Employment policies for inclusive growth

Technological change, globalisation and demographic change are major global trends that are changing the pattern of growth, and the labour market will be an area in which its impact will be felt sharply. Technological change is accelerating changes in the productive structure by automating processes, destroying occupations and creating new ones, which will change the labour requirements and the skills necessary to perform new tasks. It interacts with globalisation, which facilitates the formation of global supply chains for goods and, increasingly, for services, as well as facilitating greater competition, which affects prices and wages. Finally, the ageing of the population reduces the labour force and changes its composition, as older workers make up a larger proportion of the total. Nevertheless, the productivity gains that this new pattern of growth can provide will not necessarily be transferred to the whole of society if the structure and regulation of the labour market are not adjusted accordingly. Employment policies must be adapted in many areas in order to achieve inclusive growth.

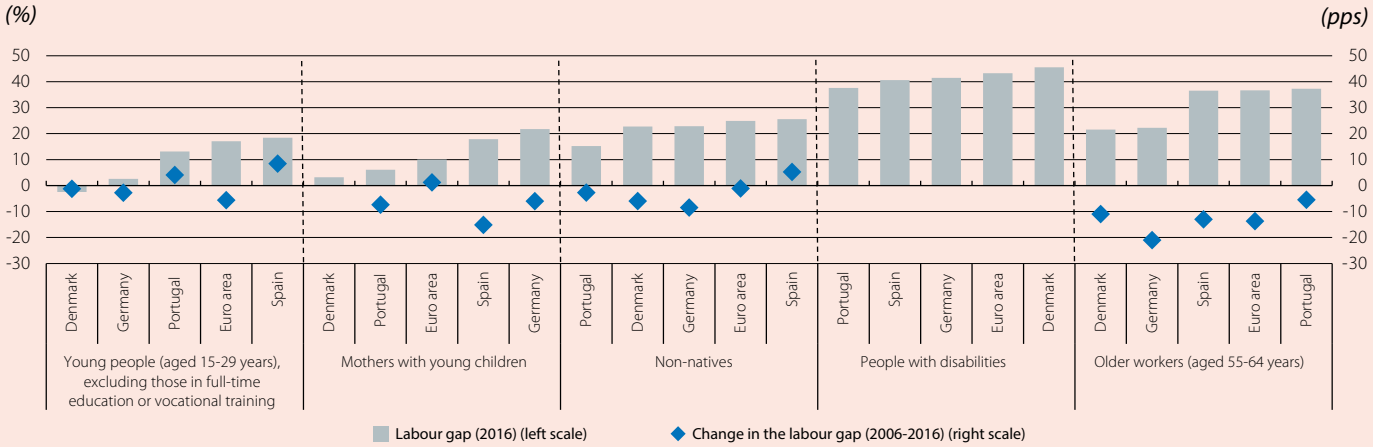
An indispensable condition for employment growth is achieving sustained economic growth. The major trends mentioned above increasingly require greater flexibility in the economy and in labour relations in order to grow, since the productive factors (labour and capital) need to be constantly reallocated. This reallocation towards more productive companies and sectors is what allows productivity to increase and, therefore, wages and living standards to improve. On the other hand, labour protection policies play a key role in strengthening the labour markets by fixing the conditions for dismissal, thus preventing an excessive level of job destruction. However, overprotection can hinder job creation by reducing incentives for hiring.

It is also important to note the negative consequences that can result from different types of contracts having significantly different levels of protection. As an example, a much higher level of protection for permanent contracts than for temporary ones encourages greater use of the latter, causing higher-than-optimal staff rotation. In order to achieve a better balance between the flexibility and stability of labour, the OECD recommends reducing the asymmetries between different types of contracts.[1] This also makes it possible to stimulate employment in the most productive sectors by encouraging investment in the human capital of both companies and workers.

On the other hand, companies will increasingly use contract types that allow for more flexible relationships in order to reduce the costs of adapting to this changing environment, driven by technological change and globalisation. The older population, meanwhile, may also require more flexible relationships, such as part-time work, in order to prolong their working life. All of this points towards an increase in temporary and part-time contracts, self-employed workers and new types of contracts, such as on-demand employment. To varying degrees, these new contracts offer fewer labour rights than permanent contracts, and the increase in their use could reduce the social protection of a growing portion of the population. To counteract this trend, their social security coverage could be extended, particularly for on-demand employment which generally lacks basic social protection – something that some countries are already beginning to consider.[2]

Employment gap of groups with higher risk of exclusion

*Difference compared to the benchmark group **



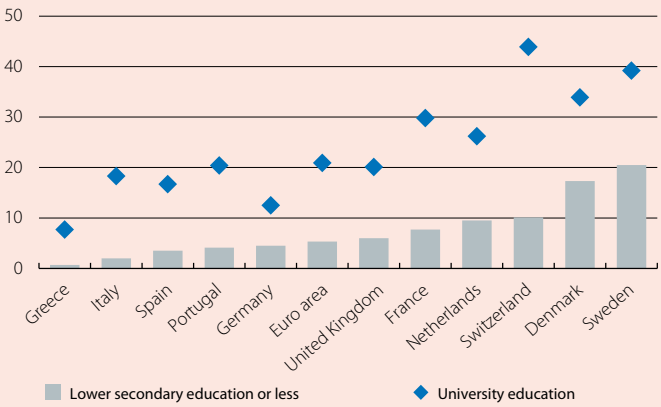
Note: *The employment gap is defined as the difference between the employment rate for men between 30 and 54 years of age and that of the group in question, expressed as a percentage of the employment rate for men aged 30 to 54. Mothers with young children refers to working-age mothers with at least one child between 0 and 14 years of age. Non-natives refers to all those born abroad, regardless of nationality. Data on changes in the employment gap are not available for people with disabilities.*
Source: *CaixaBank Research, based on data from the OECD (2018), «Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy».*

1. OECD (2018), «Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy», OECD Publishing.
2. See the article «The sharing economy and the labour market» in the Dossier of the MR07/2018.

The changing needs of the labour market may also increase the risk of exclusion in more sectors of society. At present, several groups such as young people, women with children, immigrants, disabled people and the elderly participate less in employment than native men aged between 30 and 54 (see first chart). Therefore, it is important to promote equal opportunities and to eliminate any form of discrimination. Exclusion from the labour market may even be costlier now, since a diverse workforce allows organisations to tackle an increasingly changing environment with greater guarantees. In addition, the ageing of the population will increase the proportion of older workers who are at risk of exclusion. The benefits of diversity arise from the complementary nature of different workers. As an example, the IMF estimates that if the participation gap between men and women were to be completely closed, GDP could increase substantially (by 14% in Europe and Central Asia, and by over 58% in North Africa and the Middle East). This is partly due to the greater productivity that gender diversity would entail.[3] Another form of complementarity that could benefit other groups would involve integrating into the workforce millennials who have a better understanding of the new demands of the market, immigrants who can facilitate a company's internationalisation, or older workers with plenty of experience.

Participation in continuous education and training according to prior education level *

(%)



Note: *Population between 25 and 64 years of age that has participated in continuous education and training activities in the past four weeks (2017).*
Source: *CaixaBank Research, based on data from the OECD (2018), «Economic Survey of Spain».*

In addition, changes in the needs of the labour market will increase the likelihood of job losses. For older workers, by extending their working life, they will be less likely to be able to retire directly after their unemployment benefit subsidy expires, hence they may be at greater risk of long-term unemployment.[4] In addition, the growing number of transitions between jobs will make it more necessary for them to occur smoothly. To this end, the labour legislation should focus on protecting workers, rather than job positions. The example to follow is Denmark, with its so-called «flexicurity»: a labour legislation model that is highly flexible but also has relatively generous unemployment benefits and strong support from active policies to facilitate a successful reintegration into the labour market.

Finally, we want to emphasise that a fundamental element of active policies will increasingly involve preparing workers for the changes related to technological change and globalisation, which they will be exposed to for a longer period of time due to their longer working lives. Active training policies, complementing the education policies described in the preceding article, should help workers to undertake continuous education and training and to adapt to the new skills that are required – something that happens less than would be desirable, particularly for those with less education (see second chart). Education and training to enhance these new skills will pay off in the job market with greater employability and higher wages, but it will require some effort. A useful tool to facilitate this process is the creation of personal accounts that accrue rights throughout a person's working life and which workers can use to receive an unemployment allowance in the event of losing their job, as well as to pay for training courses – the latter facilitates the adoption of new skills necessary to change jobs or sector.

In addition to devoting more resources to active policies, it will be necessary to ensure their effectiveness. Several analyses suggest that their effectiveness in the short term is limited, but that in the medium term it increases, particularly those aimed at boosting human capital.[5] In any case, their impact will depend on each individual's specific needs and profile, and an accurate and early diagnosis will be key. Fortunately, new technologies come to the rescue: algorithms can play an important role in discerning what action is most beneficial for someone who is out of work. Countries such as Australia and the Netherlands are already using automated diagnostic techniques to determine jobseekers' employability, while in Spain, pilot projects have already been conducted.[6]

In summary, what is required is an in-depth rethink of labour policies, and for that, every little helps, even if it comes from a robot.

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3. See Lagarde, C. and Ostry, J. D. (2018), «The macroeconomic benefits of gender diversity», VoxEU blog.
4. OECD (2017), «Preventing Ageing Unequally», OECD Publishing.
5. See Card, D., Kluve, J. and Weber, A. (2017), «What Works? A Meta Analysis of Recent Active Labor Market Program Evaluations», Journal of the European Economic Association, vol. 16(3).
6. See Felgueroso, F., García Pérez, J. I. and Jiménez-Martín, S. (2018), «Perfilado estadístico: un método para diseñar políticas activas de empleo», Fundación Ramón Areces, Fedea.