

Werner Eichhorst

Arne L. Kalleberg

André Portela de Souza

Johannes Siegrist

Jelle Visser

Designing good labour market institutions

Main findings from the IPSP chapter on employment

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Introduction

The world of work is in constant change. Demographic shifts, technological innovation, institutional reforms and global economic integration affect the way people work. Technological innovations have a major impact on occupations and industries, changing the ways economies in different world regions, in both developed and developing countries, work along with new division of labour that are facilitated by global economic integration. From a global perspective, we can see a growing diversity in terms of job types ranging along the whole continuum from permanent formal employment to different forms of non-standard work and informality. Increasing flexibility and diversity can also be observed with respect to working time and mobile working patterns. Given this background, policy choices which take contextual differences into account are necessary at the global, national, regional and sectoral levels. Core policy areas such as education, training at different stages of life, collective bargaining and wage setting, and also the role of labour market regulation, social protection and active labour market policies need to be addressed, trying to strike a new balance between flexibility and security in order to stimulate the creation of more good jobs for all.

This paper is based on our joint work within the International Panel on Social Progress (Eichhorst et al. 2018). It highlights five main areas of attention: a) the variety of employment relations, b) the health implications of work, c) skill formation, d) the challenges to collective bargaining, and e) social protection and labour market policies. In many respects, this endeavour refers to many ongoing international discourses and global initiatives such as the employment aspects in Goal 8 of the UN's 2030 Sustainable Development Goals (SDG) and the related ILO Decent Work agenda and Future of Work discussion (ILO 2019). Based on a comprehensive assessment of the existing evidence, our chapter suggests some policy principles and concrete policy options that might further those objectives, not ignoring some tensions that might exist between flexibility and security in the different labour markets. The ultimate direction of reforms in line with an idea of social progress lies in institutional arrangements that facilitate the reconciliation of flexibility and productivity with access to decent jobs and social protection. We argue that distinct policy options are available that can be implemented more globally in order to achieve these goals simultaneously.

I. Varieties of Employment Relations

Employment relations provide the link between individuals and their employing organizations. They specify the reciprocal expectations and obligations connecting employers and employees and can be either implicit or explicit contractual arrangements that describe how work is organized, governed, evaluated and rewarded. Employment relations differ in their scope, ranging from broadly defined relational exchanges that are often open-ended in duration and provide training and welfare supports for employees, to narrowly defined transactional ones that are more instrumental, entailing little commitment and often for work performed within a fixed time frame (see Kalleberg and Marsden 2015). Employment relations differ in more developed, industrialized countries from those in developing countries. Rich countries are characterized by a formal economy in which employment relations are regulated in varying degrees. Developing countries, by contrast, are dominated by an 'informal' economy in which enterprises, employment relationships and work are partially or fully

outside of government regulation and taxation and are not covered by labour laws or other social protections. While developed countries also have informal economies, in developing countries the informal economy *is* the economy.

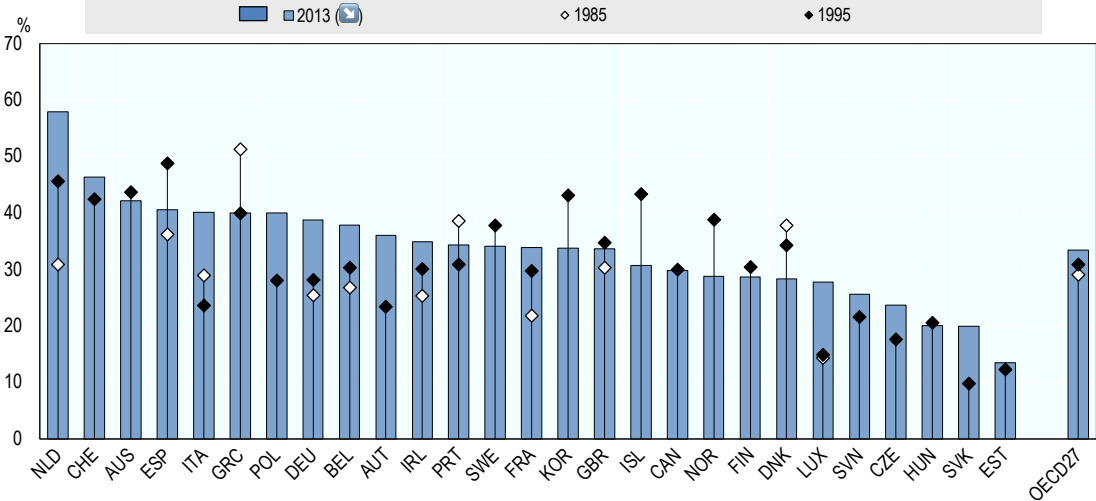
From Standard to Nonstandard Employment Relationships

A useful starting point for assessing changes in employment relations is the standard employment relationship (SER), which involves relational exchanges between employers and employees. The SER was the employment norm in industrial nations for the middle of the twentieth century. Nevertheless, the SER was far from universal and was found mainly in larger organizations and was concentrated among white-collar employees (usually men) in managerial occupations and blue-collar workers in certain highly organized industries. The SER was typified by the performance of work on a pre-set schedule at the employer's place of business and under the employer's control and direction. It involved a shared expectation of continued employment assuming satisfactory employee performance and often, but not always, full-time employment. SERs were also the normative foundation in industrial countries of a variety of labour laws and regulations such as protections against unsafe working conditions and the right to bargain collectively, as well as welfare benefits such as social insurance and pensions (Stone and Arthurs 2013). The institutions supporting the SER presumed models of employment relations and the family having a full-time, primary-breadwinner husband, and a wife who cared for children and the home.

Changing political, social, technological and economic conditions in the last quarter of the twentieth century in all industrial countries prompted governments and employers to seek greater flexibility in their employment systems than was available through the SER (Cappelli 1999; Kalleberg 2011, 2018). Growing price competition and more fluid capital markets put pressure on firms to maximize profitability and respond to rapidly changing consumer tastes and preferences. Rapidly proliferating computer-based technologies and communication and information systems made quick adaptation to changing market opportunities both possible and necessary. Corporations outsourced many of their functions, leading to the 'fissuring' of organizations and the proliferation of subcontracting relationships (Weil 2014). The expansion of the service sector made it necessary for some employers to staff their organizations on a 24/7 basis. Together, these changes made the fixed costs and overhead obligations associated with the SER less viable for employers and led to the rise of a new normative form of employment relations often referred to as *nonstandard employment relations* (Kalleberg 2000). While nonstandard employment relations take several distinct forms, they differ from the SER in one or more ways (see also ILO 2016). In particular, they tend to involve more transactional exchanges and provide less employment security than the SER. Some nonstandard work arrangements, including self-employment and independent contracting, collapse the employer-employee distinction. Nonstandard employment relations are not new in developed countries. Nonetheless, the latest incarnation of nonstandard employment relations has novel features that distinguish it from earlier ones: for example, contemporary nonstandard employment relations increasingly involve labour market intermediaries; and advances in technology and communication enable employees to be spatially very distant from their employers. The ILO (2015) reports that 75% of all workers in countries for which data are available (covering 84% of the global workforce) are employed on temporary or short-term contracts, in informal jobs, are 'own account' workers (who are technically self-employed but do not have any employees) or have unpaid family jobs. Since 1985, a

large proportion of all employment across OECD countries was in nonstandard employment relations (OECD 2015; see Figure 1). The types of nonstandard arrangements are not homogenous, however: the relative attractiveness of nonstandard work depends on how such employment relations are protected, regulated and rewarded.

Figure 1: Shares of Non- Standard Employment in Total Employment, 1985-2013



Source: OECD, 2015: Figure 4.6, page 144

Part-Time Work

The quality and nature of part-time work varies among countries (see Fagan et al. 2014); in the Netherlands, for example, part-time work is often well rewarded, as compared to the more precarious position of part-timers in the U.S. and U.K. Countries differ in their regulation of part-time work, though the ILO (2015) reports increases in protections regarding equal treatment and equal dismissal rights in both OECD and emerging countries since the early 1990s. Part-time work can be both voluntary (as when people choose to work part-time because they are in education or approaching retirement) or involuntary, who are unable to find full-time employment. The rate of involuntary part-time employment increased in the developed economies in the aftermath of the 2008 recession.

Work Schedules

Nonstandard work schedules (such as shift work and work in the evening, at night or on weekends) have also expanded. A major concern is unpredictable schedules: in 2010, a third of employees in the EU27 had unpredictable schedules, and 19 percent of employed men and 13 percent of employed women had schedules that changed regularly with no more than 24 hours’ notice (Eurofound 2012). The latter are extreme forms of ‘on-call’ work such as the zero hours contracts that have expanded in the UK in retail, hospital and home care services.

Temporary Agency Work

Temporary agency work (TAW) illustrates a major shift in employment relations: it is characterized by a triangular employment structure where workers are typically employed and dispatched by private employment agencies while working at the facilities, and under the authority, of user firms on limited-

term contracts. Over the past two decades, TAW has registered exponential growth and become a globalizing service industry with considerable industrial diversification. Agency workers are subject to precarious work and unequal treatment (e.g., Kalleberg 2000) and are often excluded from — or differentially included in — the same array of pay and benefits that are available to full-time workers in some countries including job security, bonus payments, social security and protection, childcare, sick leave and paid holiday. While temporary work is by definition insecure and uncertain, some temporary jobs do promote the acquisition of skills that can be transferred to other occupations, resulting in upward mobility to regular employment.

Self-Employment and the ‘Gig’ Economy

The so-called ‘gig’ economy—consisting of self-employed persons such as independent contractors or freelancers who often work on discrete projects that are managed by online platforms that broker work between employers and workers and often customers—has attracted much recent attention. The gig economy also takes a number of forms, including transportation platforms such as Uber and Lyft that connect drivers with riders, ‘crowdsourcing’ arrangements in which people group their efforts to achieve particular outcomes, and freelance platforms (such as Upwork.com) that match skilled workers to jobs.

Estimates of the size of the ‘gig’ economy vary widely. In the United States, for example, the estimates range from .4 percent of total U.S. employment to one-third of the workforce (Harris and Krueger 2015). Statistics on the size of the gig economy in other industrial countries are equally scarce. In the U.S. and U.K., there is a lively and still unsettled legal battle over whether Uber drivers should be considered employees of the company—since Uber exerts considerable control over their actions and remuneration—or as independent contractors.

The Informal Economy

The rise of nonstandard work arrangements has produced greater informality in developed countries as the pressures toward flexibility described above have led to removal of social and legal protections in the formal sector (e.g., Williams 2014). The majority of employment is informal in most developing countries, and so is a sizeable proportion of employment in many developed countries. Sixty percent of the global workforce is in the informal sector (Williams 2014). An ILO (2012) study of 47 countries found that six countries (India, Brazil, Mexico, Vietnam, Pakistan and the Philippines) accounted for three-quarters of informal employment in 2011.

II. Work and Health

Exclusion from paid work and exposure to hazards and poor-quality employment are powerful threats to human health and well-being. These threats are unequally distributed across the globe, between and within societies, leaving poor people, those with less education, skills, and capabilities in more disadvantaged conditions. Although any estimate is imprecise, roughly 195 million people of the world’s population of employment age are unemployed. In low- and middle-income countries, a majority of those working are employed in the *informal economy*, often lacking any statutory

regulation protection against occupational hazards, and social security benefits (Benach et al. 2007). In high-income countries, as well as in some rapidly developing countries, the nature of work and employment underwent significant changes in the recent past, mainly due to the far-reaching impact of digitalization and economic globalization.

Over many years there has been progress of the quality of work-related health through the provision of occupational safety standards. Yet, with growing economic competition and augmented pressure for cost-containment, workload and work intensity increased in large parts of the workforce, often in combination with job instability and threats to job loss. These threats of a stressful psychosocial work environment are becoming more widespread with a growing transnational labour market and with the expansion of nonstandard employment relations, and they are exacerbated by major economic downturns, financial crises, and related fiscal austerity measures. To date, large differences in the quality of work and employment still persist even in socio-economically most advanced regions, such as Europe (WHO 2014). However, at each level of development, we observe consistent social gradients of the quality of work and employment. Poor quality is not confined to the poorest members of society. Rather, with each step one moves up on the social ladder of a country's social structure, one observes gradually less poor work. Therefore, related policy efforts should aim at improving health-conducive work and employment across the whole of the social structure, but targeted progressively more towards those with higher levels of need.

Broadly speaking, four categories of unhealthy work can be identified, in addition to the afflictions resulting from job loss and precarious employment: (1) occupational injuries and exposure to 'traditional' (physical, chemical, biological) occupational hazards; (2) physically strenuous work; (3) work-time related stressors (e.g. work shifts, long work hours); (4) stressful psychosocial work environments (e.g. work pressure, job insecurity, workplace harassment). In many occupations, diverse combinations of these conditions are observed, often resulting in an accumulation of disadvantages. Strong research evidence is now available on associations of these adverse conditions with elevated disease risks for employed people. Exposure to occupational diseases and injuries remains high in developing countries (Benach et al. 2007), where an estimated 125 million workers are still exposed to asbestos. Physically strenuous and repetitive work became less frequent with technological and economic progress, but a risk of back pain and musculoskeletal disorders in high income countries remain, affecting those in lower socioeconomic positions more often. Related unhealthy exposures are sedentary work, but also extensive physical activity at work, shift work, and overtime work (WHO 2014). Importantly, recent research focused on adverse health effects of stressful psychosocial work environments. To this end, theoretical models have been developed to identify, at a high level of generalization, particularly 'toxic' aspects of chronic stress within the complexities of modern work. Two such concepts were widely applied in international occupational stress research, 'demand-control' (Karasek and Theorell 1990) and 'effort-reward imbalance' (Siegrist and Wahrendorf 2016). The former model identifies stressful work in terms of job task profiles defined by high psychological demands and a low degree of control or decision latitude, whereas the latter concept analyses inequities in exchange between efforts spent and rewards received in turn, including fair wage or salary, recognition, and career opportunities (promotion, job security).

Current scientific evidence based on more than two dozens of prospective epidemiological studies demonstrates elevated risks of coronary heart disease of some 40 percent among those exposed to

work stress in terms of these models, compared to unexposed workers. These estimates are adjusted for relevant confounding factors. In addition, stressful work was shown to be associated with a broad spectrum of biological and behavioural cardiovascular risk factors (Kivimäki and Steptoe 2018). Even stronger associations were observed for depression. Based on more than 30 cohort studies, the mean relative risk of incident depression increases by about 80 percent among those experiencing chronic work stress, compared to those without chronic work stress. Again, some biological vulnerability factors associated with depression, in particular reduced immune competence and increased inflammation, are related to stressful work (Siegrist and Wahrendorf 2016). Although the majority of related studies were conducted in high-income countries, there is accumulating evidence that these work stress models are valid in rapidly developing countries as well, specifically in China and Latin America, an observation of particular interest in times of economic globalization (Siegrist and Wahrendorf 2016). In view of the fact that depression and coronary heart disease are worldwide leading causes of premature mortality and disability-adjusted life years, these findings are of considerable interest for policies that address investments in health-conducive work environments, at the level of companies and organizations and at the level of national labour and social policies.

Strengthening national labour and social policies is particularly important as setting protective rules and regulations can have far-reaching effects. For instance, investments in active labour market policies, including rehabilitation services, have been shown to reduce the burden of work-related stress and associated disease risks, at least in some European countries (WHO 2014). Yet, in times of economic globalization, supranational regulations and conventions are additionally needed, such as the convention on fundamental rights, or ILO's 'Social Protection Floor Initiative' that contributes to the extension of formal employment contracts, specifically in less developed countries. Moreover, the World Trade Organization (WTO) increasingly recognizes the importance of occupational health and safety standards and related social protection measures in transnational trade and investment treaties, and the World Health Organization (WHO) has fostered a global movement to promote health equity, including work-related health (WHO 2014).

In conclusion, policy efforts at different levels directed toward responsible stakeholders, political and financial decision-making bodies, and professional and civic organizations involved in occupational affairs are required to reach substantial progress of fair, just and healthy working and employment conditions and to reduce health inequalities.

III. Skill formation and the labour market

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

Autor (2015) and Autor et al. (2003) has documented these changes. They argue that these new technologies changed the structure of skill requirements. Workers perform several tasks in a given job

and the current technological change has replaced routine tasks and increased the requirement of non-routine tasks. Routine tasks are explicit, repetitive and codified tasks. Several mid-skilled and manual activities have these characteristics. On the other hand, non-routine tasks are of two types: abstract and manual. Non-routine abstract tasks are the ones in general performed by professional, technical and managerial occupations. They involve problem-solving capabilities, intuition and creativity; and requires inductive reasoning, communication ability and expert mastery. Non-routine manual tasks are the ones that requires situational adaptability and in-person interactions in general needed in several service occupations.

These new technologies, by substitution, have decreased the demand for routine tasks and, by complementarity, increased the demand for non-routine tasks. If this continues to be the case for a while, it will pose several challenges for the policies of skill formation. On one hand, it will require changes in the curriculum and content of the formal education and, on the other hand, it will require the use of new forms of workers retraining and requalification.

Human capital formation has been central to the debate on the development of individual potentials and their performance in the labour market, and more broadly, on the success of societies to improve the overall wellbeing of their citizens. Human capital formation is the process of investment and accumulation of a set of skills, abilities and productivity characteristics that an individual acquires along her life cycle (Schultz 1961; Becker 1962). One important dimension is the investment in formal education and training. Human capital theory predicts that individuals with higher human capital have higher earnings. In general, the returns to one extra year of schooling estimated ranged from 5% to 15% among the higher income countries (Card 1999). Hanushek and Woessmann (2015) show that the level of cognitive skill of the people such as test scores is even stronger correlated to growth.

The technology of the life cycle skill formation

Skill formation is a life cycle process. Skills are multidimensional and their acquisitions occur in several periods from childhood to adulthood. Cunha and Heckman (2007) and Cunha et al (2006) argue that the process of skill formation exhibits two properties, self-productivity and complementarity. Self-productivity is the property that a skill obtained in one stage of life augments the subsequent attainment of other skills later in life. Complementarity is the property that a skill attained in one period increases the productivity of the human capital investment in future periods. Thus, self-productivity and complementarity generate multiplier effects in skill formation. Skill investments at different stages boost each other and earlier investment must be complemented by later investment in order for the early investment to be productive.

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

There are also evidences that socio-emotional abilities have important direct effects on adult outcomes. Abilities such as perseverance, motivation, time preference, risk aversion, self-esteem and self-control have direct impacts on schooling as well as on wages and crime behaviour (over and above

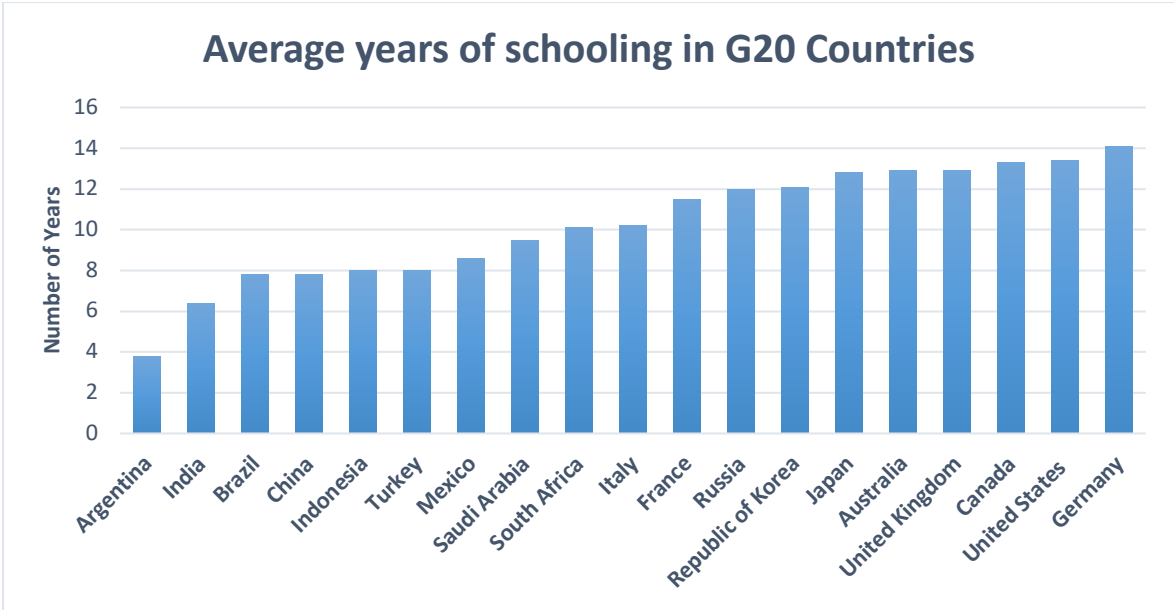
schooling) (Borghans, Duckworth, Heckman and Ter Weel 2008; Bowles, Gintis and Osborne 2001; Heckman, Stixrud and Urzua 2006).

Ability gaps across individuals of different family and economic background appear at early ages and remains later in life (Cunha and Heckman 2006). There are evidences, however, that appropriate early childhood interventions can be very effective in reducing or even closing the ability gaps across children of different socio-economic backgrounds. For instance, the Perry Preschool Program, an early childhood program at Chicago targeted at disadvantaged children and which was evaluated experimentally, has significant impacts on several dimensions in adult life such as cognitive tests, employment, earnings, crime behaviour and others (Schweinhart et al 2005).

Schooling in the developing world: The role of credit constraints

Enhancements in the stock of human capital of are crucial to the development process. Lower income countries exhibit fewer average years of schooling compared to higher income countries. Figure 2 below presents the average years of schooling of the adult population of G20 countries in 2012.

Figure 2: Average Years of Schooling in G20 Countries, 2017



Source: UNESCO Institute for Statistics (2018)

The average across all G20 countries is around 10 years of schooling. The lowest is Argentina with 3.8 years and the highest is Germany with 14.1 years.

Low level of human capital can generate poverty traps associated with the role of credit markets in the financing of human capital investments. Poor individuals cannot afford to pay for their education. If they cannot borrow from the credit market, they do not invest in their human capital. In general, poor families lack resources or assets that are used as collaterals for loans. In the absence of a developed credit market which accepts higher future earnings as collaterals for the loans, poor families would

invest less in the education of their offspring. Having less education, they would remain poor. On the other hand, richer families are able to invest more in human capital and thereby to earn more in the future. The presence of credit constraints can explain why individuals have different levels of schooling and income within a country (Orazem and King 2008) or why countries differ in their levels of income and human capital (Ljungqvist 1993).

Poverty traps are situations that may be overcome through policies aimed to improve the human capital accumulation. From the demand side, conditional cash transfer programs, school subsidies and voucher programs have been experimented with in many countries. On the other hand, improvement in school access and school quality and teachers' training are examples of policies in the supply side. The results are mixed. Many policies aimed to increase school enrolment have been successful although improving learning is still a challenge (Glewwe and Kremer 2006). The effectiveness of the educational policies seems to depend on the appropriate policy design that is well-adjusted to the context (Behrman 2010).

Vocational education and training

Vocational education and training (VET) seeks to provide learning of practical experience and knowledge useful in the labour market. It has been instrumental for many young workers in several countries. It eases the school to work transition, increasing workers' productivity and helping provide the market with demanded specific skilled labour.

Countries differ significantly on the relative amount of investment in general and vocational education. Additionally, VET systems vary significantly across countries. Some countries rely heavily on general education such as Canada and others rely more on VET such as Austria (Eichhorst *et al.* (2015)).

One important aspect of VET that should be taken into consideration is the potential mismatch between training and labour market needs. On one hand, there is the risk of horizontal mismatch. If vocational education demands very specific skills, the chances of mismatches between the field of training and the job structure are higher. This correlation between specific human capital and horizontal mismatch was first noticed in Robst (2007) at the college level but can also be applied to VET courses.

On the other hand, Mavromaras *et al.* (2012) find that vocationally educated workers are less prone to vertical mismatches when compared to other workers with more general degrees. That is, workers in vocational tracks have a lower probability of being considered over-skilled or under-skilled for the job they hold. Although the final impacts of vocational training on mismatches is still open to debate (Kahn 2015), it seems clear that school-based VET is more effective when a proper match can be made between the vocational training and the future occupation of employment (Zimmermann *et al.* 2013; Eichhorst *et al.* 2015).

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

There is accumulated evidence about the importance of investments in human capital for an individual's productive and successful adult life. The correct human capital investments in the appropriate time along the life cycle of the skill formation can have lasting effects. And well-designed interventions can mitigate or even compensate those less fortunate individuals that did not have the appropriate human capital investment early on.

There are some clear policy recommendations from this literature. First, appropriate early childhood investments are crucial for an individual's success in life and are the most cost-effective ways to reduce inequalities of opportunities. Thus, governments should create opportunities for early childhood investments for all and appropriate interventions for those less fortunate children in order to avoid potential future risks for their human capital accumulation process.

Second, governments should provide opportunities for the continuation of the human capital investment process. Special attention should be given to mobility between different educational tracks, and avoiding early selection and dead ends.

Third, even if an individual reach adult life with lags and gaps in their human capital, there are appropriate policies that can mitigate or compensate for these gaps. In these cases, government can provide appropriate policies that need to be well designed and contextualized in order to bear their full fruits.

Finally, since the technology and occupation changes are increasingly becoming facts of life, appropriate institutions of training and retraining workers should be put in place with sufficient fluidity so that demand and supply of skills are adjusted appropriately.

IV. Collective bargaining, trade unions and minimum wages

Since the 1980s there has been a move away from the standard employment relationship that was the norm in larger organizations, among blue-collar workers in union-organized industries and white-collar employees in managerial and clerical occupations. Its decline, as a norm and pattern setter also for non-unionized firms, has a parallel in the shrinkage of the formal sector in Africa, Asia and Latin America after the abandonment of import-substitution industrialization policies in the 1980s and 1990s. A 'new instability of work' has come to characterize labour relations in the twenty-first century, "undermining the regulatory regimes that organized and governed labour markets and employment relationships for much of the twentieth century (Stone and Arthurs 2013:1)". As a result trade unions face more difficulties in organizing and expressing solidarity among workers. Union density and strike participation rates have been falling in nearly all world regions (Visser 2019a; Milkman 2013). Collective bargaining coverage is in many parts of the world perilously low and on a downward trend (Visser, Hayter and Gammarino 2015). The weakening of these institutions has been associated with the increase in earning inequality and the growing social divide between workers with stable, paying jobs and workers with no, unstable, badly paid or precarious jobs. World-wide, societies face the risk that this divide further increases with the rise of self-employment and own account work in the platform economy and the informal sector, and will erode the social foundations for the institutions—

collective bargaining and trade unions—that contribute to social cohesion, stability and shared prosperity. In response to the Great Depression of the 1930s and following the devastation of the Second World War, these were the very goals that motivated many governments to promote collective bargaining (Hamburger 1939). As Keynes wrote to President Roosevelt: “I regard the growth of wage bargaining as essential... (and) ... approve minimum wage and hours’ regulation” (letter of 1-2-1938, cited in Visser 2016).

Since its inception, some 100 to 150 years ago, collective bargaining has been a key institution in nearly all industrial economies for the regulation of labour markets, providing protection and ensuring fair levels of pay to workers. Its development depends upon the free association of workers in trade unions entering into negotiations with employers as recognized in the ILO conventions on the freedom of association (no. 87, of 1948) and the right to organize and collective bargaining (no 96, of 1949), currently ratified by 155, respectively 165 countries.¹ Its spreading across workers, firms, industries and countries accelerated with the development of multi-employer bargaining at sectoral and national level, and the development of a supportive legislative framework, as called for in the ILO’s recommendation of 1951 on the application of agreements to all firms and workers in a given domain through voluntary or mandatory extension of agreements to non-organized firms (Hayter and Visser 2018). In 1960 the mean coverage rate of collective bargaining across the 18 advanced industrial countries of the OECD was 70 percent of all employees. At that time, in 15 of these countries negotiations over wages and working conditions were conducted at the national or sectoral level and most allowed the mandatory extension of agreements to non-organized employers—the main exceptions being the United States, Canada and Japan. With predominantly enterprise bargaining, the proportion of workers covered by collective agreements was much lower in these countries, peaking at 39.8 percent in Canada (1982), 34 percent in the USA (1960), and 35,6 percent in Japan (1965).

Remarkably, given the large changes in employment structure that took place with the shift from industry to services and from manual to non-manual work, the post-war institutions of collective bargaining in advanced industrial countries proved resilient and in the early 1990s the mean bargaining coverage level in the OECD was still around 70 percent. Change was announcing itself, however, with first the UK and then New Zealand and Australia abandoning national and sectoral bargaining, resulting in rapidly declining coverage rates. Multi-employer bargaining never took root in the post-Communist countries of Central and Eastern Europe, except Slovenia. They all faced a sharp decline in unionization with the current bargaining coverage rates hovering around 20 percent, varying from 30 percent in the Czech Republic to 7 percent in Lithuania. With its practice of government sponsored social dialogue and multi-employer bargaining, Western Europe became ever more isolated and exposed with the rise of globalization.

The outsourcing of manufacturing in global production chains has created millions of jobs in the Global South, often through export processing zones (EPZs), but it has not produced an upsurge in unionization and collective bargaining in these countries. By 2006, 130 countries had established over 3500 EPZ's within their borders, with an estimated 66 million workers (Murray 2018). The largest of these were in China, Indonesia, and Bangladesh. They are advertised as a device to attract foreign investment, introduce new technologies and create jobs, often by providing tax incentives and relaxing employment regulation, sometimes even banning trade unions. This has frequently led to unsafe working conditions as workers are expected to work long hours in physically dangerous conditions,

including excessive noise and heat, unsafe equipment, and uninspected buildings. With no access to union representation, the weak regulations that exist are often unenforced.

Back in the 1960s the new emerging industrial economies of South-East Asia often adopted an autocratic path with subdued unions and limited enterprise bargaining. When China joined the world market in the 1980s it did first without trade unions and collective bargaining, later allowing a very restricted party- and state-controlled version. In India and Pakistan there were forms of sectoral unions and collective bargaining left by the British, but they covered the formal sector only. By 2000, 80 to 90 percent of the Indian workforce was in the informal sector, unorganized and without social protection (Breman 2010). The official unions lost members, influence and credibility (Chachhi, Ramaswamy and Puma 2007:13). This was also the problem in Sub-Saharan Africa and large parts of Central and South America. There were many forms of sectoral organization and collective bargaining in post-colonial Africa based on the prescriptions of their former British and French rulers, but confined to some sectors only. African trade unions, having emerged in the public service (teachers, railway and port workers) with some footholds in the export enclaves of the mining industry in Southern Africa and the plantation economies of East Africa, hardly ventured outside these declining domains (Schillinger 2005). Organizing a minority of public sector wage workers amidst poverty stricken populations and bound by their formative post-colonial ties to the ruling parties that executed the structural adjustment policies forced upon them by the World Bank and the IMF, around 2000 most African trade unions faced “a deep crisis of identity” (Konings 2007:364). In Central America and the Caribbean the story is quite similar, with unions rapidly losing the support they still had in the 1970s and 1980s (Corbin 2015), in South America the legislative frameworks for trade unions and collective bargaining introduced in the 1940s proved quite resilient, surviving military dictatorships and still the basis for a rate of unionization and bargaining coverage that is higher than elsewhere on the continent.

Figure 3: Union density rates and bargaining coverage rates, 2000-2016

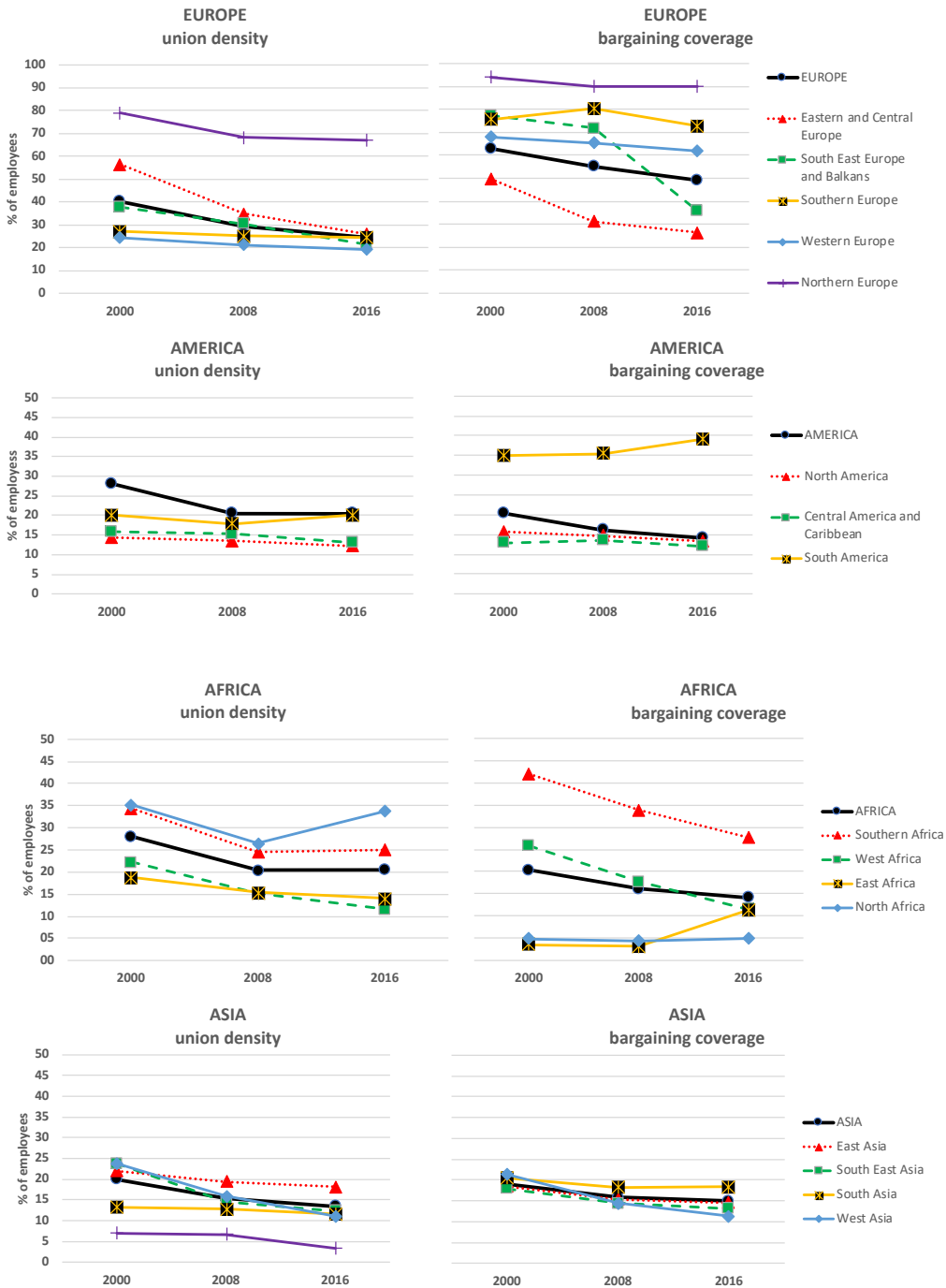


Figure 3 shows the development in union density and bargaining coverage rates in 150 countries divided over 18 world regions and five continents (Oceania included in Asia).ⁱⁱ It is important to know that these rates are calculated over wage and salary earners in employment and exclude the self-

employed and own account workers in the formal and informal economy, i.e. most workers in large parts of the world, especially in South and West Asia, Sub-Saharan Africa, and Central and South America. Still, even with that exclusion, the data presented in this figure show clear trends and differences across these regions.

Firstly, figure 3 confirms the unique position of Europe, with a bargaining coverage rate in 2016 around 50 percent of all employees, compared to 15 percent in the other regions. This high, albeit decreasing coverage rate is due to the continuation of sectoral collective agreements in most countries in Northern, Western and Southern Europe, providing for common standards and coordination across firms and workers. This is often combined with decentralizing of negotiations over pay and working hours at firm level in a multi-level bargaining set-up, through derogations, opening clauses and a second round of negotiations. Secondly, in each of the continents collective bargaining coverage has been declining since the 1990s or perhaps earlier. Thirdly, the shrinking of bargaining coverage corresponds with the decline in union density, which is also a trend that can be observed in each of the continents, continuing a trend that started in the 1980s and has slowed down after 2008. Fourthly, in many regions the bargaining coverage rate does not exceed the union density rate or is even lower due to the refusal of employers to enter into negotiations with the unions, the absence of employers' federations and multi-employer bargaining, or the existence of quasi-monopoly unions that see the administration and distribution of social benefits and privileges, rather than negotiating labour collective agreements, as their principal task. Such is the case, for instance, in North Africa where these unions have significantly increased their membership during the Arab Spring of 2011 but remained under patronage of the government. Employer opposition and legal constraints on union organizing and collective bargaining, resulting in very low coverage rates, are most pronounced in South-East Asia, in Central America and parts of South America (Bolivia, Colombia) and in the USA. Rapidly declining bargaining coverage rates that result from the collapse or weakness of sectoral bargaining, and unhelpful government policies, are witnessed in West Africa, and on the Eastern and South edges of Europe.

The recent weakening of the institution of collective bargaining is bad news for workers, especially for those with little individual bargaining power. Collective bargaining is for them the main tool to provide protection, voice, and ensure a fair participation in the process and proceeds of labour. Across countries, wage inequality tends to be lower where collective bargaining is inclusive, as indicated by higher coverage rates and sectoral rather than enterprise bargaining (Hayter 2015). The highest inequality is found in countries in which sectoral and national wage bargaining has disappeared and is inexistent. Jaumotte and Buitron (2015) using a panel regression analysis of 20 advanced economies from 1980 to 2010, found that union (and bargaining) decline is strongly related to rising incomes (not just wage) inequality at the top of the distribution. Three potential mechanisms might account for this: stagnation of the 'middle class' and of wages at the lower and middle end; changes in firm behaviour and less influence of unions on (sharply rising) executive pay; and declining power and voice of unions in politics influencing redistributive policies and taxation.

Collective agreements depend on the ability of trade unions to organize workers, express workers' demands and enter into negotiations, and commit the represented workers to the results. Where unions have weakened to such an extent that their representation and credibility is questioned, collective bargaining is threatened. Whether trade unions can stop current trends of membership

decline, which is especially dramatic among young people (Visser 2019a), is therefore a critical issue also for the future of collective bargaining. Perhaps other forms of testing the allegiance of workers and the representation of unions, based on voting, Internet-tools, social media, financial donations and project-based engagements, will be developed and can somehow be tied to binding collective agreements. For trade unions the temptation is to retreat into the corner where they believe they can survive and concentrate their meagre resources on defending members closest to them, when necessary at the expense of outsiders and precarious workers. Hopeful signs against such dualism are the successful attempts, many of recent times, of African unions to organize informal workers, of more cross-overs between organizations of informal sector workers and trade unions in India and elsewhere, of unions in Europe, America and Asia to recruit and stand up for the rights of migrant and temporary workers, and more diversity, and more women, in trade unions (Bonner and Spooner 2011. Herberg 2018; LO/FTF labour market profiles).

Governments may also step in and provide the support for stable and broadly representative structures of collective bargaining, like they did after the 1930s recession. There are many ways, many examples and good reasons to do so for the purpose of social cohesion, stability and prosperity shared by all (Hayter and Visser 2018; ILO 2019). Governments may also step in, and many have done, by introducing and strengthening a mandatory minimum wage. The Great Recession of 2008 combined with “the longer-running trend of rising inequality have added momentum to minimum-wage debates” (OECD 2015:1). A whole range of countries that did not have a mandatory minimum wage have introduced or strengthened this instrument in recent times. It provides a useful and in many cases a necessary safety net but it is not a substitute for collective bargaining. First of all, like other labour standards, legal minima require supervision and union agency for their enforcement. Secondly, minimum wages are less flexible in their movement with sectoral and national developments in productivity, skills and labour demand. Thirdly, they do not provide for participation and involvement of the workers affected. Adjustment of the minimum wage may be a political or expert decision, be tied to the results of collective agreements or indexed to prices. Whether the legal minimum wage complements or replaces collective bargaining depends on such features. The ILO recommends broad legal coverage, full consultation and co-decision making by unions and employers’ organizations and setting the minimum wage at a level that ensures a living wage for working people and takes account of the effect on employment.

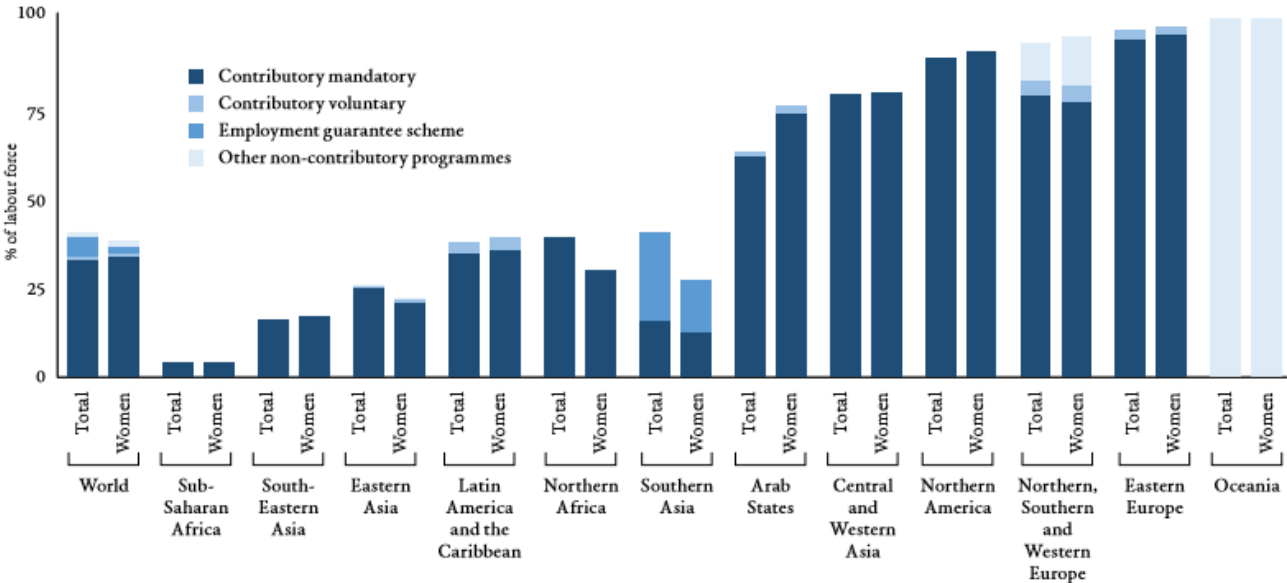
To counter decline, many trade unions have attempted to build new membership and networks in hitherto unorganized sectors and seek representation and recognition for contingent and part-time workers, the self-employed and migrant workers (Visser 2019). There have been a number of remarkable initiatives for improving the rights of home workers (Fish 2017). Inclusive institutions based on sector-wide collective bargaining prove crucial for the success of defending jobs and rights of precarious workers (Doellgast et al. 2018). Collective bargaining for the dependent self-employed is now on the agenda of many African and European trade unions, but requires reform of EU competition law. Extension of social and health insurance coverage, and protection against harassment and violence, are key issues for informal sector workers like street vendors and waste pickers (Chen et al 2014). Unions can still lend much of their skills to helping these workers, or their organizations, to negotiate agreements with local and national governments. For work that is performed through on-line labour platforms, the design and enforcement of proper industry and labour standards can be furthered through joint institutions with due representation of all sides.

V. Labour market regulation and the welfare state

Labour market regulation and the welfare state play a major role as institutions governing labour market risks, thereby creating peculiar patterns of flexibility, security and stability. Labour market regulation by way of employment protection can stabilize existing jobs and create incentives for productive employment and the formation of specific skills. But strongly protective labour market regulations also add an institutionally-induced layer of labour market segmentation, setting strong political incentives to deregulate non-standard types of work such as fixed-term contracts, agency work and specific forms of self-employment so that a second-tier labour market develops from which transitions to permanent regular contracts are difficult. To facilitate mobility and a fair distribution of labour market risks, a balance between flexibility and security appears to be a better solution. This means moving from protecting (existing) jobs to protecting workers by providing access to good jobs and ensure a chance for making 'good' transitions, i.e. not getting stuck in vulnerable types of employment (Boeri 2011; Scarpetta 2014). More concretely, this implies questioning strict dismissal protection for open-ended contracts and providing enhanced protection for various non-standard forms of contracts. It makes sense to smoothen the transition from an entry position into a more stable employment relationship, avoiding the one critical moment when employers have to decide on the establishment of a fully protected open-ended contract. This would mean a stepwise phasing in of employment protection in line with tenure for both fixed-term and open-ended contracts, with short tenures leading to minimum severance pay and longer tenures resulting in the accumulation of further entitlements. When employment protection is eased, hiring and firing of (permanent) staff is potentially encouraged. In such a case severance pay and/or experience-rated employer contributions to unemployment insurance could act as a layoff tax (Blanchard and Tirole 2007), encouraging a reasonable level of flexibility within the firm over hiring and firing or temporary layoffs and recalls, limiting the external effects to the detriment of unemployment insurance schemes.

These reforms should be part of a comprehensive package that promotes a better safety net and the reallocation of labour towards more productive jobs relying on effective unemployment insurance and re-employment services (Scarpetta 2014; Eichhorst, Marx and Wehner, 2016), effectively linking the functioning of the different pillars of protection so that they support each other in providing flexibility and security at the same time and in a fair and balanced way. Hence, a consistent reform agenda would also have to involve reliable and accessible social protection in case of unemployment as well as effective active labour market policies. This understanding of unemployment protection allows for the reconciliation of security objectives with a flexible labour market that depends on successful transitions from job to job. As of today, most countries with unemployment benefits have a two-tier system based on (a) unemployment insurance linked to contributions during employment that provides earnings-related benefits for a limited duration, and (b) means-tested income support schemes for those unemployed people with no or insufficient entitlements to insurance benefits. However, as figures 4 shows, there are the huge differences in formal and effective coverage by unemployment benefit systems. In many low- and medium-income countries access to benefits is very limited.

Figure 4: Legal coverage of unemployment benefits



Source: ILO, World Social Protection Report 2017-19

Note: Percentage of workers covered by unemployment protection schemes by region, latest available year.

The effects of benefit systems on income, employment trajectories and other indicators have been analysed intensively. It can be shown that substantial unemployment benefits play a stabilizing role at the level of the individual or household as well as at the level of the economy. On the one hand, they compensate for part of the individual income loss due to unemployment, and on the other hand, as they react quickly to a recession with rising unemployment, they can effectively stabilize domestic demand (Dolls, Fuest and Peichl 2012). Hence, well-designed and accessible benefits can help avoid poverty, social exclusion and an aggravation of economic slumps. Unemployment benefits, in particular earnings-related unemployment benefits collected in the initial phase of unemployment, can help protect acquired human capital as the unemployed are not forced to take up the first job that comes along, but can afford some time to find the best available job match. At the individual level, this can lead to better labour market transitions, more productive employment and higher earnings, while, at the aggregate level, better job matches imply a more productive employment of those in the labour force. More generally speaking, unemployment benefits systems can serve as a mechanism to ensure the acceptance of a flexible and dynamic labour market (with less strict employment protection) that is characterized by creative destruction and job turnover associated with labour turnover that requires an adaptable and productive labour force. If employment protection becomes dysfunctional to the extent that it stabilizes obsolete jobs and slows down change by hampering mobility to more dynamic sectors, well-designed unemployment benefits articulated with effective ALMPs can ensure a more dynamic labour market.

When looking at the development of unemployment benefits and ALMPs in major world regions, in particular after the crisis, one major trend has been to try to buffer the impact of the crisis through some benefit expansion, in particular towards vulnerable groups such as fixed-term employees, freelancers or young people – however, in times of austerity this was oftentimes counterbalanced by retrenchment measures (ILO 2015c, European Commission 2016). The same holds for ALMPs where both expansionary and curtailing steps could be observed. Hence, there is the challenge of unequal or limited protection and support in some countries, not only developing countries, as regards insurance for labour market entrants, unemployed with short employment spells and in case of exhaustion of insurance benefits.

The evaluation of ALMP has made major progress both in terms of data, methods and establishing a significant body of evidence, mostly for developed countries (e.g. Card, Kluve and Weber 2015). Active labour market policies are not unaffected by broader institutional arrangements and economic conditions. In rigid labour markets with heavily regulated permanent contracts and other barriers to mobility the role of ALMPs in stimulating entry and career advancement is more limited than in more permeable or ‘flexible’ constellations. And in a situation of weak labour demand, the capacity of the labour market to absorb job searchers is more difficult, even if supported, trained and advised. In difficult economic situations with high or increasing unemployment, effective delivery of services at high quality might be more problematic due to a lack of appropriate delivery infrastructure and funding possibilities as well as limited labour demand – which implies also that labour market problems cannot be solved through ALMPs. However, there is also some evidence that ALMPs have a larger impact in bad times.

Unemployment benefits and active labour market policies have a long tradition in developed countries, designing proper benefit systems and ALMP delivery structures is an unsolved issue in many developing countries and emerging economies, in particular when there is a high share of informal workers and self-employed. In the formal sector, employment protection and severance pay often ensure against income losses. Non-contributory schemes can play a role here as can steps to establish conditional income support schemes that help people move to the formal sector (Robalino 2014). On the ALMP side, public works programs can act as a partial replacement for income support in these cases. All in all, a benefit system combined with active labour market policies generates significant demand for fiscal resources as well as administrative capacities to ensure proper delivery.

Conclusion: Institutional capacities and political economy considerations

Policies cannot just be designed and assumed to be implemented easily. First, beyond specific issues regarding the policy areas discussed, politico-economic factors play a major role as the political and institutional capacities to achieve this are not easily available and cannot be taken for granted. Second, starting conditions are quite diverse, and national models cannot be taken as benchmarks, certain policies cannot easily be transferred, hence, policies reforms need to be context-specific, e.g. by world region. Some issues are of particular interest here:

- Capacities regarding funding and delivery of unemployment benefits and active labour market policies as well as human capital formation through the educational system require effective

agencies and sound, reliable funding. This cannot be taken for granted but will likely require a stepwise approach in the desired direction, triggered by economic growth and increasing fiscal capacities, but also a political orientation that sees the medium- and long-run economic and societal benefits of such a developmental strategy. Benefit systems and active labour market policies can hardly be measured against benchmarks of the Scandinavian or Continental European model (see, e.g., Weller 2009). In particular this requires the political capacity and acceptance of major redistribution via progressive taxation and the social insurance system.

- Reducing labour market segmentation deepened by asymmetrical regulation of standard and non-standard contracts and changing highly protective rules regarding some segments of the labour market while leaving others in less protected segments is not an easy task. Labour market reforms narrowing the gap between different types of employment are more feasible if there is a capacity to establish broader policy agendas, including benefit systems, active labour market policies or other policies, with the government and social partners. Moreover, breaking with long-standing regulatory paths is more probable in a situation of crisis, for instance with high youth unemployment. Finally, such a strategy becomes more feasible and acceptable if a credible expansion of social protection and reemployment policies can be implemented.
- Vocational education and training in the dual apprenticeship model might be a preferable setting to smoothen the transition from school to work, however, such a model has only emerged over a long period of time in some countries such as Germany and its neighbours. Similar issues arise with continued vocational training for adults which is particularly developed in some Scandinavian countries. These broadly applied training regimes can hardly be transferred and implemented fully elsewhere. To undertake steps in the direction of vocational training, collaboration of governments, employers, associations and trade unions is required, at least at a regional or sectoral level. In such a case a minimum level of standardization of training content and schooling agreed upon by the different parties involved might be sufficient, however, a critical mass of employers interested in running vocational training in a certain sector or region is essential.
- Establishing effective collective bargaining in regions and sectors where it is non-existing or reversing the long-lasting decline in bargaining coverage and effectiveness observed in many countries is not an easy task either. Some support can come from the state (e.g. by encouraging negotiated solutions supplementing legal provisions or extending agreements), but major responsibilities lies with the two parties involved as regards the self-organization of workers and employers, respectively. On the one hand, in well-organized sectors collective agreements need to establish a deal on modes of flexibility that reconciles firm and worker interests, and the social partners need to find ways to integrate and develop those who would otherwise lose from the transformation of work. On the other hand, trade unions or new types of associations search for strategies to organize growing sectors and categories of workers such as high-skilled professionals, freelancers or gig-workers, and above all, young people. Here, attractive offers have to be made to potential new members, e.g. professional social protection or (re)training.
- Going beyond formal rules governing the labour market, the future of work and the actual quality of jobs depends on the working environment at the firm level. Hence, creating 'good' and healthy jobs depends on employers' initiatives to organize work in a sustainable and

productive way. While standards can be set by legislation and collective agreements, and while this can be supported by incentives given to firms, the ultimate responsibility lies with individual employers and management in day-to-day activities, using different forms of effective employee representation and participation can help develop good working environments.

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ⁱ <https://www.ilo.org/dyn/normlex/en/> (accessed 21-11-2018)

ⁱⁱ The data sources are: ILOSTAT, www.ilo.org/ilostat/irdata, and the ICTWSS Database, version 6.0 (Visser 2019b), <http://uva-aias.net/en/ictwss>.