

## Podcast series: Global challenges – Global solutions: COVID-19 and the Employment Policy Response

### The Global Employment Policy Review:

## Inclusive structural transformation, employment policies and innovative solutions for a better future of work

#### Introduction by host:

Global job markets are changing rapidly, driven by increased automation, new technology and demographic change among other factors. And over the past year, the COVID-19 pandemic has injected new uncertainty into this changing labour market. What are some of the medium- to long-term solutions to meeting these challenges?

To address this, we're here today with the key authors of the ILO Employment Policy Department's new Global Employment Policy Review. I'd like to welcome Sangheon Lee, Director of the Employment Policy Department, and the co-editors of the report, Dorothea Schmidt-Klau and David Kucera.

**My first question concerns the global job market, which is undergoing changes brought on by new challenges linked to the future of work and the latest challenges linked to the COVID-19 crisis. In your report you clearly say that these challenges can only be overcome through a process of structural transformation. What does this mean for both developed and developing countries, their employers and workers? We start with Sangheon, the director of the department.**

**Sangheon:** Thanks, Tom. As you know, the world of work has been undergoing profound changes, including technological changes, and, on the top of it, we are now facing unprecedented and massive disruptions to our labour market. This means that our policy responses should be agile and continue to be adapted to the new reality, based on new evidence and analysis, and with innovative solutions.

This is why we decided to launch the Global Employment Policy Review. By bringing together our best analysis and experience, we want to play a leading role in advancing employment policies around the world. In doing so, we are not shying away from very difficult policy questions. If needed and when evidence is clear, we stand ready to admit shortcomings of our views and propose how we can improve our policies to better support workers and businesses.

At this particular moment when the pandemic caused great pains on all aspects of our lives, quite understandably, our time horizon became very short. But it is very important for policymakers to think about how to build resilience into the world of work against future shocks and, also importantly, how we can improve the very foundation of our economy and our labour market to create decent jobs in sustained and sustainable ways. This question is all about structural transformation. It is about how we can move workers and business to where there are better opportunities with higher productivity, for instance, to advanced manufacturing, or digital sectors. And this is also about how to improve productivity and job quality within the sector, for instance, through better investment in production systems and skills and training.

The pandemic clearly showed that we need to change our socio-economic model, and we strongly believe that structural transformation will facilitate such changes. One very important issue here is that we need to make sure all these benefits of this structural transformation process should be shared broadly, leaving no one behind. That's why the report calls for inclusive structural transformation.

**Thank you, Sangheon. David, can you share your insights with us now?**

**David:** One of the main challenges regarding the future of work is fears about automation, and in particular labour displacing technical change. It should be noted though that structural transformation is not just a means of responding to automation and responding to crisis. Indeed, structural transformation is

largely defined in terms of technical change. In other words, structural transformation, as Sangheon has noted, describes a process of shifts in output and employment towards more productive so-called leading sectors. These are sectors defined by economies of scale and positive productivity spillovers to the rest of the economy.

Now, the question is, can technical change result in job loss? Well, yes, it can, both through labour displacing technical change and in the process of the destruction of old jobs and the creation of new jobs. But a key central notion of structural transformation is that these productivity increases are links in a virtuous cycle with output growth. Therefore, this can lead to an increase in the overall number of jobs, and indeed typically does in a longer historical context.

However, a key challenge of structural transformation is that workers who have lost jobs may not have the right skills for new jobs. And that is why, in the report, we give so much emphasis to skills policies and skills development in the context of structural transformation.

Now more specifically about the COVID crisis, it should be said that the main chapters in this report were indeed largely completed prior to the crisis. But as Sangheon has noted, structural transformation can provide useful insights into how countries can best manage this crisis, as well as to adapt to uncertainties linked to the future of work, such as automation.

For structural transformation is about diversification, and generally speaking greater diversification is a way of reducing risks, which means creating greater resilience in economy. And this is because different sectors, different products are differently affected during a crisis and by technical change. And we've seen that, for example, with regard to trade. Trade contraction has been a particularly important effect in this crisis, and different sectors relied differently on exports. So that gives a sense then in which structural transformation and the associated diversification can actually aid countries in the time of crisis.

Okay. So what specific types of employment policies are needed for future growth and to build more resilient and inclusive societies? And how can the ILO help poor, less developed countries address the challenges of structural transformation and develop policy initiatives designed to ameliorate imbalances due to rapid change? Dorothea, can you give us your views?

**Dorothea:** Thanks a lot for the very interesting question, especially the link to employment policies. It is very clear that both developing and developed economies need to rethink their employment policies. They need to really work on a new generation of employment policies, taking into account the needs, the wishes, the desires, and the capabilities of people. In other words, what we really need is a shift of employment policies towards a more human-centered approach to employment policies. These policies need to take into account the new realities, the new realities as they are given in the future of work, and as Sangheon has already mentioned them, but also the new realities we face after this crisis.

To be able to do that, we need to get away from thinking that just one single policy can actually solve all problems. We need a set of policies, and the ingredients in this set need to work hand in hand. These sets of policies actually include different targeted policies, but they include at same time, employment-centered macroeconomic policies, active labour, market policies, etc.

And in the global employment policy review, we actually talk about some of these policies, some policy areas, including employment policies on greening, employment policies on transition policies, especially the transition from informality to formality, policies linked to trade, especially skills policies, and public investment policies.

So we've chosen a set of policies to discuss in this report, but as I said, the overall set needs to be larger, needs to be according to the realities in a specific country, and needs to be very human-centered.

And at the end of the day, we really have to make sure that every policy has to actually have a focus on employment creation, and not just any employment,

but decent employment creation. That's our ultimate goal. And that is what we need to work towards. So this also means that it can never just be one ministry designing and implementing these policies. It needs to be a whole set of ministries working together towards this goal. And this goal needs to be carried by the entire society and supported through enterprises and workers the same.

**Thank you, Dorothea, for those interesting insights. Now over to David.**

**David:** A key issue addressed in this report is not just the design of sectoral policies. As sectoral policies, after all, are a means to the end of structural transformation. But a key issue addressed is actually how these policies are implemented. So what the report does is look at five case studies of industrial policy. This includes both the design of industrial policies, as well as how they're implemented.

And what the report finds is that in the design phase, these case studies show that these were generally pretty well thought out. But the effectiveness of industrial policies depends critically on how well they are implemented. And that includes such factors as having sufficiently long timeframes for the implementation of these policies, having political and institutional support, backed up by financial commitments. And a key issue that comes out from this report is the importance of social dialogue, bringing together governments, workers, and employers, both for the design, as well as the implementation of industrial policies.

And what the report concludes actually is that social dialogue is an area where there's really a need for improvement in the implementation, in particular, of industrial policies, and that will really help them be more successful. You can think of industrial policy as basically a learning process. And learning means that you don't really know always what's going to happen, what's always the right thing to do. Therefore there are adjustments needed along the way.

Dani Rodrik refers to the process of industrial policy as a process of self-discovery and learning what works and also what does not work and how to adjust accordingly. That clearly can benefit from having the multiple perspectives that are made possible through social dialogue and working with governments, workers, and employers together.

**So, a year into the COVID-19 crisis, how can employment policies drive efforts to build back better during and after the pandemic? And looking ahead, how will COVID-19 crisis recovery efforts affect the structural transformation process? Will they speed up efforts to build back better or impede progress as governments focus on immediate and long-term recovery? Dorothea?**

**Dorothea:** What was true before the crisis is still true today. The future of work is not a given. It is what we make it. It is determined by our interventions and our decisions. After the first emergency interventions regarding the COVID crisis, we now have to move towards designing a recovery process that will lead us to something better than where we were before the crisis. The set of policies I was just talking about is still the same. The approaches are still the same. What will make the big difference is actually the willingness of societies to go for this change, the willingness of societies to really think through where do we want to go? What measures does it take? How can we actually make sure that the new reality is really what we want it to be?

So in this sense, it will be very important that, as I said before, societies support the policy process. But policy processes are designed towards this ultimate goal of decent work for all and a better human-centred future of work.

This is why, and David mentioned this before, social dialogue is more key than ever before. It's not just key in the design and implementation process of industrial policies. It's key as it is where the debate takes place regarding our future of work. And it is necessary because these changes need to be carried by the whole society, including workers and employers.

I just want to say one word regarding international solidarity. It might be relatively easy for countries that have a lot of resources to actually change the future of work. It might be less easy for countries that do not have these resources. These countries might have spent almost everything they have to actually get out of the crisis, but they still have a long recovery process ahead of them. So there is an absolute need that those countries that have the resources actually support the other countries. Because if they don't recover, if they don't go on a new path towards recovery and a better future of work, it will be very difficult for us, the richer countries, to end up where we want to end up. So I think this call for international solidarity is more important than ever before.

**Thanks for that. Now, Sangheon, can you wrap it all up for us?**

**Sangheon:** Okay. Dorothea outlined the key policy issues well. I just want to add two more important points. First, crisis is not new to us. About ten years ago, we had a global financial crisis. So, we need to learn from the previous crises.

One of the key lessons for me is that, unless you really place decent jobs at the centre of recovery policies, the labour market recovers just too slowly and so painfully. In the previous crisis, many governments shifted to austerity policies in response to a very early sign of GDP recovery, and it took more than ten years for the job market to recover to the pre-crisis level.

For that, I would argue that recovery policies should be guided by labour market recovery. In doing so, just looking at unemployment may not be sufficient. As many people moved out of the labour market, especially women, young people and informal workers, we need policies which have to pay special attention to what we call the “inactive” population. It is also important to look at labour income and wages as a crucial indicator for recovery.

The second issue is that, I feel that there is a global consensus about what would be overall policy directions. An excellent example for this would be the

ILO centenary declaration on the future of work, which was adopted last year. This centenary declaration calls for investments in three areas to ensure a better future of work. They are investments in people, jobs and institutions. Then, the real question for now is how to deliver them. And we know that the situation will continue to evolve rapidly with great uncertainty and new risks in the coming years.

As I said in the beginning, our policies should be even more agile and need continuous adjustments. For that, we need to monitor labour market developments and policy impacts in a very timely manner and use such analysis for policy adjustments. Learning from other countries will also be crucial. We know from experience that good policies at a difficult time like today can give hope and relief to millions of people.

**Moderator out:**

Sangheon Lee, Dorothea Schmidt-Klau and David Kucera, thank for you for joining us today to discuss this report. It's available for download at [www.ilo.org/employment](http://www.ilo.org/employment).

Meanwhile, I'm Tom Netter and you've been listening to the ILO podcast series Global challenges – Global solutions: COVID-19 and the Employment Policy Response. Thank you for your time.