the government response to cushion the harmful impacts of the COVID-19 crisis on the labour market. The timely manner with which they were rolled out was remarkable, covering one in five workers on average across the OECD in April/May 2020, and contributed to the effectiveness of job retention schemes in preserving millions of jobs. As economic activity picked up, governments increasingly tightened the use of these schemes or, in the case of temporary schemes, closed them altogether. As a result, the use of job retention support is now negligible or zero in most countries.

At the current juncture, the situation could not be more different from that just two years ago, with job-vacancy rates at record highs and mounting labour shortages in a number of sectors in many countries. The key challenge for policy makers now is to alleviate labour shortages and in doing so support the economic recovery and contain the build-up of inflationary pressures. In the few countries where the use of job retention support remains significant, it needs to be wound down, with the possible exception of specific sectors experiencing temporary difficulties due to supply-chain disruptions or rising energy prices. In all countries, steps should be taken to promote job mobility between firms, occupations and sectors. This means that the public employment services should also be made accessible to employed workers seeking support in relation to job search, career guidance or training. The public employment services should also take advantage of the current context to place as many hard-to-place jobless workers in jobs as possible. Their focus should not be limited to their traditional focus on persons at risk of long-term unemployment but also include inactive persons who are not actively looking for a job due to, for example, health issues or care responsibilities. Immigration, including refugees from Ukraine, also can play an important role in alleviating labour shortages.

A central focus on inclusiveness: Preventing labour market exclusion and poverty

To promote labour market inclusiveness in the aftermath of COVID-19, a focus on getting those most affected in jobs remains key, but additional measures will also be needed to prevent vulnerable workers and their families from falling into poverty as a result of prolonged joblessness or a rise in the cost of living.

To avoid that the COVID-19 crisis leaves long-lasting scars and deepens social divisions, governments should ensure that the recovery benefits the most affected and most vulnerable – youth, low-skilled workers and those in precarious jobs. This requires securing school-to-work transitions to avoid a rise in the share of young people not in employment, education or training (NEET). As emphasised in the Updated OECD Youth Action Plan, this involves a range of actions, including providing additional resources for apprenticeships and putting in place job guarantees for youth (OECD, 2021^[3]). It also requires effective employment support to jobseekers most at risk of being long-term unemployed, dropping out of the labour force and falling into poverty. This is best achieved through well co-ordinated policy interventions across providers of employment, education and health services that take account of the specific circumstances and barriers people face in accessing employment. To support the incomes of jobless workers, a number of countries temporarily extended the maximum duration of unemployment benefits, expanded their eligibility to the self-employed or scaled up paid sick leave. As the pandemic is receding, some of these measures need to be adapted to ensure good work incentives and avoid distorting the choice between different forms of work.

But tackling joblessness may not be sufficient to prevent low-income working families from falling into poverty as the cost of living increases. Lower-income households tend to have less scope for adjusting their living expenses and have fewer



savings available to finance the cost of increased living expenses. To avoid that the most vulnerable households are pushed into poverty, urgent action is needed, including by providing subsidies for essential products and services (e.g. food, energy), strengthening income support for low-income families and taking measures to ensure that work continues to pay for a decent living. Given the uncertainty about the inflation outlook, it is important to make sure that these interventions are well targeted, timely and temporary so that they do not increase the risk that inflation expectations become embedded in wage negotiations and as a result create a wage-price spiral that may prompt the use of contractionary macroeconomic policies. A key question in this context is to what extent statutory minimum wages, collectively agreed wage floors and social security benefits should be indexed to inflation. Rises in wages and benefits may be best guided by the degree of labour market tightness and the financial vulnerability of workers and their families rather than be based on the rigid use of automatic and permanent inflation indexation mechanisms.

Forward-looking policies: Preparing for future risks and opportunities

Looking further ahead, governments will need to help people and businesses become more resilient not only to future economic downturns, but also to the structural transformations affecting the future of work, such as climate change, population ageing and technological change (OECD, 2019^[4]).

Upskilling and reskilling will be crucial. However, the accessibility of training opportunities remains highly unequal and skills policies often fail to reach those adults who are most at risk of job loss and labour market exclusion. On average across OECD countries, participation in training by those with less than secondary education is 40 percentage points below that of more highly educated adults. Similarly, workers whose jobs are at high risk of automation are 30 percentage points less likely to engage in adult learning than their peers in jobs with a lower risk. Key challenges for policy include promoting a culture of lifelong learning and ensuring adequate investments in the acquisition of digital skills, particularly for those with low skills and most at risk of losing their job due to structural change. There may also be a need to link training more closely to individuals rather than jobs. This would address the fact that an increasing number of individuals no longer have a single employer on whom they can rely for the provision of training (e.g. self-employed, platform workers, multiple jobholders), as well as giving individuals greater control over their own training decisions.

Public employment services have a key role to play in anticipating future labour market needs in a timely manner, improving job matching with digital tools and Artificial Intelligence and through engagement with employers, and supporting the structural transformation through the promotion of labour mobility across sectors, occupations and regions. Other policy areas that are important for promoting resilience and adaptability include a supportive regulatory environment that provides sufficient flexibility for firms to adjust to changing business opportunities while supporting a level of employment stability that fosters learning and innovation in the workplace. Telework can also help to make labour markets more adaptable but needs to be embedded in a legal framework that clarifies the rights and responsibilities for firms and workers. A continuous system of policy monitoring and evaluation is also needed to improve policy effectiveness and ensure the best use of public funds.

Questions for discussion

- What are the key lessons from your experience of having to quickly and massively ramp up measures or introduce new ones to respond to the COVID-19 crisis? What did and did not work as part of the government response to the crisis? Are there any temporary measures that you are planning to keep in some form?
- What measures is your country taking in response to the rise in the cost of living? How does it strike the balance between protecting the incomes of workers and avoiding the risk of creating a wage-price spiral? To what extent is wage indexation used? What is the role of the social partners?
- How did your government ensure the effective implementation of policies and their co-ordination across ministries and governance levels during the COVID-19 crisis? What has been the role of administrative systems for the monitoring, co-ordination and implementation of policies? What lessons do you see for government interventions in response to the rise in the cost of living?
- How are the lessons from the policy response to the crisis shaping a recovery that seizes new opportunities to make labour markets more resilient, inclusive and green? Are in-depth evaluations planned and what form would these take?



1 Promoting sustainability and resilience: Rebuilding better and more sustainable jobs that benefit individuals, employers, sectors and places

The state of play: Employment rates have caught up with the economic recovery

More than two years after the onset of the COVID-19 pandemic, hours worked have rebounded significantly towards pre-pandemic levels in most OECD countries. In Q4 2021, hours worked were 2.6% below their Q4 2019 level compared with 16% below at their trough in the pandemic. Although the pandemic is still ongoing, vaccination campaigns and exceptional support measures in hard-hit sectors have helped job creation to pick up again in 2021 and early 2022. Employment rates have now returned to their 2019 levels at 69% on average across the OECD. However, just as the situation was clearly improving, a new crisis arose. Higher costs of energy and commodities triggered by Russia's aggression against Ukraine are exacerbating pre-existing inflationary pressures. This is affecting workers' real income in a context where nominal wages are slow to adjust. Strong inflation is already slowing down growth and threatens the pace of the employment recovery.

In this context, some groups are more at risk of long-term joblessness. The highly sectoral nature of the COVID-19 pandemic has meant that some workers have shouldered the bulk of the burden, while others suffered less and benefited more quickly from the recovery. Employment losses were initially greater for women than for men, but the gap had narrowed by the end of 2020. In low-paying occupations, hours worked fell by 50% more than in high-paying ones. Hours worked recovered quickly for high-skilled, high-paid jobs, with a slower recovery for low-skilled ones. Persons with disabilities are more likely to remain unemployed for longer periods. Young people, often working in hard-hit sectors and with precarious contracts, have seen their hours worked drop three-fold compared with their older peers. Experience from past recessions suggests that this could lead to scarring of the career prospects for some young people (OECD, 2014^[5]). Besides, low-pay and inexperienced workers are more likely to be affected by the ongoing rise of commodity and energy prices than high-pay ones.

Sectors and firms have also been hit very unevenly (Figure 1.1). Tourism and leisure activities benefited from the summer period, in 2020 and 2021, only to see a subsequent contraction following the imposition of more restrictive social distancing measures. Many workers in these sectors have experienced prolonged reductions in working hours. At the same time, some firms now face the challenge of severe hiring bottlenecks. In some cases, workers switched to occupations and sectors offering better-quality jobs (e.g. those previously in hospitality-related jobs or the arts); in other cases, they left the labour force and have not yet returned to the labour market (e.g. due to continuing childcare issues, changed preferences or exceptional income support). More often, bottlenecks stem from strong employment growth outpacing skill supply. This is the case in particular for ICT professionals, health and care workers, environmental engineers and construction trades. In many cases, this mismatch preceded the pandemic, but there is evidence that the growth in the demand for IT skills has accelerated, linked to a more rapid adoption of digital and automation technologies during the COVID-19 pandemic.

Such hiring difficulties that emerged in the second half of 2021 are now compounded with rising costs for key inputs stemming from the disruption of value chains caused by the war in Ukraine. Governments now face a complicated equation to solve. Some companies are facing recruitment difficulties, while others are struggling to recover from the shock of the pandemic, against a backdrop of increasing raw material shortages and energy prices.

Refining support to help fragile but viable firms

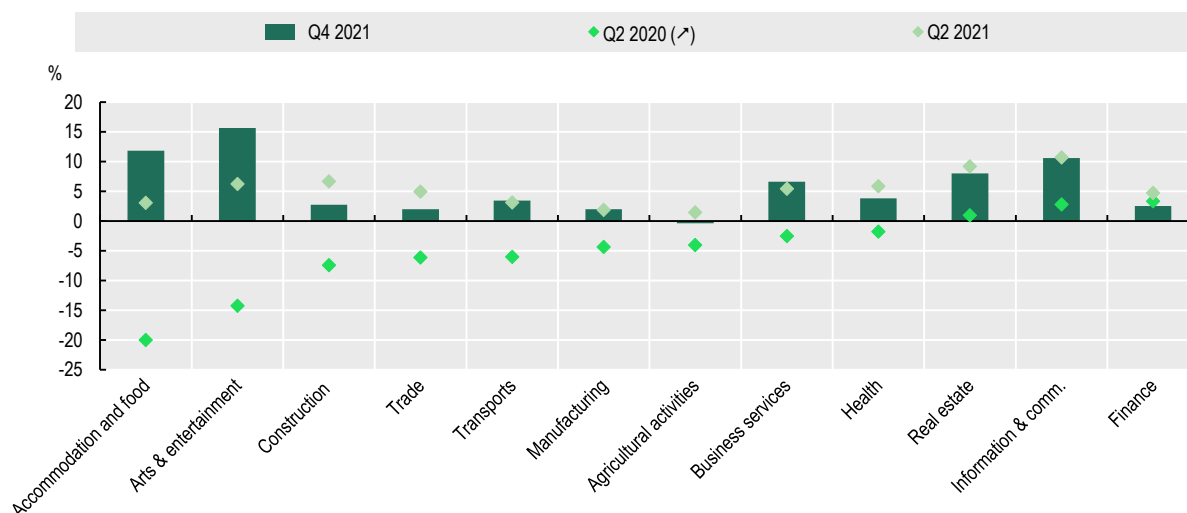
In this context, governments need to better target support to jobs likely to remain viable in the medium term. Job retention schemes are estimated to have saved up to 21 million jobs at the peak of the pandemic. By the end of 2021, only about 1.3% of jobs were still sheltered by these schemes. Such schemes could be expanded again in the future if public health conditions deteriorate again, or to provide support to firms in sectors particularly affected by the rising prices of energy and commodities or trade restrictions. However, such schemes bear the risk of slowing down the reallocation of jobs and workers necessary to boost productivity growth in the longer term. Eligibility conditions should



therefore be strengthened and employers' participation in the cost of schemes increased as economic conditions improve. The intensity of support could vary based on sectoral exposure, and conditionality introduced if not already in place, such as compulsory training provision for workers on subsidised short-time work.

Figure 1.1. Change in employment by industry since the onset of the COVID-19 pandemic

OECD-36 unweighted average, percentage change, year on year



Note: Unweighted average of 36 OECD countries (not including Colombia and New Zealand).

Source: OECD calculations based on labour force surveys.

Restoring incentives to work, while protecting those who cannot go back to work or work in low-pay jobs...

Policy responses to the pandemic have rightly focused on protecting income, in addition to jobs, by increasing the generosity and expanding the coverage of unemployment and social assistance benefits. These measures have been effective: net disposable income actually increased by 2% in 2020, while the number of hours worked dropped by 8% on average following the onset of the pandemic. As job creation picked up again and hiring bottlenecks are now being experienced in a number of sectors (including in services), the adequacy of support has been re-evaluated in many countries. However, the rapid increase in energy and commodity prices now calls for a targeted and fast response to households whose purchasing power has deteriorated significantly over the last few months, without affecting long-term incentives to work. This is all the more urgent as countries' policies for uprating cash transfers and the minimum wage vary, and because social assistance benefits in particular are not always tightly indexed to inflation but rely on ad-hoc or infrequent adjustments. For this reason, many governments have introduced temporary assistance to compensate for rising energy costs, as well as exceptional vouchers or benefit top-ups to cope with rising food prices.

... but also supporting job reallocation towards growing and sustainable sectors and firms...

Alongside measures favouring job creation, policies promoting the reallocation of workers towards expanding job opportunities will be key to sustain the economic recovery. In this context, policies supporting transitions towards low carbon-emission, environmentally sustainable jobs will also help to make the labour market more resilient. Looming climate-change related challenges are sources of income shocks and economic instability. Recovery plans provide a once-in-a-lifetime opportunity to address these challenges and to future-proof the labour market against climate change-related shocks.

Such policies include job mobility bonuses to promote the reallocation of workers towards expanding firms in sustainable sectors (e.g. targeted in-work benefits) and growing regions. Well-designed adult learning strategies and career counselling can help to equip workers in declining sectors or occupations for jobs in low-emission segments of the economy (see Issues paper 2). They are also needed to support the development of health care services and long-term care, which is likely to increase by 60% by 2040 in the context of ageing populations. The tax-benefit system can also be



mobilised to maximise synergies between environmental and employment objectives, e.g. by shifting the tax burden from labour to pollution.

In parallel, to promote fairness and inclusion, governments, in co-operation with the social partners, can support displaced workers in energy-intensive and declining sectors and compensate for potential income losses through targeted income support policies and intensive employment services. The social partners should also be involved in the task of anticipating which sectors, regions and individuals will be most affected and where skills and investments will be needed.

Young firms contribute most to net job creation and innovation. Their development hinges on access to funding, but also on labour market regulatory frameworks. To promote their growth, it is essential that labour laws and collective agreements allow enough flexibility to adapt key aspects such as remuneration, working time or labour contracts to their needs.

... while preserving and enhancing job quality in the recovery

Policies favouring job creation and reallocation should also aim to preserve and further the job quality of new and existing jobs. Recovery plans could be leveraged to support progress in all three pillars of job quality identified in the OECD Job Quality framework, namely earnings quality, labour market security and the quality of the working environment.

National minimum remuneration standards and collective bargaining on wages can help improve the quality of earnings, both in terms of absolute levels and of inequality – negotiated wage increases can for instance be designed to help close gender wage gaps (OECD, 2021^[6]). Standards setting, whether via law or via collective bargaining, can also improve job security, as well as the quality of working environments. For instance, policies promoting the use of remote and flexible working can improve work-life balance and enhance workers' autonomy, while at the same time limiting commuting and decreasing the carbon footprint of working. These policies also create further employment opportunities for persons with disabilities, many of whom may require remote and flexible work accommodations.

The pandemic also highlighted the poor quality of the jobs held by many essential workers, such as health, sanitary and care workers, who often face challenges related to low pay levels, unsafe and stressful work environments and poor career prospects resulting in high turnover rates (see the Brief on frontline workers and racial/ethnic minorities). Non-standard employment (e.g. shift or temporary work) is common in these occupations, too (OECD, 2020^[7]). Building on the emergency measures put in place at the height of the pandemic, recovery plans could contribute to improve job quality and social protection for workers in non-standard forms of employment (such as on-call or zero-hours contract work, as well as various forms of own-account work), whose ranks have been increasing in many countries. Proactive action is needed to extend the reach of programmes that often exclude specific categories of workers, to boost the portability of entitlements between social insurance programmes and to ensure a more neutral treatment of different forms of work to prevent arbitrage between them.

Improving the job quality of essential workers also requires ensuring their access to collective bargaining mechanisms. Compared to workers in similar occupations on standard contracts, non-standard workers are 50% less likely to have access to collective bargaining. This is the case of many essential workers, such as home care workers. Addressing this gap will be an important part of policies to rebuild better and more sustainable jobs in the recovery to ensure that the growing number of workers in non-standard work are not left behind.

Questions for discussion

- How does your government manage the differences between sectors with low vacancies against those with high vacancies and few employees to fill them?
- What strategies does your government use to boost employment and investment in job-creating sectors? What steps are you taking to support those sectors still impacted by the pandemic? How can we ensure sectors experiencing growth deliver good-quality jobs?
- What specific strategies are effective in boosting employment of underrepresented groups, such as persons with disabilities?
- What measures have been put in place to improve employment opportunities across regions? What has been done to address regional disparities? What lessons have governments learned in their efforts to improve employment rates?



2 Promoting sustainability and resilience: Equipping individuals for a post-crisis labour market

In the post-pandemic labour market, scaling up the capacity and capabilities of employment services and supporting individuals through upskilling and reskilling measures will be key to facilitate a reallocation of workers towards sustainable and growing firms and sectors in the recovery and make labour markets more resilient.

Skill requirements are changing increasingly fast

The pandemic crisis has hastened some of the structural changes affecting the labour market driven by digitalisation, the transition to a low-carbon economy, globalisation and demographic trends. Many countries are now confronted with significant skill imbalances.

The effect of the pandemic was not even and some groups were hit harder, experienced stronger declines in hours worked and faced a higher risk of job loss and long-term unemployment. For those with low levels of education, the impact of the crisis on hours worked was nearly three times larger than for those with high levels of education. There was also a marked gender dimension to the pandemic. Unlike in previous crises, women saw a rise in unemployment at the start of this crisis. They have also been placed at the frontlines of the fight against coronavirus – over 70% of health workers are women (OECD, 2021^[6]).

A review of the evidence to date suggests that labour markets may not go back to “business as usual” after the crisis (OECD, 2021^[6]). Rather, the post-crisis labour market will be characterised by a profound reorganisation of work, changed demand for different occupations and accelerated technology adoption. These changes will further accentuate the need for transferable skills such as creativity and adaptability, in addition to digital skills. Moreover, the changes could particularly benefit persons with disabilities or those wishing to better combine work and family responsibilities for whom new technologies, if designed with thought to accessibility, can increase opportunities for home-based work.

Employment services have stemmed the initial influx of jobseekers...

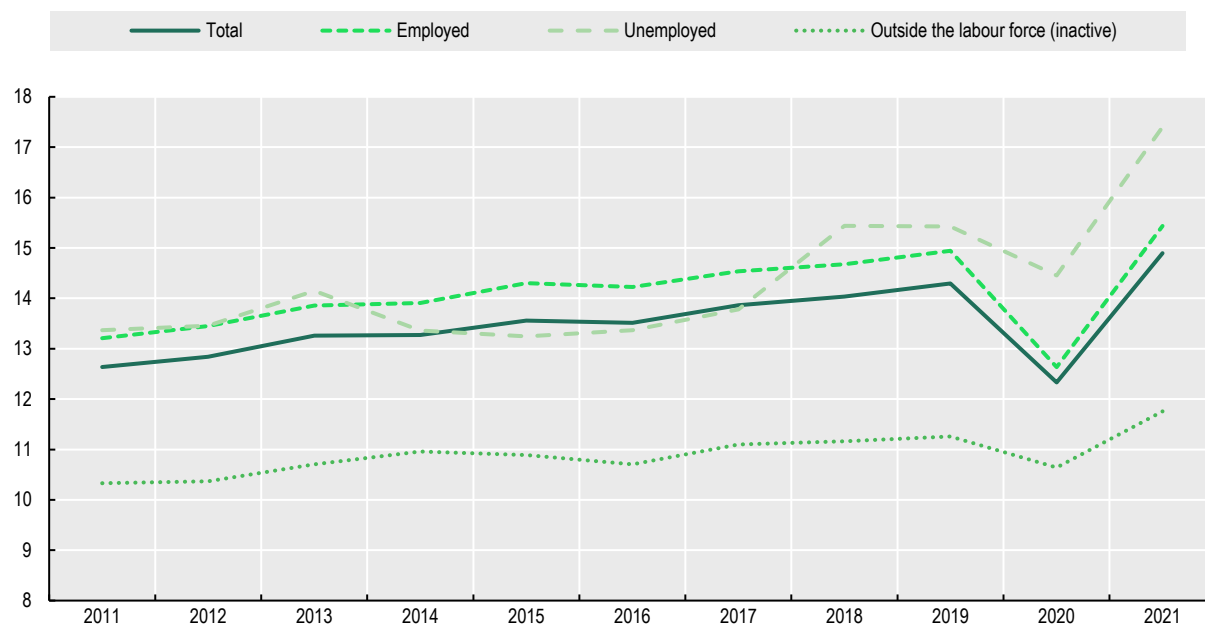
During the pandemic, employment services were not only confronted with a sudden and large influx of unemployed but also with social distancing requirements, which necessitated significant changes to standard face-to-face service delivery (OECD, 2021^[8]). Many countries increased resources for their public employment services (PES) (OECD, 2021^[9]; 2021^[8]), notably to support their capacity to serve a larger number of clients, boost the offer of remote services and stimulate the demand for labour through employment incentives.

The PES also increased their training offer, including online training, to support the reallocation of workers to growing sectors. Some employment services encouraged training during periods of inactivity in the context of short-time work schemes, but information on take-up and nature of such training is limited (OECD, 2021^[6]).

... but training participation overall took a hard hit

Overall, adult participation in education and training decreased during the pandemic (Figure 2.1). In 2020, 12.3% of adults in European OECD countries took part in education and training in the previous 4 weeks on average, down from 14.3% in 2019. Training in enterprises was particularly affected. While many large enterprises were able to upscale pre-existing online delivery of training when confronted with COVID-19 containment measures, small and medium firms struggled to provide training in the absence of pre-existing online learning opportunities (OECD, 2021^[10]). Although training participation rebounded in 2021, the reduction in upskilling and reskilling during the pandemic is likely to negatively affect the short-term re-employment chances of the least skilled.

Figure 2.1. Participation rate in education and training (last 4 weeks) by labour status, 25-64



Note: Unweighted average of OECD countries, for which data are available (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey and the United Kingdom until 2019); includes formal and non-formal education and training.

Source: Labour Force Survey data, Eurostat.

Adult learning systems are ill-equipped for the post-pandemic challenges

Already before the pandemic, the adult learning system of many countries was insufficiently prepared for the structural changes ahead (OECD, 2019^[11]).

Firms are in particular need to become better at delivering the training they need to grow their business. Only one in four firms across the EU-27 regularly assesses their skill and competence needs (OECD, 2021^[10]). On the participants' side, the closure of training centres is likely to have prevented take-up on a large scale, particularly.

To be effective, training needs to be of high quality. Many countries lack robust quality assurance systems for adult education and training beyond the formal education sector. The fragmentation of the non-formal education sector constitutes a key obstacle. What is more, evaluations of training outcomes – by firms, learning providers or state actors – are mostly absent (OECD, 2021^[12]).

Fostering a broad-based adult learning culture and facilitating inclusive access to education and training continues to be a key challenge for governments. Those who would benefit most from training, e.g. adults with low skills or those in jobs at risk of automation, are least likely to participate. On average in the OECD area, adults with low skill levels are less than half as likely to train than adults with medium or high skill levels (OECD, 2019^[11]).

A significant share of adult learning goes towards training that is not aligned with labour market needs and puts workers in jobs with limited career prospects. Many adults need career guidance and advice to making training and employment choices that will guarantee sustainable employment (OECD, 2019^[11]). This is particularly the case for women who tend to self-select into less promising fields and occupations.



Skill policies must be upscaled significantly

Skill policies will need to be upscaled significantly to cushion the effects of the crisis, and facilitate the reallocation of workers towards sustainable and growing firms and sectors, while ensuring that no one is left behind. This will involve addressing a number of challenges:

- Reaching out to disadvantaged individuals not in contact with employment services or not engaged in adult education and training; making use of linked administrative data to identify vulnerable groups; providing specific funding for outreach activities; working with stakeholders, such as employers, community organisations or initial education institutions, to make contact with difficult-to-reach groups.
- Developing inclusive and accessible workforce-planning strategies to address current and future skill imbalances; supporting firms, groups of firms and sectors in assessing their skill and training needs.
- Investing in upskilling and reskilling that includes both foundational (e.g. literacy, numeracy) and transferable (e.g. collaboration, adaptability) skills to ensure that adult skills training is able to cater to the needs of the rapidly changing labour market.
- Broadening career guidance to steer workers and jobseekers alike towards sustainable job opportunities; supporting firms, employment services and education and training providers in developing effective ways to assess the skills of workers and jobseekers.
- Matching individuals to sustainable work opportunities through better labour market information and more personalised learning pathways, leveraging the advances in artificial intelligence and use of linked administrative data.
- Advancing quality assurance systems for non-formal adult education and training; systematically evaluating active labour market policies, as well as education and training programmes more widely to ensure value for money.

Questions for discussion

- How can adult education and training measures, as well as activation measures more widely, be designed and implemented in a way that benefits those with jobs at risk and low digital skills? What good practices can you share?
- How does your government support individuals at risk of job loss before it has occurred? To what extent do the measures in place facilitate workers' reallocation from declining to growing and more sustainable jobs?
- What is the role of employers and social partners in facilitating workers' training and informal on-the-job learning? How can they facilitate job transitions in co-operation with other institutions?



3 Bringing all on board: Reversing increasing inequalities

The rising trend in inequalities may have been reinforced by the COVID-19 crisis and the war in Ukraine

Most OECD countries experienced a long-term trend towards rising inequalities well before the COVID-19 crisis hit. Disparities in disposable household incomes have widened in the majority of OECD countries: income growth for the top 10% of households since the mid-1990s has exceeded growth for the bottom 10% of households by over 50% across 20 OECD countries on average (OECD, 2021^[13]). This trend has been driven partly by growing wage inequality, and increasing precariousness of jobs, in many OECD countries. And, as average real wage growth has failed to keep pace with labour productivity growth from the mid-1990s, the share of wages in GDP has fallen on average across OECD countries (OECD, 2018^[14]; 2018^[15]). Meanwhile, social mobility is low in many OECD countries (OECD, 2018^[16]), with people from disadvantaged backgrounds – e.g. low-income or low-educated households or households with a minority background – having poor chances of ascending the social ladder and rising up in the income distribution.

On the one hand, rising inequalities reflect megatrends such as globalisation, digitalisation and ageing, which have increased the demand for and returns to selected high-level skills while expanding the number of low-paid and unstable jobs. Whereas routine tasks have been automated or exported, leading firms have great demand for highly qualified personnel with high-level cognitive skills – such as complex problem solving, critical thinking and creativity – and social intelligence – social perceptiveness needed when persuading, negotiating and caring for others. These skills are in short supply in many countries and people who possess them have been the main beneficiaries of wage growth.

On the other hand, these trends are partially the result of increasing bargaining power in the hands of employers and the decline in trade union membership and collective bargaining (OECD, 2019^[17]). Indeed, about 16% of employees across the OECD work in local labour markets that are concentrated, which gives them limited outside options (OECD, forthcoming^[1]). In such cases, without offsetting bargaining power by organised labour, employers can reap greater rents by inefficiently imposing lower wages and worse working conditions – a situation usually referred to as labour market monopsony – which reduces labour shares. While there is no indication that labour market concentration has increased over time, the proportion of workers who are covered by collective agreements in the OECD has steadily declined over the last three decades, from 45% to 32% between 1985 and 2019. This suggests that organised labour has seen its ability to exert its offsetting power decline in many local labour markets (OECD, 2019^[4]), with negative consequences not only on wages and benefits but also on job and life satisfaction (Blanchflower and Bryson, 2020^[18]).

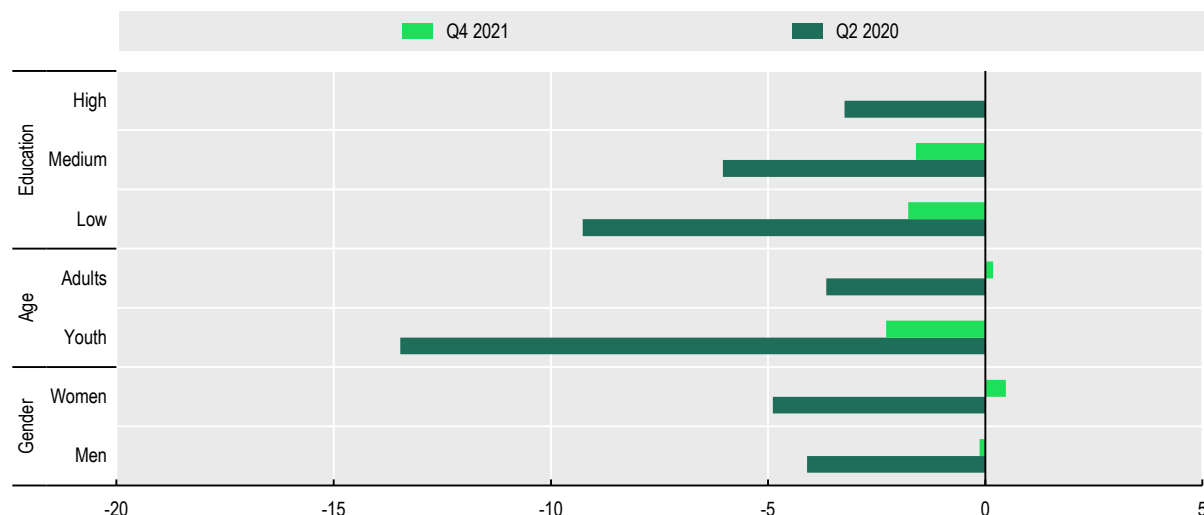
The COVID-19 crisis has accentuated – and further deepened – many of the socio-economic divides in OECD labour markets and societies. The labour market consequences of the crisis have been deeper and more persistent for vulnerable labour market groups, such as women, young people, persons with disabilities, migrants and low-educated workers (OECD, 2021^[6]). Teleworking became mainstream for many high-skilled workers, but remained peripheral in many low-skilled occupations: high-skilled workers were three times more likely to work from home – and to maintain their usual working hours – while low-skilled workers were more likely to lose their jobs. In the fourth quarter of 2021, almost two years after the onset of the crisis, the employment rate of workers with tertiary education was back to the level of the same quarter of 2019, while that of low-educated workers was still lower by almost 2% on average in the same period (Figure 3.1).

The crisis caused particularly heavy job and earnings losses for workers on non-standard contracts, low-paid workers, young people, and, at least in certain countries, mothers, migrants and racial/ethnic minorities. Because of the type of jobs they used to hold, these groups were also less well covered by earnings replacement benefits, and often did not have access to job retention schemes, though many OECD governments provided other forms of emergency support (OECD, 2020^[19]; 2021^[6]). The young, the low educated, migrants and racial/ethnic minorities are also overrepresented in “frontline” jobs (such as cashiers in food shops, food processing and personal care) that continued to require their physical presence in the workplace and direct contact with customers or co-workers throughout the pandemic, leaving them exposed to a higher risk of infection (OECD, 2022^[20]). Young people who entered the labour market during the crisis risk experiencing poorer employment outcomes and flatter earnings trajectories for the years to come. Meanwhile, increased rates of school drop-out as a result of school closures and online teaching modes cast a bleak shadow on the future of the most disadvantaged young people among the “Generation COVID-19” (OECD, 2020^[21]).



Figure 3.1. The labour market impact of COVID-19 has been greater for many vulnerable groups

Percentage change in the employment rate by socio-demographic group compared with the same quarter of 2019



Source: OECD (forthcoming^[1]), *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*.

The war in Ukraine is first and foremost a human tragedy. But it has also heightened uncertainty about the pace of the otherwise ongoing recovery putting further pressure towards widening inequalities. It also immediately affected the living standards of households across OECD economies by causing a spike in inflation, notably through increases in the prices of energy, fuel and some key commodities, including food. These price increases have been hurting particularly low- and lower middle-income households, who spend a large share of their tight budgets on energy and food, with often little capacity to reduce consumption, or substitute away from it, in the short run. If not cushioned, the inflation shock can therefore be particularly hard for the most disadvantaged.

In a context of great uncertainty, OECD countries are therefore having to strike the difficult balance between addressing the labour market challenges laid bare by the COVID-19 crisis and supporting a strong and inclusive recovery, while simultaneously dealing with the economic and social fallout from the war in Ukraine. When asked in autumn 2021 about the main perceived labour market challenges for 2022, most OECD countries pointed to labour supply shortages and the crisis-induced worker reallocation, scarring risks for young people and the labour market transformation brought about by digitalisation and artificial intelligence (OECD, forthcoming^[1]). Since then, the war in Ukraine has brought about the highest inflation rates in decades, a large number of humanitarian migrants and a marked slowdown of the economic recovery in many countries.

Standard social protection systems, complemented by unparalleled emergency measures, have been effective at cushioning income shocks

Standard social protection systems, in combination with unparalleled emergency measures taken by OECD governments to support companies, workers and households, appear in many cases to have been very effective at limiting heavy income losses during the COVID-19 crisis. National accounts data show that household disposable income per capita increased during the crisis in the OECD on average (OECD, 2021^[6]). This is a consequence of extraordinarily high government cash transfers to households through job retention schemes, expanded unemployment benefits and – in a few countries – (quasi-)universal lump-sum cash payments. Moreover, both data from ad-hoc surveys, available for some European countries and the United States, and model-based estimates indicate that inequality in disposable incomes remained broadly stable, or even declined, in 2020. The reason is that low- and middle-income workers were effectively shielded from heavy income losses through government emergency measures, while some high-income workers, notably many self-employed, suffered a, sometimes large, drop in earnings. However, this trend may well have reversed, and income inequality risen, when governments phased out emergency support measures. The COVID-19 crisis may also have



reinforced inequalities in household wealth: financial asset prices suffered a blow at the start of the crisis but quickly again exceeded their pre-crisis level. Meanwhile, high-income, high-wealth households strongly increased their savings rate during the crisis by cutting, much more than lower-income households, their discretionary spending on travel, restaurants and other social activities.

The COVID-19 crisis also highlighted, and compounded, other forms of economic and social disadvantage: homes ill-suited for working, studying and sheltering for many lower-income households; a greater risk of negative long-term consequences of school closures on the educational and social outcomes of children from disadvantaged backgrounds; a lack of childcare solutions for many working parents, and an increased burden of unpaid work, mainly on women; geographic differences in access to, and in some cases in the quality of, health care and other public services. These inequalities undermine people's health and livelihoods today, and likely reduce tomorrow's opportunities for younger generations.

OECD governments have prepared often large policy packages to support a strong and inclusive post-COVID-19 recovery. These policy packages have to: provide support to vulnerable labour market groups and households in certain sectors where economic activity remains subdued; promote a sustainable recovery that addresses OECD societies' major structural challenges, such as the green transition, automation and population ageing, with benefits widely shared; ensure that the enormous costs of the crisis emergency policies, and of the investments required to shape a sustainable recovery, are borne by those fortunate enough to have suffered least from the impact of the crisis; and improve resilience, by addressing some of the structural weaknesses of labour markets and social protection systems highlighted by the crisis. This could include raising employment and job quality for vulnerable labour market groups, closing social protection gaps, particularly for workers on non-standard contracts, promoting equal opportunities and social mobility by strengthening support for disadvantaged children and young people, addressing abuses of market power and reforming the financing of public expenditures.

More recently, countries have been taking rapid measures to address the labour market and social challenges arising from the war in Ukraine. Many governments have taken measures to offset the large energy price increases seen since the start of the war, by providing income support and through price measures such as lower electricity tariffs for low-income households, VAT cuts on electricity and gas, reductions in excise taxes on liquid fuels and electricity and energy price freezes (OECD, 2022^[22]). These measures may need to be strengthened if inflation remains high, and they may need to be complemented with measures to support companies and workers in sectors most heavily affected by high energy prices and the interruption of value chains with Russia. A second area of policy action has been support to the large number of humanitarian migrants from Ukraine who require housing, schooling, labour market integration and income support.

Questions for discussion

- How successful has your country been at ensuring that emergency programmes during the COVID-19 crisis reached the most affected groups, such as the low skilled, young people, women, persons with disabilities, migrants and racial/ethnic minorities? Has your country explicitly targeted support to such groups, or designed programmes so as to facilitate easier access?
- Which of the emergency measures that you have taken may remain in place more permanently, because they address larger structural challenges and help tackle inequalities?
- In light of the war in Ukraine, what measures are needed now to support low-income households and workers and employers in heavily affected sectors? What measures has your country taken, and what have the challenges been?
- What are the key labour market risks affecting vulnerable groups of workers in your country in the near future?

4 Bringing all on board: Supporting young people

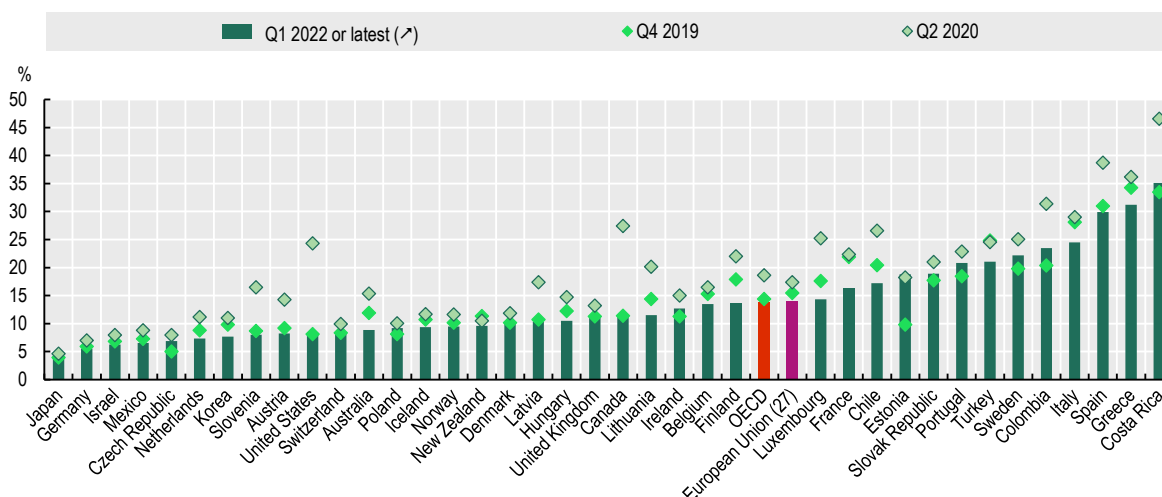
Successful engagement of young people in the labour market is crucial, not only for their own personal well-being and economic prospects but also for overall economic growth and social cohesion. As in previous crises, young people have been particularly affected during the COVID-19 pandemic. Some of the impact has been re-absorbed, but their employment outcomes are still lagging behind other age groups in many countries. The continuing disadvantage of young workers is particularly concerning in light of the large body of evidence pointing to possibly long-lasting scars on their careers and broader socio-economic outcomes. It is therefore important to give young people better opportunities in the labour market, focusing on the more disadvantaged with well-tailored support.

Young people have not fully recovered from the COVID-19 crisis

As young people are overrepresented in industries most affected by the crisis and are more likely to work on temporary contracts, they were particularly affected by the initial ravages of the crisis. The COVID-19 crisis pushed youth unemployment rates upwards in nearly all OECD countries, with an impact twice as strong as for the total population. In the second quarter of 2020, the average OECD unemployment rate reached 18.6% for 15-to-24-year-olds (Figure 4.1), equalling about 13 million unemployed young people. Due to pre-existing gender inequalities and socio-cultural norms, in some countries young women had been disproportionately affected by the social and economic fallout from the COVID-19 pandemic, but gender differences fell afterwards.

Figure 4.1. Unemployment rates of young people aged 15-24

As a percentage of the youth labour force, seasonally adjusted data, Q4 2019 – Q1 2022 or latest



Note: OECD is the unweighted average of the 38 OECD countries. Q4 2021 for Norway, Switzerland and the United Kingdom.
Source: OECD Short-term Labour Market Statistics.

By Q1 2022, young people had recovered much of the lost ground. However, they were still lagging behind other age groups and employment rates for 15-24 year-olds were still below pre-crisis rates in more than half of the OECD countries (22 of 38 countries). The large declines in some countries are often associated with increases in inactivity and mostly related to employment losses in low-paid service sectors and to a lesser extent in manufacturing and construction (OECD, forthcoming^[1]).



The share of young people aged 15-24 not in employment, education or training (NEET) in Q4 2021 was below its pre-crisis level by 2 percentage points on average, having re-absorbed the increase seen at the beginning of the crisis to return to historically low levels. This reduction is in part explained by an increase in the number of young people in education, consistent with evidence of stronger engagement in education during periods of labour market difficulties. However, the NEET average conceals large cross-country differences, with declines in 19 countries and increases in 11 countries (including some of the largest OECD countries like Germany, Italy and the United States).

The pandemic has also been disruptive beyond its immediate labour market impact. Although international evidence is still developing, there is some indication that the pandemic had negative effects on learning outcomes of children in schools, which may have longer-term implications for the labour market outcomes of the young people affected. Many work-based learning and apprenticeship opportunities, which can help smooth school-to-work transitions, were also disrupted, while many young people are experiencing financial insecurity, housing instability and mental health issues (OECD, 2021^[23]).

Russia's war on Ukraine has generated new risks, including a slowdown in economic growth and a surge in inflation, with potentially negative effects on the labour market. Since young people are often the first ones to be affected by an economic crisis, the Ukrainian crisis may complicate their transition into the labour market.

Many countries introduced ad-hoc labour market measures to support youth during the pandemic crisis

Labour market measures to support young people in finding and keeping jobs and work-based learning opportunities amidst the COVID-19 crisis have been frequently deployed, and almost two-thirds of OECD countries have introduced emergency income support for young people (OECD, 2021^[24]).

Around one-third of OECD countries introduced new hiring subsidies to employers recruiting young people, or extended existing schemes at some point during the pandemic. These subsidies can be a cost-effective way of helping young people into jobs in the recovery. Going forward, careful evaluation of the newly introduced or expanded hiring subsidies is necessary, to avoid that the available subsidies go to individuals who would have been likely to find a job in the absence of the subsidy (deadweight losses). Where needed, these programmes should be adjusted and targeted to those groups who can benefit the most, like for instance low-skilled young people who have been unemployed for a longer period.

More than three-quarters of OECD countries have strengthened work-based learning opportunities, including apprenticeship schemes and summer jobs for young people. Measures range from new and increased subsidies for work-based learning to increased flexibilities in existing schemes. Shortages of work-based learning opportunities are likely to persist in some countries, but in France and Switzerland the measures taken have enabled them to maintain or even increase the number of apprenticeship placements (OECD, 2021^[24]). As financial incentives for employers to take apprentices are likely to come with substantial deadweight losses, their use during the recovery period and thereafter should be evaluated carefully and redirected to specific sectors or companies where needed.

Finally, many private and public employment services have launched new youth-specific programmes, and a few countries are stepping up efforts to increase outreach and register young people with employment services. Early outreach is indeed crucial, as opportunities to get in touch become more limited over time, as young people disengage from school or work and become increasingly detached from the labour market. Available evidence for European OECD countries illustrates that only one-third of NEETs are registered with public employment services, for reasons varying from ineligibility to unawareness and lack of trust (OECD, 2020^[25]).

The COVID-19 crisis first and now the Ukrainian crisis have come on top of existing challenges

Trends such as automation, digitalisation, and Artificial Intelligence bring many new opportunities, but also polarise the labour market and challenge the integration of young people. In two out of three OECD countries (for which data are available), highly educated young people are now more likely to be in low-paid jobs than in high-paid ones (OECD, 2019^[4]).

While new forms of work organisation provide flexibility, they also challenge access to social protection systems in countries where it is mostly insurance-based as well as basic labour rights and training opportunities for an increasing share of young people in many countries. In some countries, unpaid internships are gaining importance, complicating the labour market integration of young people from low-income families in particular.



Give young people the support they need now

In the aftermath of the global financial crisis, governments acted inadequately in addressing young people's difficulties, leaving many of them with long-lasting scars on their careers and overall well-being. It took a whole decade before the OECD youth unemployment rate returned to its pre-2008 level, while many other outcomes have remained fragile.

The Updated OECD Youth Action Plan (OECD, 2021^[3]) provides the building blocks for improving support in key areas, including employment and education policies, social policies and public governance. To promote a government-wide strategy, the OECD Secretariat has developed a Recommendation of the Council on Creating Better Opportunities for Young People. The far-reaching effects of the COVID-19 crisis and broader societal trends indeed require an ambitious, inclusive, accessible and comprehensive policy package so that no young persons (in particular NEETs) are left behind. Such a package is particularly needed in those economies that have been hit hard by the COVID-19 crisis, or had not yet recovered fully from the global financial crisis. The fiscal costs of the required interventions are small in comparison to the benefits that accumulate over the rest of young people's lives (OECD, 2021^[3]). Collaboration across stakeholders, including governments, employment services, employers, trade unions, and education and training providers as well as local stakeholders and the social economy, is crucial.

Questions for discussion

- Which groups of young people are most at risk of being left behind in your country as it recovers from the effects of the COVID-19 pandemic and faces new challenges due to the war in Ukraine?
- What measures is your government implementing to effectively support young people, and in particular vulnerable youth, to make a successful transition from school to work, to return to work or to stay in work?
- What measures is your government using to prepare young people to adapt to future changes in the economy and the labour market, including skills requirements?



5

Paving the way to the new workplace: Getting the most out of the digital transformation

This time could be different

Over the past few decades, the digital transformation has driven important changes in the labour market, creating new opportunities and ways of working, but also resulting in the automation of some jobs and labour market polarisation. Digitalisation has received an unexpected boost as a result of the COVID-19 pandemic, which forced much work to move online.

Building on these trends, the digital transformation is about to shift into a higher gear with rapid advances in the capabilities of Artificial Intelligence (AI) and the increased adoption of these new technologies in the workplace.

AI holds great promise to make work more productive, to improve the quality of jobs, as well as to promote occupational health and safety, amongst others. However, like previous technological developments, AI brings anxiety around widespread automation and mass technological unemployment. It also raises new concerns around job quality and workers' rights – for example when such tools are used for automated decision-making or the excessive monitoring of worker performance, particularly in the current context of increased telework.

The balance between the risks and benefits will depend largely on the policies and regulations that will frame the development and adoption of AI, in order to encourage job creation and innovation, on the one hand, while reinforcing workers' rights, job quality and inclusiveness on the other.

There are many benefits associated with AI

AI is likely to boost the productivity of workers by automating certain tasks as well as by shifting the composition of tasks towards higher value-added ones. In addition, there are signs that AI could boost job quality and occupational safety and health. Many of the tasks that AI automates are tedious and repetitive, which allows humans to dedicate extra time to the more interesting aspects of their jobs and could increase job satisfaction. AI can also be used to make existing technologies and work environments safer or replace workers in particularly dangerous tasks – although there are also examples where AI has made workplaces less safe.

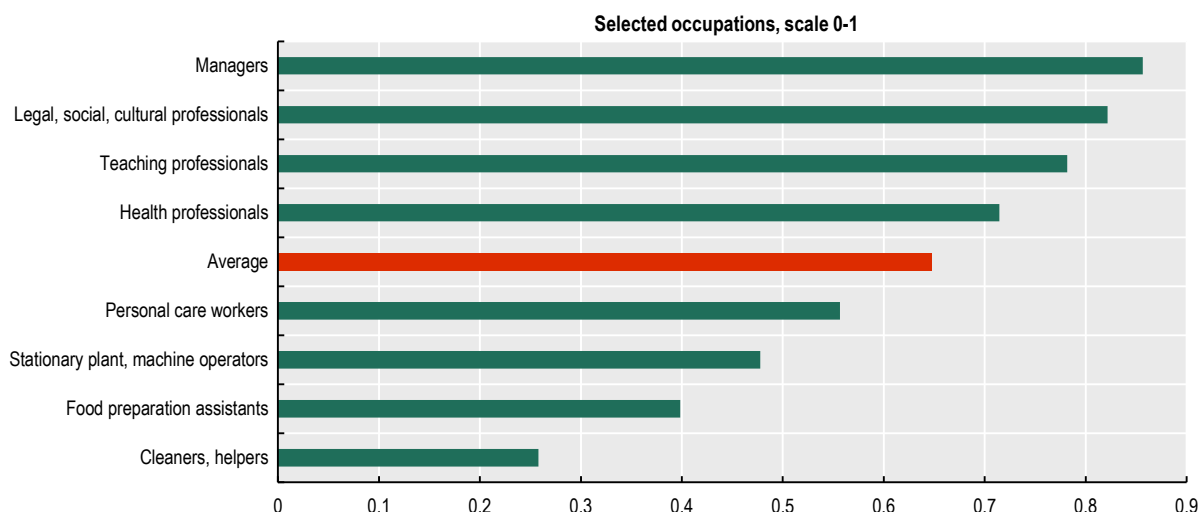
AI could help in making the labour market more efficient and, as a result, lower frictional unemployment. AI has been used by platforms to match workers to clients and to set prices in response to changing demand and supply conditions. AI is also increasingly adopted by employers in the recruitment process, as well as by private and public employment services. Besides the obvious reductions in costs that AI can bring, the use of AI in these contexts could result in more and better matches in the labour market, leading to both higher productivity and retention. AI could also help reduce human bias in recruitment and performance management.

Finally, AI holds potential for strengthening labour market inclusiveness. For example, there is some indication that AI could offer solutions to help people overcome labour market barriers. If AI allows computers and robots to “see” or “hear”, they can help people living with disabilities overcome some of the challenges that they have traditionally faced in accessing certain jobs. Similarly, migrants have often faced difficulties integrating in the labour market because of language challenges or because their skills are not easily recognised, and AI could help overcome these hurdles.

AI also brings significant risks

AI inevitably brings back the spectre of automation and job loss. While previous technologies have automated primarily routine, non-cognitive tasks (and therefore threatened mostly low-skilled jobs), AI is capable of doing tasks that are non-routine and cognitive in nature. Its impact is therefore expected to be felt primarily in high-skilled occupations (Figure 5.1).

Figure 5.1. High-skilled occupations are most likely to be exposed to Artificial Intelligence



Note: The AI occupational exposure measure is based on Felten, Raj and Seamans (2018^[26]; 2019^[27]). The OECD has extended this measure to 23 countries using O*NET and the OECD's Survey of Adult Skills (PIAAC). Scale ranges from 0 (least exposed) to 1 (most exposed).

However, this impact is expected to be positive for high-skilled workers. The early evidence suggests that higher exposure to AI is associated with faster job and wage growth, and even more so in occupations where computer usage is high. This is not surprising, given that AI can make workers more productive and better at their jobs – particularly when they have the skills to work with AI. If AI primarily benefits high-skilled workers, this could lead to further increases in inequality (in access to jobs but also in wages), unless action is taken to ensure that low-skilled workers are also able to share these benefits.

Disparities between different groups of workers (e.g. men and women; native and foreign-born; etc.) might also worsen because of unequal access to new opportunities brought by AI. Like any other technology, AI creates a new set of jobs related to its development, deployment, use and maintenance. Examples include machine learning engineers and data scientists. If disparities exist in the skills required for these jobs (as well as in the skills to work with AI) then existing gaps in the labour market might widen.

Another risk comes in the form of AI perpetuating or worsening bias in the labour market. AI tends to be only as good as the underlying data that it uses to make predictions. If these data are of poor quality or reflect biased and discriminatory decisions made by humans in the past, then AI will not only make poor predictions but also entrench or even worsen such bias.

AI presents other risks for the work environment as well. For example, while managers may welcome a more data-driven approach to recruitment or retention, a lack of transparency and accountability around algorithmic predictions may make employees feel insecure. Extensive monitoring may increase work pressure and generate stress about productivity and about how managers interpret data. The increase in teleworking induced by the COVID-19 crisis and the accompanying growth in the use of AI-powered monitoring tools have added to the importance of this issue.

Nowhere are the risks of algorithmic management as clearly evidenced as in the platform economy, where “apps” use and learn from large quantities of data to match workers to clients, to set the price of transactions, to decide which workers get jobs, to prescribe how work is carried out, and sometimes even to deactivate workers from the platform. Besides such direct control over workers, apps can make use of nudging and gamification to influence the behaviour of individuals, which may result in intensification of work. Moreover, the decisions of algorithms can lack transparency, with little opportunity for workers to challenge them. Workers often have no choice but to accept such working conditions, because they have few outside options and little bargaining power.



The balance between risks and benefits will depend on government policy

While there are both risks and benefits associated with the use of AI in the workplace, the ultimate balance between these two will largely depend on the policies and regulations that will frame the development and adoption of AI.

Building on the OECD AI Principles, as well as on recent and ongoing efforts by governments and regulators, policy makers should continue to work closely with social partners, with the tech industry and with other stakeholders to promote the responsible development and use of AI at work, to enhance the safety of workers and the quality of jobs, and aim to ensure that the benefits from AI are broadly and fairly shared.

One aspect of this is how to ensure that high-quality, representative data are used to train AI, which might require rules on data and data governance, documentation and transparency. Other safeguards might also be required, such as the need for human oversight, the provision of information to individuals who interact with AI, a right to challenge outcomes, as well as a “right to disconnect”. In some cases, outright bans on certain AI applications might need to be considered.

Policy makers will also need to accompany workers through this digital transformation. Not everyone will be able to work with AI. Moreover, some workers might be displaced by new technologies like driverless cars or fruit-picking robots. These workers should be helped to quickly transition to new job opportunities. To achieve successful transitions, governments should provide adequate income support combined with effective activation measures. Investments in training – not just when individuals lose their jobs, but also in their current jobs – can help strengthen the resilience and adaptability of the workforce in the face of change. Constructive social dialogue can help in managing transitions more effectively.

More generally, the challenge will be to combine the twin goals of promoting innovation and growth, on the one hand, and ensuring fair and just outcomes for workers, on the other – and also to do this in a fashion that keeps up with the rapid developments in AI. There need not be a trade-off between these two goals, since the successful adoption and implementation of AI may largely depend on having safe and trustworthy AI in the first place.

Finally, there appears to be scope for increased co-operation between countries on AI policy and regulation since decisions around the use of AI in one country will have implications for developers based in others. Clear international guidelines on what constitutes safe and trustworthy AI would reduce uncertainty, and promote both development and adoption, while safeguarding the interests of workers. Again, close collaboration with social partners will be highly valuable in achieving these goals.

Questions for discussion

- What can governments, together with social partners, do to better prepare the labour market for the new opportunities that AI will offer?
- What can be done to steer the development and dissemination of AI applications to promote a fair transition and greater labour market inclusion?
- How to effectively regulate the development and use of AI in the workplace so as to promote innovation and productivity, while at the same time preserving human-centred values and fairness, as well as inclusion and accessibility?
- How can we ensure workers’ labour and social protection rights, to avoid undermining of the labour market relations and to address the challenges of algorithmic decision-making?



The green transition: Both a challenge and an opportunity for jobs and incomes

Background material for the Ministerial Panel on 8 June 2022

The green transition has become a central policy priority as countries seek to rebuild their economies from the COVID-19 crisis, enhance energy security and most importantly address the pressing challenges of climate change. By integrating environmental considerations into recovery plans, governments can make decisive inroads towards meeting environmental goals while boosting economic activity and job creation in the short and longer term. For example, the International Energy Agency estimates that up to 2.5 million new jobs related to adaptation to climate change could be created in OECD countries each year.

However, the transition to a green economy will involve difficult transitions in the labour markets, especially as the economy is still recovering from the crisis. Policies fostering green growth could lead to job creation in a number of sectors (such as renewable energy, organic agriculture, recycling of waste products), transform many other jobs (e.g. in construction) and cause job losses in emission-intensive sectors. The challenges and opportunities arising from this process will be distributed unevenly across workers depending on their occupation, skills and geographic location. Countries will therefore need to promote and facilitate the reallocation of workers across sectors as well as to greener jobs within sectors.

A first priority must be connecting people with jobs. This involves supporting job creation but also expanding active labour market policies. About two-thirds of OECD countries have increased their budget for public employment services since the onset of the crisis. However, increasing spending may not suffice. How that money is spent is just as important. Employment and training services need to be integrated, comprehensive and reach out to firms that create jobs and to people most at risk of long-term unemployment. Acting early, before plant closure and reconversion, will be critical to achieving better outcomes for displaced workers.

A second priority must be to invest in effective skills policies to help workers and firms seize the opportunities in green occupations and sectors with high growth potential. This requires individualised, good-quality training that helps workers of all skill levels acquire the competences sought by employers in green sectors. Some of these sectors – such as renewable energy, energy efficiency, construction, manufacturing – are nonetheless likely to experience larger skill gaps and shortages. Better labour market information on skill needs arising from the green transition is therefore needed.

Last but not least, to secure public support for policies to mitigate climate change, policy makers will need to make sure that the green transition is fair and inclusive. This means ensuring that social protection systems provide adequate income support to workers who suffer job or earnings losses because they struggle to adjust to the transforming labour market. It will also require helping households, and notably those with low incomes, cope with the expenditures brought about by the green transition, notably through higher energy prices or the needed investment in greener housing and transport.

Questions for discussion

- **Promoting labour reallocation:** What do Ministers see as the key challenges for promoting the transition of workers away from brown jobs and sectors to greener ones, over and above those arising from other structural changes? What measures are being taken or planned to facilitate this transition?
- **The skills imperative:** What measures are being taken or planned to promote the acquisition of the skills required by workers for a greener economy? Is this putting additional strains on the adult learning system in your country?
- **A fair and inclusive green transition:** What measures are being taken or planned to offset the potential adverse distributional effects of mitigation policies? What are fair and efficient ways of compensating workers and households who are negatively affected by the green transition?

The COVID-19 policy response: Spotlight on frontline workers and racial/ethnic minorities

General background material for the Ministerial meeting

Frontline workers and racial/ethnic minorities are two population groups that faced particular difficulties during the COVID-19 crisis, despite the efforts made by governments to support them. Going forward, countries need to take more action to raise the quality of frontline jobs and ensure equal opportunities for racial/ethnic minorities.

Improving job quality for frontline workers

Frontline workers are workers who continued to work in their physical workplace and in proximity of other people even during the heights of COVID-19. The most typical example are health care workers, but frontline workers are also employed in social and long-term care, the police, the fire service and essential retail.

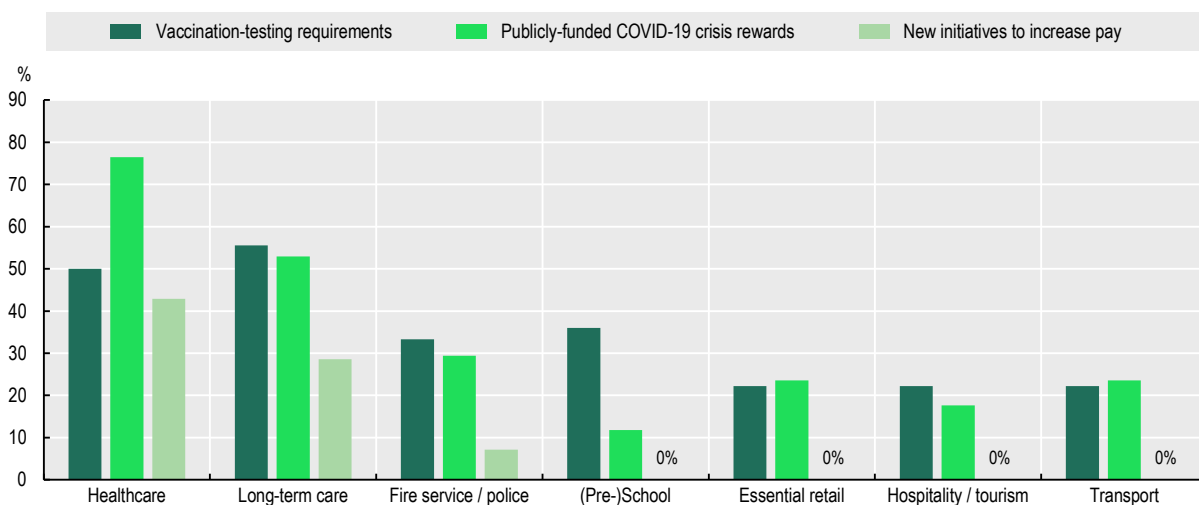
The COVID-19 crisis clearly highlighted the importance of frontline jobs for the functioning of the economy. It was the dedication of frontline workers working in hospitals, care homes, supermarkets and elsewhere that avoided an even bigger human and social shock.

The threat in the COVID-19 crisis for frontline workers was not that of losing their job; to the contrary, they were needed more than ever. Rather, the problem was that they had high exposure to the virus during their work activity, but also that pay is low for many frontline workers, the job is very intense and working hours are long. In sum, many frontline workers are over-worked – which has increased further during COVID-19 – and under-paid. Young people and racial/ethnic minorities are overrepresented in these jobs.

OECD countries have taken action to protect frontline workers and improve the quality of their jobs: some made vaccination compulsory or required test certificates, many strengthened occupational safety and health obligations, and several initiated COVID-19 crisis rewards or permanently higher pay. Policy action has been particularly strong for workers in health and long-term care (Figure 1).

Figure 1. Health care and long-term care workers at the frontline

Share of OECD countries that adopted these policies for selected frontline workers, November 2021



Source: OECD Questionnaire on Policy Responses to the COVID-19 Crisis; OECD (forthcoming^[1]), *OECD Employment Outlook 2022*.

Nevertheless, frontline occupations are a key segment of the labour market where worker shortages have become severe in particular in the recovery from the pandemic. Around 80% of OECD countries report that labour supply shortages in health and long-term care have risen since the COVID-19 crisis, in 60% of the countries this is the case for hospitality and tourism. In more than 80% of OECD countries, the public employment services are finding it increasingly difficult to fill frontline vacancies.

Governments have been taking a variety of measures to make frontline jobs more attractive to existing staff and to attract new staff. Overall, measures do not go far enough, however, to durably improve job quality and to address large worker shortages for frontline jobs.

Ensuring equal opportunities for racial/ethnic minorities

Different to immigrants and foreign nationals, racial/ethnic minorities have long been citizens of, or at least been rooted in, their country. Many are Indigenous populations and Traveller communities including Roma people. Black, Asian and Hispanic/Latino people are important minorities in the United States.

In some OECD countries – Estonia, Latvia, the United Kingdom, the United States – the labour market outcomes of racial/ethnic minorities over the past two years have worsened compared with other groups, though this has not been universally the case across the OECD (where data are available).

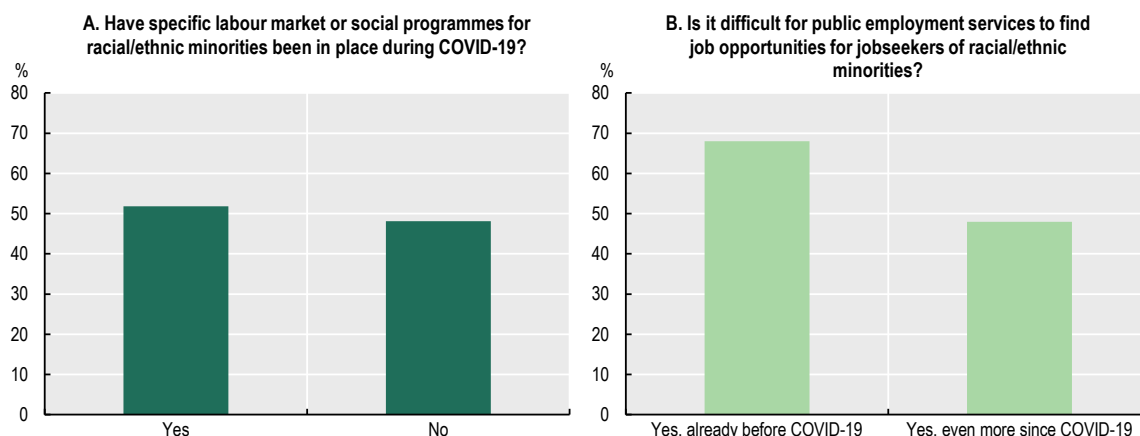
Half of OECD countries have had specific labour market or social policies in place to support racial/ethnic minorities in the COVID-19 crisis and recovery (Figure 2; Panel A). They include Australia, Austria, Canada, the Czech Republic, Greece, Hungary, Ireland, Japan, Lithuania, New Zealand, Portugal, Slovenia, Spain and Switzerland.

One worrying sign in policy support for racial/ethnic minorities is that the public employment services experience great difficulties in finding job opportunities for jobseekers from racial/ethnic minorities – this is the case in nearly 70% of OECD countries – and that in almost half of OECD countries these difficulties have become even worse over the past two years (Figure 2; Panel B).

The success of governments' support schemes for racial/ethnic minorities varies and, as a whole, OECD countries still have a good way to go to ensure equality of opportunities for racial/ethnic minorities. Further progress requires tailoring labour market and social programmes (such as job-search support, training, housing) to the specific needs of minorities and fighting against discrimination.

Figure 2. Racial/ethnic minorities: Policy measures over the COVID-19 crisis

Share of OECD countries, November 2021



Source: OECD Questionnaire on Policy Responses to the COVID-19 Crisis; OECD (forthcoming^[1]), *OECD Employment Outlook* 2022.



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