

Interview with Stefano Scarpetta, Director of Employment, Labour and Social Affairs, OECD

Reskilling: a Common Labor Policy Agenda Among OECD Economies

By Japan SPOTLIGHT

Reskilling is a common issue among developed nations facing the challenge of rapid technological developments. How could reskilling help these economies improve their performance? An OECD expert on the issue, Stefano Scarpetta, talks about his policy experience.

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Latest Employment Situation in OECD

JS: How do you evaluate the latest employment situation in OECD countries in terms of macroeconomic and structural factors?

Scarpetta: The first observation to make is that economic growth slowed down significantly in OECD countries in 2022 and in our latest projection in December 2022 we were projecting a further deceleration in economic growth in 2023 and a small bounce-back in 2024. Economic growth at the global level went down from more than 4% to 3% in 2022. It is projected to go down to 2.2% in 2023 and then to resume at 3.7% in 2024. This deceleration in economic activity is of course expected to weigh on employment. So far, employment has not been affected by the economic slowdown but a negative impact is expected in 2023 and 2024. As we know, employment levels bounced back strongly from the thought of the Covid-19 crisis: indeed there was a major loss in 2020 during the first waves of Covid, in particular in some countries, followed by a significant recovery in 2021 and 2022.

But beyond the Covid-19 crisis and the more recent cost-of-living crisis, our economies are affected by structural changes. In Japan and many other OECD countries with rapidly aging populations, there's a significant change in the composition of the workforce and the level of employment. Then there is the digitalization and the transition to a more sustainable green economy. All of the profound transformations are affecting the market and some of these, including digital transformation, have been accelerated during Covid, when many employers shifted rapidly to more telework and accelerated the adoption of new digital technologies.



Stefano Scarpetta

Labor Mobility is Key to Improving Japanese Economic Performance

JS: For Japan, what would be a key government policy to boost labor market mobility, and how about the business side?

Scarpetta: Action is needed both by governments, through adequate policies, but also by companies through adequate adjustment of employment and workplace practices. Labor mobility in Japan is smaller than what is observed in most if not all OECD countries. Just one indicator is the average tenure of workers, that is how many years on average workers stay in the job. In Japan it's

12.5 years on average and in the OECD countries it's around 10 years. In some OECD countries with more mobile labor forces, including the Nordic countries, average tenure is in the range of seven to eight years. We identified four main areas that could promote good mobility that is good for workers and for employers.

The first point we have been indicating to the Japanese authorities for years is the need to shift to a more flexible wage setting system that rewards performance more than the age and/or tenure of the workers in a given company. The second is the retirement allowance. The third is the dualism in the Japanese market between regular and non-regular workers and the fourth is foster effective active labor market policies that help workers to move from one job to another. So let me elaborate on these points. With tenure-based employment in Japan there is a prevalence of jobs for life, so workers get a job and try to stay in the company for a very long period, perhaps for their entire career. While this approach may promote loyalty of the worker with the company, at the same time it reduces mobility, matching of workers' skills with company needs and reduces hiring

of talents in the market. Promoting performance-based pay systems instead of tenure-based pay systems can foster labor mobility and matching.

The second point is a change in the tax treatment of the retirement allowance; currently, there is a kink in tax deductions on retirement allowances at 20 years of tenure; these tax deductions rise disproportionately after 20 years of tenure discouraging workers from changing their employers before this limit.

The third point is about reconsidering the large gap in the degree of protection offered by employment protection legislation for workers with regular and non-regular contracts. A lot of the mobility adjustment in companies takes place by the non-regular workers. Employers use temporary contracts to adjust the workforce to fluctuation in demand, and temporary workers face high job insecurity and weak prospect of career progression like those with regular contracts. There is a need to align the employer protection of regular and non-regular workers to create more incentives for companies to hire and rehire workers on a regular contract base, including women entering the labor market, and particularly re-entering after a maternity leave.

The fourth point is about investing in effective active labor market programs that facilitate labor mobility, much as the Nordic countries in Europe that spend significant resources on these programs. They include guidance and orientation to job-seekers, training and retraining programs to help workers move not only to any new job, but to a good new job by making sure there is a good match between the skills and capabilities of the workers and the jobs in the labor market.

JS: Would you like to see an end to the lifetime employment system and seniority promotion wage system which has been prevalent in Japan since the end of World War II, given that it is a hindrance to labor mobility?

Scarpetta: The lifetime employment system has contributed to create strong commitment by both workers to the company and employers to the workers. But in an economy undergoing major transformations it can no longer be guaranteed to all workers and in fact in Japan we have one third of workers who are in non-regular jobs with little job security and little career prospect. With rapid technological progress and adaptational changes, it is essential to promote adaptability while protecting workers.

JS: Looking at the Japanese recruitment system, should it be changed from a general lifetime employment model to a more job-specific one?

Scarpetta: I think it's a good idea, because it should be based on the nature of the job. One of the features of the Japanese economy is that there is a lot of internal flexibility: within each company, workers are often asked to move from one task to another to accommodate company needs. But sometimes that's not enough. Hiring and recruitment can contribute to adjust the workforce to changing needs by the company and ensure good matches between demand and supply of skills to promote growth. But as I said, workers need the government to promote active labor market policies to allow workers to move from one job to another.

JS: You mentioned the Nordic countries as good examples of these active labor market policies. How are these practices so successful?

Scarpetta: Well, because there is more mobility and so more adaptation to the labor market. Active labor market policies help workers move from one job to another, depending on the evolution of the economy but income support measures – which are more generous than those in Japan – ensure that job-seekers do not experience a major drop in living standards. The focus of active labor market policies is on workers themselves, rather than on jobs. Some jobs are very viable and productive and have to be protected, while other jobs have to be transformed and changed and this is particularly in the context of digital transformation or the green transition.

Merits of Reskilling

JS: Would you agree that reskilling could be conducive to boosting labor market mobility? Are there any best practices of reskilling among OECD nations?

Scarpetta: I think there are two other elements that I would like you to consider. One is phased or flexible retirement, where older workers gradually reduce their working time. The other is to promote reskilling also for older workers. I think it's important, particularly in Japan, to invest in elderly care so that senior people can continue to work instead of leaving the labor market to take care of their family members. In addition, let me give you a few examples of how to provide career advice and training for the 50-plus senior workers. One is a career advice service that was launched in Australia in 2010, under which all Australians over 45 receive additional career counseling and services to reconsider their career and see whether there are opportunities in the labor market. Another example is Germany with their 50-plus program which was implemented in 2005, where people unemployed or on the minimum income level

receive individualized counseling and support in terms of training and orientation to employers.

Another important point is that the demand for labor and the company demand for workers is changing very rapidly, meaning there is a need to review the skills of workers to recognize what they've learned during their career beyond just their education qualification. It is also important to have a good sense of what the market needs and what the companies need. For example, in the Netherlands workers aged 45 and above can participate in subsidized career development guidance to understand the prospects of the job they had and the job they could possibly access, but also to provide an assessment of their skills and recognize the skills they have acquired on the job so far. These are some of the important examples of specific policies to help seniors and 45-plus workers to stay on the job or move into a new job, and to have their skills recognized and to identify suitable training opportunities.

JS: I'm curious as to whether any countries are worried about skilled workers leaving companies very quickly after having learned something important from their reskilling programs. Are there any companies concerned about this among the examples you mentioned?

Scarpetta: What we observe is a widespread shortage of labor across all OECD countries – a bit less in Japan, but certainly in many OECD countries and across different occupational sectors. Labor shortage is not only concentrated in the high-skilled sectors. There was a survey of 12 OECD countries recently and among the reasons workers put forward for why they left the company and moved to another company there was the pay but also whether they felt their skills and capabilities were recognized and whether they felt motivated in the job they had. So there is more than pay that matters for workers. If you want to retain talent, of course you must look at this range of elements that attract people to the job, including the possibility to grow within the job, the career progression, and the access to training opportunities.

Domains in Need of Reskilling

JS: When looking at different reskilling programs, in the case of Japan most of these programs seem to be concentrated on IT today. Among OECD countries, are there any other reskilling programs?

Scarpetta: Digital skills are undoubtedly very much in demand. But beyond the specific demand for skills, training programs should adopt a holistic, forward-looking approach. If you look at the demand

in the labor market in Japan and other countries, you see that there are also other skills which are in high demand. There are some sectors where there are structural shortages, including the service sector in which human skills are valued, such as the ability to work in teams and communicate.

The important thing in my view is to have a good assessment of the demand for skills as it is evolving. This could be done via detailed and frequently updated databases on the demand and supply of skills that can assess the specific skills necessary for different jobs in different sectors. That would give you a good sense of how the demand for skills is evolving and what should be the offer in terms of training and retraining.

The second important point is that we need to move away from the notion that training is long and lasts for several weeks, if not months, or that it is classroom-based and the same as a formal education, just providing very general skills and competencies. We need to move to a system which is much more agile with short courses, so the workers get certification for what they've learned but also the certification of what they have learned during their working life. It must be tailored to the specific needs of the market. This implies a significant transformation of the training/retraining programs and systems and institutions that are available on the market.

JS: Artificial intelligence will perhaps be used on a larger scale from now on. In that regard, perhaps some experts would say the most important skills for human beings might be communication skills rather than technical skills. Would you concur with this?

Scarpetta: There is no question that AI is progressing very quickly and surprising all of us. We should look at the recent development of the ChatGPT for example. What this technology can do is quite impressive indeed. Two observations on that. First is that in order to be able to use AI properly you also need some digital skills. So you cannot rely on AI to address and solve problems without knowing how the process works itself. Secondly, we absolutely have to always consider how to make sure that workers develop complementary skills to what AI can do better than us. There are a number of skills which remain more in the hands of humans, and these are all human-related skills like teamwork and communication skills, the flexibility and resolution of complex but also rapidly evolving problems in which AI still has more difficulty than humans. So all the evidence we have so far – and this of course is evolving very rapidly – suggests that AI is likely to be complementary to what humans can do, but of course this involves significant and massive investment in training and retraining of those skills and competencies which are complementary to AI. We need effective

regulations governing the use of AI in the workplace, making sure AI is used in an ethical way to respect diversity, respecting labor and human rights, and is actually beneficial to humans and not only to productivity.

JS: Assuming we live in a sort of knowledge-intensive society or economy, recurrent or lifelong education would be very important. Can reskilling perhaps be a part of such education?

Scarpetta: I think we should move away from the old notion regarding the “different phases of life”, in which there’s a learning phase in our lives spent in school and education, then one in which we use the skills we have learned in education on the job, and then one in which we move into retirement. Let’s move from that old system to one in which learning is a continuous process; it starts indeed with formal education, but actually evolves throughout your working life and continues after the age of retirement. That’s easy to say of course but much more difficult to put into practice, so first and foremost we should bring about a change of mentality on the side of workers who should be willing but also able to continuously learn. This also requires changing the mentality of the companies because they have to continuously invest in the workforce instead of going to the market and finding new workers every time there is a new need for skills and competencies. They should try to see what they can get by investing in their own workforce and Japan does that more than other countries already, but that’s a general problem.

An example here which I think is important is the one of France, the country in which I live. This is a country which has spent a lot of resources on training and retraining programs, but in the past this investment was not very effective. Some of the training courses were not adequate to the needs of the companies and the workers were not always very much engaged. So in 2017 France revamped the system completely and moved into what it called an individual training account. Each worker in both private and public sectors is provided with a private account with money that they can use for training and retraining. This was a major change because it means that basically each worker has the right but also the duty to invest in her or his skills.

Then there is guidance orientation for workers to help them choose the type of training courses they would like to get involved in, and of course the consultation with employers to make sure that it’s relevant for the company. They moved from a system in which the employer decided the type of training workers should do, to a system where individual workers are now at the center of the decision. This approach is now used also in the Netherlands, Belgium, and Singapore.

A company might not know exactly what type of skills would be

needed five years down the road. That’s why skill anticipation using all the analytical tools we have, to anticipate how the market will evolve and what kind of skills will be in higher demand going forward, is very important. The digital transformation is also important because we have access to much more information than in the past, so this anticipation of skills is relatively easier today despite the rapid changes in the demand for skills.

Online Education & Reskilling

JS: Online education in the pandemic involved lots of online communication. Some experts would say that online education will be crucial in promoting reskilling.

Scarpetta: Yes, I think during the Covid-19 crisis we were physically using digital technology at its full potential, and we have continued to work very productively even if remotely. There has been a boom in online training, given the fact that training centers were not operating. I think there are a number of advantages of online training that can be complementary rather than substituting traditional in-person training. One is that the worker can choose the pace, time, and the place where he/she studies, a major advantage when time is a constraint that workers face.

It can be much cheaper than traditional training courses and can be short and focused on specific skills. So these are some of the advantages that online training has, but of course identifying what workers might need and where workers stand in terms of their own skills and competencies is also important. There is an issue as usual also for online training and this is inclusiveness. Some workers have more access to online training courses; they have a better computer and they have faster Internet. This is an issue about the digital tools that might create some divide between those who have got resources and those who have fewer resources, so we have to invest in the infrastructure to make sure that everybody can have access to these online training opportunities.

Labor Mobility & Diversity

JS: The equality question is also important in the gender domain and immigrant labor domain, and labor mobility is a key question in raising international competitiveness. But also, labor market diversity should be a key question in promoting national competitiveness. Gender equality and immigrant labor need to be facilitated in the labor market to achieve more productivity or more happiness for workers. Could raising market mobility

facilitate gender equality and immigrant labor?

Scarpetta: Absolutely. This is an issue in all OECD countries: promote economic equality of opportunities and inclusivity. In this context gender equality is essential. But there is scope to better integrate migrants in our labor market and society. Japan is aging very rapidly together with a number of other OECD countries, and there is significant untapped potential with many women not participating in the labor market, or in the case of Japan participating but in non-regular jobs, which of course pay less and provide less career progression. And this is a disincentive for families who have children because the mother often has to sacrifice her career in order to give birth and then take care of the child or the children.

So there are a number of advantages to creating more flexibility in the labor market and allowing women to have children and still maintain their career when they return to the labor market. As far as immigrants are concerned, of course there are several issues that are specific to Japan. Long-term employment and low job mobility to some extent create barriers for immigrants because it may be more difficult for immigrants to integrate fully into the labor market. But with a rapidly declining working-age population in the next decades, promoting integration of migrants is needed. Many migrants that arrive in Japan after completing their studies will miss the main recruitment processes after graduating and will have few opportunities to find what are called the “regular jobs”. Most of them are working in non-regular jobs.

Secondly, training in Japan occurs mainly within the firm and therefore for an immigrant the access to training is less compared to other workers. So, certification of skills and competencies that immigrant workers have acquired abroad is a very important element to make sure you can really understand what they can do and so that you can better integrate them into the Japanese labor market.

And another point is that many employers are reluctant to hire and train immigrants because they don't know how long they will stay in the country. It's also important for those who want to stay to be given a medium-term opportunity to stay in the country. Again, more mobility in the labor market can be a factor of inclusivity both for women and immigrants to some extent, but these again in my view require investment in active labor market policies, focusing on training and retraining especially for those who are less well connected with the labor market.

In Japan, the government introduced in 2018 a reform of the labor market that included several measures to promote job mobility at all ages. It was called the “Guidelines for Promoting Job Change and Re-employment Regardless of Age”: this reform was going in the right direction. But there is a need to involve more people, like the employers themselves, and they need to change their own culture and way of managing the workforce.

JS: An active labor market policy is certainly a key to encouraging immigrant labor. What do you think would be the best way to integrate immigrant labor into the host country's economic society.

Scarpetta: Integration is a key element of a migration policy, so first you must make sure you have the right mobility policy to attract immigrants into your country; but secondly, you need to give them opportunities to integrate. One of the key aspects of the overall integration is access to jobs – which again involves recognition of skills acquired abroad and making sure that the immigrants have access to career jobs and not only to precarious, non-regular jobs. It is also important to give them the prospect of staying if they want to, so that they can have career development in the country. But of course integration also goes beyond: social integration is also important, including via the education system for the children and making sure the spouses can also work. So, integration is really both for the labor market and for society, and this is essential for an effective migration policy.

JS: You mentioned that Nordic countries have provided successful cases of active labor market policies. Are they also successful in integrating immigrant labor into their economic society?

Scarpetta: Yes, and they spend significant resources on integration. Most of the OECD countries are investing a lot in the reintegration of immigrants and we are actually about to release a report on the talent attractiveness of different OECD countries to high-skilled migrants. In the global race for talents, attractiveness depends on the economic performance of the country, the well-being of the population, and access to social services, but it also depends on the specific integration policy of the country. We will also be issuing our major flagship publication on integration of migrants in which we look at the integration policies of OECD countries and rank them in terms of how good these policies are. This is related to labor market integration and social economic integration, and these are all important to make integration successful. **JS**

Written with the cooperation of Joel Challender who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.