Economic Policy Institute

The great reversal

The story of how an influential international organization changed its view on employment security, labor market flexibility, and collective bargaining

By John Evans and William E. Spriggs • February 11, 2022

Unequal Power

Part of the Unequal Power project, an EPI initiative to reestablish the understanding in law, politics, economics, and philosophy, that equal bargaining power between workers and employers does not exist. Recognizing this inherent workplace inequality will bolster freedom, economic fairness, workplace protections and democracy.

SECTIONS

Executive summary

The Organization for Economic Cooperation and Development (OECD) creates and reflects an intellectual center of gravity for economic policymakers among the advanced democratic industrial countries. Ultimately, its authority rests upon the credibility of its analysis, though its economic thinking has reflected and reinforced the paradigm shifts between different schools of economic thought.

Such influence has been especially evident regarding employment analysis and recommendations. The original OECD Jobs Strategy in 1994 marked the high point of an era of market fundamentalism. In the words of one ex-OECD staff member, "The OECD is seen as stressing the primacy of markets and thus of market-based solutions; institutions are generally viewed as hindrances, and deregulation is favoured over regulation." The 1994 strategy argued that high unemployment, especially in

Europe, was essentially a structural problem and that economies were operating close to the "natural rate" of unemployment, which could not be reduced through monetary or fiscal policy. The solution was to make labor markets "flexible" through the reduction of employment protection: Wages would be allowed to fall, and employment thus to rise, by reducing minimum wages and weakening collective bargaining systems.

But the most recent version of the OECD Jobs Strategy in 2018 came to a very different conclusion: "countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing (or preserving) market flexibility." The subsequent OECD report on collective bargaining released in 2019 argued: "Collective bargaining is a key institution to promote rights at work. At the same time, collective bargaining and workers' voice are unique instruments to reach balanced and tailored solutions to the challenges facing OECD labour markets." The claims that labor market, or job, flexibility should be a paramount goal of economic policy to minimize unemployment should correspondingly fade.

This paper explores the developments along that journey step-by-step:

- Calls for labor market flexibility had appeared in OECD documents since 1980, but the 1994 Jobs Strategy was influential in reinforcing the drive to remove what had come to be referred to as labor market rigidities in many OECD countries in the 1990s, namely by reducing minimum wages, decentralizing collective bargaining, weakening employment protection legislation, and reducing unemployment benefits.
- Over the following decade, despite assertions to the contrary, there was little empirical evidence to indicate positive employment results from these reforms.
- Divergence appeared between the European Union and the OECD over the support for a social-market as opposed to a free-market economy.
- The OECD revision of the Jobs Strategy in 2006 recognized that the impact of labor market institutions on employment performance depends on the economic and social setting. It was argued later that there are several "roads to Rome."
- Growing income inequality, previously ignored by mainstream economists, was seen

to have negative economic as well as social effects. Two major OECD reports—“Growing Unequal” and “Divided we Stand”—charted the rise in income inequality across OECD countries.

- The OECD acts in concert with the International Monetary Fund (IMF) and the World Bank, and in 2011 the IMF Research Department argued that inequality leads to imbalanced growth. Subsequent IMF research found that half of the rise in inequality in industrialized countries since 1980 was due to the decline of union density or bargaining coverage.
- The World Bank 2013 World Development Report on “Jobs” described a “plateau effect” of labor institutions on employment; specifically, it found only a small impact of minimum wages and employment protection on employment levels.
- As the effects of the Great Recession persisted, the costs of lightly regulated financial markets became clearer and the broader impacts of deregulated markets and free-market ideology were cast in a new light. During that time, the OECD launched a “New Approaches to Economic Challenges” program designed to revisit past policy prescriptions.
- Trade unions began to argue that the OECD’s labor market policy focus on education and skill levels was a necessary but not a sufficient condition for reducing inequality. More important were minimum wages and collective bargaining.
- Against the background of growing populism, a backlash against globalization and the digitalization of employment, and debates around the gig economy, the OECD revised the Jobs Strategy in 2018. The new strategy made 20 specific policy recommendations and for the first time recognized a positive role of collective bargaining, concluding that “well-designed collective bargaining systems are also found to promote labour market resilience.”
- The OECD’s 2019 report, “Negotiating Our Way Up: Collective Bargaining in a Changing World of Work,” concluded: “The need for co-ordination and negotiation mechanisms between employers and workers is heightened in the changing world of work.” Coordinated bargaining was seen to be superior in labor market outcomes, including for workers considered “marginal.”
- The OECD hosted the “Global Deal,” a multistakeholder partnership initiated by the Swedish government designed to benefit from, and contribute to, a platform that highlights the value of social dialogue and strengthens existing cooperation structures. Tacitly the OECD came full circle and recognized the advantages of the Nordic approach to greater cooperation and broader economic consensus, an approach that relies on collective bargaining and social dialogue.
- The global Covid-19 pandemic, beginning in 2020, has underlined the risks of social and economic inequality in the labor market and beyond.

Introduction

The Organization for Economic Cooperation and Development (OECD) creates and reflects an intellectual center of gravity for economic policymakers among the advanced democratic industrial countries. Krugman (2010) has described the organization as “conventional wisdom central.” It operates as a coordinating body and has been called a think tank for its member governments. Its leadership has been at pains to point out that it is a “do tank” (Gurria 2020), as it frequently issues recommendations. While there has always been some heterogeneity across different departments within the OECD, the power to establish this center of gravity lies within the Economics Department. That power in turn is derived from the national government treasury departments that nominate representatives to the OECD Economic Policy Committee and from the fact that the chair of the committee normally comes from the United States. These sources of power can be highly influential in determining broadly what is acceptable in economic policy and what is not. While the United States has often happily ignored the OECD views of American economic policy, other countries often cannot afford to do so without incurring the wrath of bond markets.

Ultimately, the OECD’s authority rests upon the credibility of its analysis, though its economic thinking has reflected and reinforced the paradigm shifts between different schools of economic thought. Such influence has been especially evident regarding employment analysis and recommendations. The original OECD Jobs Strategy in 1994 marked the high point of an era of market fundamentalism. While the strategy’s recommendations were often couched as euphemisms, the underlying messages were clear to decipher. In the words of one ex-OECD staff member evaluating the original Jobs Strategy 10 years after its launch: “The OECD is seen as stressing the primacy of markets and thus of market-based solutions; institutions are generally viewed as hindrances, and deregulation is favoured over regulation” (Casey 2004). The 1994 strategy argued that high unemployment, especially in Europe, was essentially a structural problem and that economies were operating close to Friedman’s (1968) “natural rate” of unemployment, which could not be reduced through monetary or fiscal policy. The solution was to make labor markets “flexible” through the reduction of employment protection: Wages would be allowed to fall, and employment thus to rise, by reducing minimum wages and weakening collective bargaining systems.

The most recent version of the Jobs Strategy adopted by the OECD Ministerial Council in 2018 came to a very different conclusion: “countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing (or preserving) market flexibility” (OECD 2018). The subsequent OECD report on collective bargaining released in 2019 argued: “Collective bargaining is a key institution to promote rights at work. At the same time, collective bargaining and workers’ voice are unique instruments to reach balanced and tailored solutions to the challenges facing OECD labour markets” (OECD 2019). The claims that labor market, or job, flexibility should be a paramount goal of economic policy to minimize unemployment should correspondingly fade.

This paper explores the developments along that journey:

- Calls for labor market flexibility had appeared in OECD documents since 1980, but the 1994 Jobs Strategy was influential in reinforcing the drive to remove what had come to be referred to as labor market rigidities in many OECD countries in the 1990s, namely by reducing minimum wages, decentralizing collective bargaining, weakening employment protection legislation, and reducing unemployment benefits.
- Over the following decade, despite assertions to the contrary, there was little empirical evidence to indicate positive employment results from these reforms.
- Divergence appeared between the European Union and the OECD over the support for a social-market as opposed to a free-market economy.
- The OECD revision of the Jobs Strategy in 2006 recognized that the impact of labor market institutions on employment performance depends on the economic and social setting. It was argued later that there are several "roads to Rome" (OECD 2018).
- Growing income inequality, previously ignored by mainstream economists, was seen to have negative economic as well as social effects. Two major OECD reports—"Growing Unequal" (2008) and "Divided we Stand" (2011)—charted the rise in income inequality across OECD countries.
- The OECD acts in concert with the International Monetary Fund (IMF) and the World Bank, and in 2011 the IMF Research Department argued that inequality leads to imbalanced growth. Subsequent IMF research (2015) found that half of the rise in inequality in industrialized countries since 1980 was due to the decline of union density or bargaining coverage—itself the result in part of the drive for labor market flexibility encouraged by the earlier version of the Jobs Strategy and IMF structural adjustment programs.
- The World Bank 2013 World Development Report on "Jobs" described a "plateau effect" of labor institutions on employment; specifically, it found only a small impact of minimum wages and employment protection on employment levels.
- As the economic and financial crisis persisted following the 2008 Lehman Brother's collapse, the costs of lightly regulated financial markets became clearer and the broader impacts of deregulated markets and free-market ideology were cast in a new light. During that time, the OECD launched a "New Approaches to Economic Challenges" program designed to revisit past policy prescriptions.
- Trade unions began to argue that the OECD's labor market policy focus on education and skill levels was a necessary but not a sufficient condition for reducing inequality. More important were minimum wages and collective bargaining.
- Against the background of growing populism, a backlash against globalization and the digitalization of employment, and debates around the gig economy, the OECD launched a further revision of the Jobs Strategy. The new Jobs Strategy, published in 2018, made 20 specific policy recommendations and for the first time recognized a positive role of collective bargaining, concluding that "well-designed collective bargaining systems are also found to promote labour market resilience."

- The OECD subsequently published in 2019 “Negotiating Our Way Up: Collective Bargaining in a Changing World of Work.” The report concluded: “The need for co-ordination and negotiation mechanisms between employers and workers is heightened in the changing world of work.” Coordinated bargaining was seen to be superior in labor market outcomes, including for workers considered “marginal” (young workers and women).
- The OECD hosted the “Global Deal,” a multistakeholder partnership initiated by the Swedish government designed to benefit from, and contribute to, a platform that highlights the value of social dialogue and strengthens existing cooperation structures. Tacitly the OECD came full circle and recognized the advantages of the Nordic approach to greater cooperation and broader economic consensus, an approach that relies on collective bargaining and social dialogue.
- The global Covid-19 pandemic, beginning in 2020, underlined the risks of social and economic inequality in the labor market and beyond.

From Keynesianism to structural adjustment policies, 1970–1994

Until the oil shocks of the 1970s, the predominant strand of OECD thinking was Keynesian. And as far as labor markets were concerned, its thinking was influenced by the Nordic model developed by Gösta Rehn and Rudolf Meidner when they were working at the Swedish trade union center, the LO, in the 1950s. Rehn went on in 1962 to become the director of what later became the OECD Department for Labor and Social Affairs.

Following the oil shocks of the 1970s the OECD’s conventional wisdom shifted to be more in line with the free-market thinking of the Thatcher and Reagan governments. Unemployment in the OECD area soared in the 1980s, but many governments saw this as a price worth paying for dampening inflation. The notion of a natural rate of unemployment determined by the structural features of economies was accepted, and macroeconomic policy, it was argued, could have little impact on employment—but government deficits would crowd out private investment and lead to inflation. A variant of the natural rate of unemployment—the nonaccelerating inflation rate of unemployment (NAIRU)—became the core of macroeconomic analysis in the OECD, the IMF, central banks, and finance ministries during the 1980s and 1990s. Economists made calculations for OECD countries of levels of unemployment that it was argued were “structural,” below which inflation would accelerate.

The view that many OECD labor markets, especially in continental Europe, were becoming sclerotic due to too much regulation to protect workers and set wages through minimum wages and collective bargaining became the conventional wisdom. Slow employment growth in Europe was contrasted with faster employment growth in the United States.

The new leitmotif of the OECD became structural reforms, especially reform of labor markets and labor market institutions. The 1983 OECD statement on structural adjustment program (OECD 1983) called for wage flexibility so that wages would reflect productivity, and policies that impeded this, including minimum wages and, in part, collective bargaining agreements, should be reformed. Employment protection legislation should be weakened to encourage management to hire more workers, secure in the knowledge that they could be fired. Internal work rules that could restrict management's drive for cost cutting should be lifted. Although it was rarely made explicit, the OECD Economics Department saw the work bargain solely as a monetary exchange, thus legitimizing management prerogative and exploitation. The market and institutional failures that required labor market regulation to be introduced in the first place were never discussed.

Business, and especially American business, enthusiastically encouraged this drive. Barkin (1987) noted:

> Management's drive for the removal of contractual and governmental restraints on their control of the workforce is rationalized in Western Europe as necessary to achieve greater internal and external competitiveness. In support of this view the OECD substituted the advocacy of a flexible manpower policy (including wage policy) under the euphoric title of positive adjustment policy for the prior programme of an active manpower policy promoted during the 60s and early 70s.

A commission, serviced by the Employment and Social Department of the OECD and chaired by London School of Economics Director Ralph Dahrendorf, published a report in 1984 that sought to humanize the flexibility debate, arguing that reforms should not be instrumentalized against one group in society, namely workers. There is no sign that this argument had an impact on the mainstream recommendations of the OECD. Indeed, the conventional wisdom shifted little for two decades. Freeman (2005) commented:

> Today, there is a new orthodoxy that makes the deregulation of labor market institutions and increased employment and wage flexibility in the labor market the keys to economic success. International agencies, such as the OECD and the IMF, and many economists blame unemployment and sluggish economic growth on unions and state regulations of pay and employment that purportedly reduce market flexibility. They recommend that governments weaken labor market institutions in favor of market driven solutions. They called for reductions in the pay of low wage workers to create additional demand for them and tax breaks for the highly paid to induce them to work more or harder.

The 1994 Jobs Study and Jobs Strategy

The original 1994 OECD Jobs Strategy, set in motion at the OECD ministerial meetings in 1992, codified this new orthodoxy as far as employment policy was concerned. The communique of the employment and labor ministers meeting in January 1992 set the tone, concluding: "Flexible and efficient labour markets are key to achieving non-inflationary economic and employment growth" (OECD 1992). The Jobs Study from the OECD secretariat and the resulting Jobs Strategy were published and adopted two years later at the 1994 Ministerial Council of Economic and Finance Ministers (OECD 1994a).

The strategy had originally nine recommendations, to which a 10th (increasing product market competition) was added the following year:

1. Fashion macroeconomic policy to encourage noninflationary growth.
2. Improve frameworks to enhance the creation and diffusion of new technology.
3. Increase flexibility of working time.
4. Eliminate impediments to the creation and expansion of enterprise.
5. Make wages and labor costs more flexible to reflect local conditions and individual skill levels.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen active labor market policies and reinforce their effectiveness.
8. Improve labor force skills and competency through reforming education and training systems.
9. Reform unemployment and related benefit and tax systems so that equity is not pursued at the expense of efficient labor markets.
10. Enhance product market competition to reduce monopolistic tendencies (added subsequently).

Of the 10 policy recommendations, one referred to macroeconomic policy and nine to microeconomic policy, reinforcing the underlying view that unemployment was a structural problem caused by insufficiently flexible labor markets. Of the nine structural policy recommendations, those concerning technology, improved skill levels, entrepreneurship, and increased competition were hardly controversial; they were described by Freeman (2005) as “boiler plate platitudes.” Four were recommendations to deregulate labor markets in continental Europe to bring them into line with the U.S. model.

The recommendation on wage setting specified that governments should “make wages and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill level, in particular for younger workers,” and the recommendation on employment protection called upon governments to “reform employment security provisions that inhibit the expansion of employment in the private sector” (OECD 1994a). The strategy focused on provisions regulating dismissals and redundancies and those governing temporary employment contracts. On unemployment benefits, the OECD recommended “cutting unemployment benefit levels and duration of payment, tightening eligibility and enforcing work requirements, and restricting entry to and the generosity of early pensions” (Casey 2004).

The recommendations bore a strong similarity to the policies of the Thatcher government for “flexibilising” labor markets in the U.K. in the 1980s. These have been summarized by

Blanchflower and Freeman (1993) as “industrial relations laws that weakened union power; measures to enhance self-employment; privatization of government run or owned businesses; reduction in the value of unemployment benefits and other social receipts relative to wages; new training initiatives; tax breaks to increase use of private pensions; lower marginal taxes on the individuals; elimination of wage councils that set minimum wages.” The Jobs Strategy followed rather than predated these reforms.

Nickell (2017) argued that the recommendation on active labor market policies, which called for strong job search conditionality to be attached to receipt of unemployment benefits, reflected a “Nordic approach” to activation policies. However, the strategy did not recommend the Nordic institutions of strong unions and high levels of expenditure on labor market policies.

Though the Jobs Study and Jobs Strategy were backed up by two volumes of “evidence and explanations” by the OECD (1994b), they offered little external empirical evidence to support the employment case for deregulating labor markets. As is discussed below, over the succeeding two decades no strong empirical evidence has emerged to support the claims for flexibilizing labor markets to obtain positive employment effects—among neoliberal economists the claim was simply taken as self-evident. Freeman (2005) notes:

> Adherents to the new orthodox view search the data for specifications…[or] measures that support their priors, while barely noticing evidence that goes against them. If results are inconsistent with the priors, they assume that something is wrong with their empirical specification or measures, rather than question the validity of their case.

Follow-up, the 1998 ‘assessment’ of the Jobs Strategy, and ‘Going for Growth’

The OECD follow-up to the Jobs Strategy included a series of thematic reviews but also detailed country recommendations processed through the OECD’s Economic Development Review Committee (EDRC), which is responsible for producing annual or biennial economic surveys of member states. As with the Economic Policy Committee, the EDRC is made up of officials from the treasury, economics, and finance ministries. It uses a peer review process in which two countries comment on a draft of recommendations, prepared by the secretariat, to the country being surveyed. The EDRC’s work is the most closed and least transparent of all OECD committees and working groups.

The country-specific recommendations from the Jobs Strategy follow-up primarily focused on continental European countries.[1] In the 1990s the only wage-setting recommendation directed at the United States was that it weaken minimum wage laws.

Regarding the recommendations to governments for increasing flexibility by wage-setting institutions, the follow-up included detailed proposals beyond the broad policy guidance. The recommendations included:

- Refocusing collective bargaining at the sectoral level to the provision of framework agreements that leave firms with more leeway to adjust wages to local conditions.
- Introducing opening clauses for local bargaining parties to renegotiate sectoral agreements.
- Phasing out administrative extensions of agreements that were considered to rigidify wage-setting arrangements.
- Reassessing the role of statutory minimum wages and either switch to better-targeted redistributive instruments or minimize their adverse effects by introducing sub-minimum wages differentiated by age or region and/or indexing them to prices instead of average earnings.

The five-year assessment of the Job Strategy in 1999 carried out by the OECD secretariat was largely self-congratulatory. It argued that many OECD countries had sought to implement the strategy's recommendations, and those that had had enjoyed better employment performance. However, attempts to quantify the impact on employment of some of the key recommendations on labor market regulation produced insignificant results. The 2004 OECD Employment Outlook examined employment protection legislation (EPL) and acknowledged that, "The net impact of EPL…on aggregate unemployment is therefore ambiguous a priori, and can only be resolved by empirical investigation. However, the numerous empirical studies of this issue lead to conflicting results, and moreover their robustness has been questioned" (OECD 2004, Chapter 2). Nevertheless, reflecting the organization's "priors," the structural policy recommendations became a high-profile mantra for the OECD. The biennial "Going for Growth" report first published in 2005 repeated the self-reinforcing methodology of the initial Jobs Strategy assessment.

The influence of the OECD and the self-reinforcing relationship with finance ministry officials went beyond Europe. Jackson (2007) commented from a Canadian perspective:

> …OECD processes have been influential and important in terms of defining the "conventional wisdom" that drives economic policy advice. Seen through the prism of published country reviews and based on information provided by senior Canadian government officials and interviews, the OECD strongly influenced the main themes of Canadian economic and labor market policy over the 1990s: very large cuts to the deficit achieved by cuts in social spending; deep cuts to the unemployment insurance programme; deregulation and privatisation; the pursuit of greater labor market flexibility; formal targets for low inflation; and a major focus on debt reduction and tax cuts as opposed to reinvestment in social programmes after the elimination of the federal deficit.

Factors behind the 2006 review of the Jobs Strategy: Different ‘roads to Rome’

In the early 2000s, thinking in the OECD began to shift. Two-thirds of the OECD members at that time were also members of the European Union, and the European Commission’s European Employment Strategy, developed over the same period as the Jobs Strategy and having many similarities, was more influenced by “social market theories whereby the state intervenes to moderate the negative effects of market relationships and to enhance the efficiency of market performance” (Casey 2004). The social dimension of European integration and instigation of what was known as the European Social Dialogue—negotiations between employers and trade unions at the European level—that was instigated by European Commission President Jacques Delors was an attempt to build agreement around a more social model of labor market reform. Already in 1997 a joint seminar between the OECD and the European Commission to discuss the implementation of the two strategies concluded that:

> A number of member countries, notably in EU, have however been reluctant to implement the recommendations relating to labour market flexibility. As the OECD itself acknowledges this is due to concern the policies to achieve greater flexibility in the labour market would be at odds with the objectives concerning equity and social cohesion. The trade-off posed is clearly a difficult one. (European Commission 1999)

Labor and employment ministers meeting in 2003 called on the OECD to “reassess the Jobs Strategy in the light of more recent experience and future challenges.” The 2004 OECD Employment Outlook prepared by the Department of Employment, Labor, and Social Affairs began the work by including detailed chapters on two of the flexibility recommendations of the Jobs Strategy: the impact of employment protection legislation, and wage setting. The Outlook concluded that “the evidence of the role played by employment protection legislation on aggregate employment and unemployment rates remains mixed” (OECD 2004). It expressed concern that in some countries such as Spain temporary contracts that replaced permanent jobs produced labor market duality between those with permanent contracts and those with temporary contracts, and it recognized that job insecurity itself was a problem. The Outlook examined the Job Study diagnosis that excessively high aggregate wages and wage compression hindered employment creation and found that the “evidence is somewhat fragile.” It concluded that the effect of collective bargaining on employment “is contingent upon other institutional policy factors that need to be clarified to provide robust policy advice.”

In 2004, at an OECD seminar organized by the Trade Union Advisory Committee to the OECD (TUAC), Washington Center for Economic and Policy Research (CEPR), and the

European Trade Union Institute (ETUI), the authors of a set of empirical surveys on the effect of labor market regulations on employment (Baker et al. 2004) presented their findings. The report of the meeting[2] noted that the results “showed no statistically significant relationship between labour market protection and unemployment.” The authors concluded that there was a “yawning gap between the confidence with which the case for labour market deregulation has been asserted and the evidence that the regulating institutions are the culprits” (Baker et al. 2004). While the Economics Department director acting as discussant in the meeting found the results “uninteresting,” the response from governments present was more nuanced. The British treasury official who at the time was also chair of the Economic Committee Working Party on Structural Policy noted that the introduction of the minimum wage in the U.K. had been effective in raising wages of less-skilled workers without raising unemployment.

Other research in the 2000s that focused on the emerging market economies in Central and Eastern Europe similarly failed to find evidence of the positive effects of labor market deregulation. Avdagic (2015), examining the effect of employment protection legislation on aggregate and youth unemployment in advanced economies and Central and Eastern Europe during 1980–2009, concluded: “The results offer no clear support for the argument that EPL is a cause of unemployment….[T]he findings on the whole indicate that government efforts to tackle unemployment by deregulating EPL alone may well be futile.”

Heimberger (2020) subsequently carried out a meta-analysis of 75 studies across a range of countries examining the relationship between employment protection legislation and unemployment, concluding:

> We cannot reject the hypothesis that, on average, the genuine empirical effect of EPL is zero. Notably, this main finding would be consistent with an explanation according to which the effects of employment protection are not universal, as increased employment protection may have different effects on unemployment in different countries or time periods.

Some studies have discovered potentially positive welfare-improving effects of employment protection, depending on institutional settings. Belot, Boone, and van Ours (2007) found “new results on the welfare effects of employment protection”:

> Using data from 17 OECD countries, we show that there exists an inverse U shape relationship between employment protection and economic growth. Using a simple theoretical model with non-contractible specific investments, we show that over some range increasing employment protection does indeed raise welfare. We also show that the optimal level of employee protection depends on other local market features, such as the bargaining power of workers and the existence of wage rigidities like the minimum wage.

Vergeer and Kleinknecht (2011) analyzed the impact of labor market deregulation on productivity in 19 OECD countries for a longer period, 1960–2004. They concluded:

> …wage cost saving flexibilization of labour markets has a negative impact on labour

> productivity growth. A one percentage point change in growth rates of real wages leads to change in Labour productivity growth by 0.31 to 0.39 percentage points. This cannot solely be explained by hiring low-productive labour. Flexibilization of Labor markets leads to a labour-intensive growth path that is problematic with an ageing population in Europe.

Regarding collective bargaining, the OECD's 2006 reassessment of the Jobs Strategy, drawing on Bassanini and Duval (2006), concluded that:

> …high corporatism bargaining systems tend to achieve lower unemployment than do other institutional setups. Nevertheless, the evidence concerning the impact of collective bargaining structures on aggregate employment and unemployment continues to be somewhat inconclusive. The overall non-robustness of results across studies probably reflects, at least in part, the difficulty of measuring bargaining structures and practices, as well as the fact that the same institutional set-up may perform differently in different economic and political contexts. One exception to this pattern is the robust association between higher centralisation/coordination of bargaining and lower wage dispersion…. The empirical evidence concerning a negative impact of minimum wages on unemployment is mixed, with some studies finding evidence for significant effects particularly for youth while others do not detect any effects. The Bassanini and Duval research found no significant impact of the minimum wage on the aggregate unemployment rate. (OECD 2006)

The "Reassessed Jobs Strategy" in the 2006 Employment Outlook (OECD 2006) represented a shift in thinking by reflecting the uncertainty of the empirical evidence about the effects of labor market institutions and accepting that different national and institutional settings are key to understanding good employment performance. Acknowledging this a decade later the OECD said:

> The 2006 *Reassessed Job Strategy* placed more emphasis on promoting labour force participation and improving job quality. The main message was that there are several roads to Rome, i.e., good labour market performance is consistent with more market reliant models that emphasise labour and product market flexibility, but also with models that involve a stronger role of public policies, generally coupled with strong social dialogue and a combination of stronger protection for workers with flexibility for firms. (OECD 2018)

Coats (2018) noted:

> …the OECD, in its reassessment of the Jobs Study…stepped back from an unqualified endorsement of the Anglo-Saxon model of labour market flexibility. In part, this was because the evidence showed more than one route to strong jobs growth. For example, in the Nordic countries and Netherlands (to some extent), strong collective bargaining institutions, social dialogue, generous out-of-work benefits, rigorous job search requirements and investment in human capital constituted a package of policies that were just as successful at creating jobs as the

> deregulated Anglo-Saxon model. A judicious mix of flexibility and security seemed to have been achieved, to which the neologism "flexicurity" was applied.

Watt (2006) noted: "analysis of the policy recommendations and the underlying evidence presented in the Employment Outlook suggests that since 1994 the OECD has moved a considerable way on a number of key policy issues."

Lansley and Reed (2010), drawing on international experience for recommendations for U.K. employment policies for British trade unions in the light of the Great Recession, concluded:

> …the fundamental arguments of the anti-regulationist school and its belief in self-regulating markets simply don't stand up to the economic experience of the last two decades. The free-market experiment has been plagued by instability, not the stability it predicted. The empirical evidence provides no backing for those calling for the weakening or abolition of the minimum wage and cutbacks in current and planned labour market interventions. While badly thought-out regulation can be harmful, the evidence is that it is possible to achieve successful economic outcomes (low unemployment, high employment participation and growth) with strong social and workplace protection. More regulation does not necessarily mean poorer economic performance while increased regulation of the appropriate kind can actually improve performance in the right circumstances. Indeed, the OECD once the champion of the orthodox view has accepted the case for intervention in recent years.

Part of what drove the selling of the Anglo-Saxon model of labor market flexibility was the perceived success of the U.S. labor market in providing low unemployment rates. But, even in the U.S., where most workers do not have contract protection under law, studies on the recent and limited protections workers have from at-will dismissal gave a mixed view on employment but a mostly positive view on workers' wages. Women and workers of color, in particular, had higher wages with laws protecting against unjust or unreasonable cause protections from firing (Autor 2003; Kugler and Saint-Paul 2004; Miles 2000; Hoyt 2018). Showing improvements from the U.S. extreme of employer flexibility on an important labor market metric.

Within the OECD a break in consensus was allowing a subtle shift away from the neoliberal paradigm. There had been some opposition within the OECD to the structural policy hegemony of the Economics Department, and successive Employment Outlooks from what had become the Department of Employment, Labor, and Social Affairs produced research results that did not support the Economics Department's enthusiastic drive for deregulation. Efforts to quantify the adverse economic effects of labor market regulations produced inconclusive results.

Nevertheless, neoliberal economists within and outside the OECD have continued to advocate flexibilizing labor markets. For instance, the "Going for Growth" report, still one of the flagship publications of the Economics Department, identifies five structural reform priorities for each OECD country, and until 2011 the benchmark for identifying these was a comparison with gross domestic product (GDP) per capita in the U.S. The 2010 "Economic Survey of Slovakia" gives the flavor of typical recommendations: It called on the government to undertake reforms "of a bold nature" and argued that reforming the wage determination system "[so as to allow] job seekers to price themselves into the market and employment will help to reduce poverty risks, reduce social expenditure pressures, limit the economic costs of fiscal consolidation, help lower entry barriers for innovative entrepreneurs and increase efficiency of active labour market measures" (OECD 2010).

The elephant in the room and the elephant curve: Rising income inequality

If there was growing uncertainty and disagreement within the OECD, the IMF, and the World Bank over the past two decades about the efficiency and employment effects of labor market institutions, there was growing consensus that rising inequality, primarily in advanced economies, was a major concern for economic as well as social and political reasons.

At the beginning of the current century the conventional view of most economists in the OECD and the international financial institutions (IFIs) would have been that distributional issues were questions for political and social decision-makers at the national level and only relevant to economists if measures to address inequality had a significant economic cost, which it was often argued was the case. Lucas (2003), author of the rational markets' theorem, wrote: "Of the tendencies that are harmful to sound economics, the most seductive and in my opinion the most poisonous, is to focus on questions of distribution."

At the time this would have been the consensus view of many economists within the OECD. To the extent that distributional issues were raised, it was frequently pointed out that globalization was reducing inequality between the developing countries and the OECD countries, explained almost entirely by the rapid industrialization of China and India since 1990—which, it was argued, was due to the success of market reforms. Rising inequality within countries was ignored.

The global picture of rising incomes in poor countries, exploding incomes of the top 1%, and stagnant or falling incomes of the middle class in OECD countries was depicted in 2016 by Milanovic (2016) of the World Bank in an "elephant curve," which showed that those who had lost out over the period had been low- and middle-income groups in developed countries.

Complacency concerning inequality as well as the enthusiasm for the promotion of the light regulation of markets in general was shaken by the near meltdown of the global economy following the 2008–2009 financial crisis and the Great Recession. Stagnation of middle-class incomes in the United States was seen as one of the factors behind the growth of unsustainable subprime lending.

As noted above, the thinking on the employment and social side of the OECD concerning labor markets and in particular income inequality had already begun to shift in the 2000s, as reflected by the publication of a series of reports on income inequality—notably “Growing Unequal” in 2008 (OECD 2008) and “Divided We Stand: Why Inequality Keeps Rising” in 2011 (OECD 2011). Rising income inequality began to be regarded as an economic as well as a social and political problem. In the foreword to a 2015 OECD publication summarizing this work, OECD Secretary General Angel Gurria wrote:

> Inequality is bad and getting worse. In the 1980s, the richest 10% of the population in OECD countries earned seven times more than the poorest 10%. They now earn nearly ten times more. When you include property and other forms of wealth, the situation is even worse: in 2012, the richest 10% controlled half of all total household wealth and the wealthiest 1% held 18%, compared to only 3% for the poorest 40%. The poorest members of society suffer immediately from inequality, but in the longer term, the whole economy is also damaged. OECD figures show that the rise in inequality observed between 1985 and 2005 in 19 OECD countries knocked 4.7 percentage points off cumulative growth between 1990 and 2010. (Keely 2015)

In 2017 Gurria stated in a speech to employers:

> Inequalities harm growth. They erode trust in governments, in business, in modern capitalism and in democracy. They also contribute to a polarised and dangerous environment where populism, protectionism, and exclusive nationalism tend to grow and spread. We urgently need to reverse these trends. (Gurria 2017)

The shift in rhetoric was not limited to the OECD. Then-IMF Managing Director Christine Lagarde stated in a speech to the 2012 annual meetings of the IMF and World Bank: “Excessive inequality is corrosive to growth; it is corrosive to society. I believe the economics profession and the policy community have downplayed inequality for too long” (Lagarde 2012). These statements were made at the time when the Occupy Wall Street protests had reverberations around the world, with public demonstrations erupting against economic inequality and the injustice of wealth and income being concentrated in the top 1%.

The picture painted by the OECD has become familiar in retrospect, but at the time it was significant and unusual, coming as it did from an organization that was seen as being highly orthodox in its analysis and policy prescriptions. Significantly, the U.S. launch of “Divided We Stand” was delivered in front of a trade union audience at an event held at the AFL-CIO and chaired by its president, Rich Trumka. It provoked Daniel Mitchell of the Cato Institute to decry Angel Gurria as “an International bureaucrat pushing socialism…using your tax dollars to push for class warfare” (Mitchell 2011). The analysis of household income data in “Divided We Stand” showed that in most OECD countries the incomes of the top 10% had grown faster than the bottom 10% over the previous two decades, resulting in an overall rise in inequality. The Gini coefficient[3] rose over the same period in 17 out of 24 OECD countries for which long-term data series were available—the OECD average had risen almost 10%, from 0.29 to 0.316—and the rise in household inequality was primarily attributed to changes in the distribution of wages and salaries (OECD 2011). The highest levels of inequality in the larger OECD economies were in the English-speaking countries, notably the U.K. and the U.S., where inequality had first begun to rise in the 1980s after falling in the postwar decades. However, increases were also seen in traditionally low-inequality countries—the exceptions being Turkey, Greece, France, Hungary, and Belgium. In subsequent analyses of tax data for a more limited group of countries, in which the OECD drew on data published in Piketty's (2014) bestselling 700-page study "Capital in the Twenty-First Century," the OECD noted:

> …from 1975 up to the crisis, the top percentile managed to capture a very large fraction of the growth in pre-tax incomes, especially in English speaking countries: around 47% of total growth went to the top 1% in the United States, 37% in Canada, and above 20% in Australia and the United Kingdom. By contrast, in Nordic countries, but also in France, Italy, Portugal, and Spain it was the bottom 99% of the population which benefited from more growth, receiving about 90% of the increase in total pre-tax income between 1975 and 2007. (OECD 2014a)

OECD work that began with "Divided We Stand" also found unconvincing that the focus of concern should be "inequality of opportunity" rather than "inequality of outcome" and that cross-generational mobility would offset inequality over time. It broadly confirmed the succinct argument of Atkinson (2015) that, "If we are concerned about inequality of opportunity tomorrow, we should be concerned about inequality of outcome today." Inequality is transmitted through generations in part due to lack of access to education—high inequality is self-reinforcing. Moreover, high-inequality countries tend to display low intergenerational mobility, reflected in what came to be known as the "Gatsby Curve," made famous by Alan Krueger (2012). The OECD concluded that, "One of the main objectives of social policy is to break the cycle of disadvantage across generations and prevent the development of a self-replicating underclass" (OECD 2008, 216).

Reports prepared for OECD committees in 2011 had highlighted the impact of regulatory reform and changes in labor market institutions alongside technological change on rising wage inequality. However, when it came to going public in 2012 in "Divided We Stand" on the causes of the rise in inequality, the OECD remained within a conventional analytic comfort zone. It dismissed the effects of globalization and financialization, arguing "neither rising trade integration nor financial openness had a significant impact on either wage inequality or employment trends within OECD countries" (OECD 2011, 29). While raising the possible effects of deregulation policies, including the weakening of unions that the OECD itself had been recommending for two decades, the report concluded that the effects were mitigated by the effects that deregulation, including wage suppression, could have by raising employment levels and thereby reducing inequality "amongst workers and jobless individuals." Skill-biased technological change was seen as the key driver of inequality. The report noted that taxation systems had become less effective in redistribution and that "redistribution strategies based on government taxes and transfers alone would be neither effective nor financially sustainable" (OECD 2011, 40). A major feature of the report was therefore to highlight "the central role of education. The rise in the supply of skilled workers considerably offset the increase in wage dispersion associated with technological progress, regulatory reforms and institutional changes" (OECD 2011, 31). The overall policy conclusion was that economic strategy "should rest on three main pillars: more intensive human capital investment; inclusive employment promotion; and well-designed tax/transfer redistribution policies" (OECD 2011, 41).

Subsequent OECD work in 2014 quantified the negative impact of rising inequality on economic growth across a range of OECD countries. The main transmission mechanism was found to be the impact on human capital accumulation in low-income households and the persistence of this across generations. The summary of the work found that rising income inequality "has a negative and statistically significant impact on subsequent growth. In particular, what matters most is the gap between low-income households and the rest of the population. In contrast, no evidence is found that those with high incomes pulling away from the rest of the population harms growth" (Cingano 2014).

A series of reports from other institutions including the IMF (referred to below) around the same time broadened the list of causal factors that led inequality to reduce economic growth. Stiglitz (2012) found that a rising concentration of income at the top of the distribution reduces welfare by allowing top earners to manipulate the economic system in their favor.

The OECD was also reluctant to tackle the issue of rising functional inequality and the decline of the share of wages in national income. At the 2011 Washington launch event of "Divided we Stand," Richard Trumka, in broadly welcoming the work, noted that the report "seems to focus primarily on the distribution of wages as a principal driver of income inequality. You do not seem to view the more fundamental fall in share of wages in national income as a major cause of rising inequality. I think both the fall in wage shares and the rise in inequality are important causes of rising inequality and both have implications for policy" (Trumka 2011). Until the 1980s the share of wages in national income in industrialized countries was constant to such an extent that economists treated it as "stylized fact," and different theories of the functional distribution of income were built around it. Neoclassical theory postulated that income distribution is determined by the marginal productivity of factors of production. Neo-Keynesian theory postulated that income distribution was determined by technological progress (Kaldor 1955). The data changed significantly after the Thatcher-Reagan reforms. The International Labor Organization (ILO) found that starting in the early 1990s wage shares had fallen in three-quarters of the 69 countries it studied; on average wage shares in industrialized countries fell by an average of nine percentage points of GDP over three decades (ILO 2011). In explaining the decline in wage shares the ILO found that "financialization" and "globalization" both played important roles in weakening the bargaining power of workers compared to business, as did declining union strength and the weakening of labor market protection. In contrast, the IMF and the OECD argued that technological progress was the main cause of the declining wage share, with capital substituting labor through automation (IMF 2017). As seen within the declining wage share, the rise in inequality, it was argued, was primarily due to skill-biased technological change, whereby high-skilled workers enjoy a wage premium.

Despite the reluctance of the OECD at that time to publicly accept that labor market flexibility was behind much of the rise in inequality, elsewhere there was increasing acceptance of the evidence that wage-setting mechanisms such as collective bargaining and wide trade union membership reduce income inequality, and also that the weakening of these institutions in industrialized countries through changing power relationships between workers and business over the past three decades has been an important cause of rising personal income inequality and a driving factor in explaining the fall in the wage share. Deakin, Malmberg, and Sarkar (2014), examining the effects of weakening labor laws in six OECD countries from 1970 to 2010, found that "worker protective labour laws are associated with a higher labour share and therefore, in broad terms, with improved income distribution—an outcome driven by laws on working time and employee representation." Guschanski and Onaran (2017) found "a robust effect of institutional factors such as union density and minimum wages on the wage share, lending strong support to the political economy approach to functional income distribution."

The shifting views of the IMF and World Bank

The advocacy of labor market deregulation reflected by the OECD Economics Department had been made with equal strength at the international financial institutions during the 1990s and early 2000s (IMF 2003). To some commentators, this stance was influenced by political influences rather than empirical evidence. According to Freeman (2005), the fact that trade unions and other institutions could resist structural adjustment programs imposed by the IFIs "led IMF-associated economists to stress the dangers of insufficient labour market flexibility in economic crises even when those crises arise from problems far removed from the labour market."

However, different views came from within the IMF. An IMF 2011 Research Department report challenged fundamentally the traditionally benign view the IFIs had held toward income distribution. It concluded that higher inequality is associated with lower and less sustainable growth in the medium term even in advanced economies (Berg and Ostry 2011). A 2015 study by Jaumotte and Buitron examining the rise in inequality in advanced countries between 1980 and 2010 found that:

> …the rise of inequality in the advanced economies included in this study has been driven by the upper part of the income distribution, owing largely to the increase in income shares of top 10 percent earners. We find evidence that the decline in union density—the fraction of union members in the workforce—is strongly associated with the rise of top income shares.…On average, the decline in union density explains about 40 percent of the 5-percentage point increase in the top 10 percent income share. This contribution rises to over 50 percent when controlling for sectoral employment shifts over the sample period.

The study was widely quoted in the press, including in the U.S., where the *Los Angeles*

Times reported:

> The IMF's analysis undermines the accepted wisdom that lower union membership affects chiefly low- and moderate-income workers. The fund's analysts…find instead that the impact of declining unionization is felt across the entire income spectrum. The trend not only reduces the welfare of the lower income worker, they find; it makes the rich richer. (Hiltzik 2015)

The Economic Policy Institute had been publishing regular briefs drawing attention to the link between increasing inequality and declining union membership.

In a 2013 assessment of the IMF's advice on labor markets in advanced economies in the Great Recession, IMF then-Chief Economist Oliver Blanchard together with IMF researchers Florence Jaumotte and Prakash Loungani cautioned: "…the implications of alternative structures of collective bargaining are poorly understood, suggesting that the IMF should tread carefully in its policy advice in this area. Moreover, trust among the social partners appears to be just as important in bringing about macro flexibility as the structure of collective bargaining." The IMF was criticized by trade unions at the time[4] for not reflecting the reality of IMF country-level recommendations. The International Trade Union Confederation (ITUC) general secretary, writing to the IMF managing director, noted that "nothing we have seen from recent IMF reports on European countries indicates that this is being put into practice."

From these exchanges and starting in 2013, Blanchard organized with the international trade union organizations—the ITUC and the TUAC—a series of workshops over the following two years on collective wage bargaining. The workshops brought together labor market academics, trade union representatives, and IMF staff. Conclusions of the meetings were not published by the IMF, but in the opinion of one of the current authors the discussions contributed to more caution in the IMF's advocacy of labor market flexibility at the global level even if not reflected in national programs.

The conventional wisdom on labor market institutions shifted at the same time in parts of the World Bank. The title of the World Bank's 2013 World Development Report was "Jobs," and a chapter devoted to "Labour Policies Revisited" found that there was a "plateau effect" of the impact of labor regulations on employment and efficiency. At the edges of the plateau, where regulations were highly stringent or highly lax, the regulations might have a significant impact on economic efficiency and employment. But in between across most national settings, "estimated effects prove to be relatively modest in most cases—certainly more modest than the intensity of the debate would suggest" (World Bank 2012).

The impact of the financial crisis and the Great Recession

The Great Recession and rise in unemployment in most OECD countries following the

2008–2009 financial crisis was the key backdrop to the discussion of inequality and the role of labor market institutions over the following years, but the downturn had conflicting effects on the discussion of labor regulation at the international organizations. The ILO had dubbed the rise in inequality the “crisis before the crisis.” There was also growing recognition that the depression of middle-class incomes in the U.S. had led to credit-driven growth encouraged by lightly regulated financial markets, with conflicted governance, that proved to be unsustainable. There was also increasing awareness that the role of trade unions in social partnership arrangements such as in Germany had demonstrable positive outcomes in terms of moderating the impact of the crisis on employment. The debate on how to share the cost of the crisis had an impact on the political debate. However, there was also renewed attention given to the relationship between employment regulation and unemployment (Heimberger 2020). The causes of the Great Recession lay in financial markets, not labor markets, but the notion to never waste a crisis took hold among neoliberal commentators, and they employed it to promote the deregulation of labor market institutions. In Europe during the sovereign debt crisis beginning in 2010, unemployment rose to over 25% in Spain and Greece and to 16% in Portugal. The countries seeking external assistance to support their banking systems—Greece, Portugal, Cyprus, and Ireland—were forced to accept draconian austerity and structural reforms by the troika of the European Commission, the European Central Bank, and the IMF. Greece was obliged as part of the support package to adopt brutal cuts in minimum wages and the weakening of collective bargaining systems to bring about internal deflation of incomes. Despite the IMF Research Department’s own evidence of the impact of past policy in weakening labor market institutions, IMF country programs continued to promote labor market deregulation. A series of working papers from IMF authors published in 2012 that purported to show that labor market reforms were strongly associated with declines in unemployment were criticized by ILO authors for having serious data flaws (Aleksynska 2014).

The trade union movement made its own prescriptions for dealing with the crisis with its study, “Exiting from the Crisis: Towards a Model of More Equitable and Sustainable Growth” (Coats 2011). TUAC and AFL-CIO Chief Economist Ron Blackwell played a key role in putting the document together and recruiting the Nobel laureate Joseph Stiglitz to provide a preface. Stiglitz’s authority helped the argument that inequality had to be addressed as part of the path forward. The book challenged the narrow focus on GDP per capita as an economic yardstick and pushed for a rethinking of the Washington consensus—the package of neoliberal policy reforms pressed on many developing countries by the international financial institutions since the 1980s.

The Pittsburgh G20 Summit in 2009 made two key innovations that had significant implications for global employment policy as well as economic governance. The first was the decision to continue to focus on employment policy, in light of which the U.S. labor secretary was asked “to invite our Employment and Labour Ministers to meet as a group in early 2010 consulting with labour and business” (G20 2009). This set in motion for the first time the G20 labor and employment ministerial meetings; prior to that the only G20 ministerial meetings had been of finance ministers.

The second innovation was the statement by leaders declaring "the G20 to be the premier forum for our international economic cooperation." This gave a degree of permanence to the G20 leaders' meetings and, with the institution of the labor and employment ministerial meetings, ensured that a listening session with labor union leaders of the G20 countries would be included. That innovation helped encourage language in the G20 to respect tripartite meetings between government, business, and trade unions at the national level.

But the push for labor market reform persisted. In the Mutual Assessment Process (MAP) of the G20 Framework Working Group (FWG) of finance ministry and central bank officials, participants argued that structural reforms of labor and product markets could lift growth by 2% over five years. Using "Going for Growth" methodology, they offered governments a way to remedy disappointing growth when fiscal policies were set on a track of deficit reduction and monetary instruments were exhausted.

In assessing government commitments to lift growth, the OECD identified some 700 proposed reforms, about a quarter of which were labor market reforms. At the Brisbane G20 Summit in November 2014, leaders agreed that "against the backdrop of a disappointingly weak cyclical recovery from deep recession, weakened productive capacity in key economies and a legacy of vulnerabilities from the financial crisis, we need to pursue an integrated approach to boost growth" (G20 2014). Leaders "set an ambitious goal to lift the G20's GDP by at least an additional two per cent by 2018." The main mechanism for achieving this goal was the implementation of "structural reforms to lift growth and private sector activity, recognising that well-functioning markets underpin prosperity." Analysis by the IMF-OECD had indicated "that our commitments, if fully implemented, will deliver 2.1 per cent." As the growth trajectories were more and more off target, the action plan was subsequently and quietly forgotten. In the words of one participant: "In retrospect the 2014 G20 structural reform initiative looks like a last hurrah for the deregulatory labor market strategy driven by the OECD Economics Department. However, at the time it was very worrying [though] the wind was changing already within the OECD and the economics profession (Pursey 2021).

The 2015 G20 meetings of labor and employment ministers, held in Turkey, discussed as a priority inequality and the decline of the labor share. The final declaration abandoned the deregulatory framework and stated: "In order to address rising inequalities and declining labour income shares, we agree to undertake a mix of policies appropriate to our national circumstances including improving wage-setting mechanisms, institutions for social dialogue, social protection systems and employment services." The ministers endorsed an annexed set of "G20 Policy Priorities on Labour Income Share and Inequalities" that gave support to collective bargaining systems. Two important commitments of the principles were: "Strengthening labour market institutions [social dialogue, collective bargaining, wage-setting mechanisms, labor legislation] based on respect for the Fundamental Principles and Rights at Work; and reducing wage inequality, through policy tools such as minimum wages and the promotion and coverage of collective agreements, ensuring fair wage scales and that work pays" (G20 2015).

The populist backlash and the geography of discontent

Starting with the Occupy Wall Street movement, something began to change in OECD countries regarding the toleration of inequality. There were explosions of anger against governments and the "elite" from both the left and right, with paradoxical political implications. The Brexit vote in the United Kingdom in 2016, the election of Donald Trump in the United States the same year, the growth of nationalist and anti-immigration parties in northern Europe and, in 2018, the "yellow vest" insurrection in France each can be interpreted as a populist reaction to the rising inequality, stagnant median incomes, and economic insecurity that followed the Great Recession. They reflected a growth of relative deprivation, where significant segments of populations felt that they and their families had lost out—and they feared a future of even greater insecurity. These sharpening divisions appeared after three decades of the weakening of trade unions, whose economic role was to act as a brake on rising inequality and whose political role was to provide voice to those feeling unjustly treated and to negotiate solutions to grievances. Brexit, Trump, nationalism, and street violence all represent bad answers to an important question—how to re-forge agreement on distributive justice for those who have lost out (or so feel) from globalization, technological innovation, and responses to climate change.

Concern over the political fallout of the Great Recession as well as the organization's failure to anticipate the risks of deregulated markets and rising inequality led the OECD to launch a program of "New Approaches to Economic Challenges" (NAEC) that was intended to assess what had gone wrong in previous OECD models and policy recommendations. One of the key messages from the NAEC work to the OECD Ministerial Council in 2014 was that "the last three decades have seen a rise of inequality, which can effect economic growth, weaken social cohesion and sap trust in markets and institutions. To address the growing concerns linked to increasing inequality, policy makers are advised to support a move to a more inclusive and sustainable economic approach" (OECD 2014b). The OECD "Inclusive Growth Initiative" recognized the need to act across a range of different policy areas and called for a "'whole of government' approach to make sure that financial, fiscal or monetary decisions, among others do not undermine social cohesion or social progress" (OECD 2017b).

In successive submissions to the OECD, its ministerial council meetings, and annual meetings with national representatives, TUAC had proposed a widening of government action to reduce inequality beyond the traditional remedies of improving skills and to operationalize the recommendations of the NAEC project. TUAC's submission of December 2013 called for:

> …a comprehensive strategy on tackling inequality and moving to inclusive growth including action to: address the growth of in work poverty through establishment of well set minimum wages; strengthen the coverage of collective bargaining by the social partners and adopt this as a government policy objective; undertake corporate governance reforms to contain all the excesses of top income

> compensation and encourage the setting of links of top pay to median incomes in the private sector; ensure the access of all to quality education and training systems; restore progressivity in the tax system; ensure that economic performance is judged by wider criteria than GDP per head. (TUAC 2013)

The unions took encouragement from the apparent shift in thinking by G20 labor and employment minsters, who at their July 2013 meeting had committed to move forward by:

> …Implementing labour market and social investment policies that support aggregate demand and reduce inequality, such as broad based increases in productivity, targeted social protection, appropriately set minimum wages with respect to national wage setting systems, national collective bargaining arrangements and other policies to reinforce the links between productivity, wages, and employment. (G20 2013)

Economists such as Thomas Piketty and the late Anthony Atkinson were invited to make presentations at OECD meetings, and their work began to be used by the OECD to prepare the ground for shifting policy to more progressive taxation and to revisit analysis of labor market institutions. Atkinson (2015), focusing on the U.K., offered 15 proposals to reduce inequality; he recommended establishing a more favorable balance of power between labor and capital, allied with progressive taxation to help those in the lower deciles of the income distribution. He also promoted wider trade union representation to relink productivity growth and incomes.

The 2018 revision of the Jobs Strategy

A new effort to revise the OECD Jobs Strategy, begun in 2016, was influenced by both the popular backlash against globalization and the emerging debate about the future of work in light of technological change, the growth of nonregular work in many countries, and the rise of the "gig" economy. While the OECD appeared to initially flirt with the idea that gig work was a growing and natural progression in the work relationship brought on by technology, it began to take a stand that existing labor regulations must apply to "platform" work as well (O'Farrell 2016).

The 2017 OECD Employment Outlook, in summarizing the 2006 work revising the Jobs Strategy, argued that "The populist backlash against globalisation fundamentally challenges employment policy" (OECD 2017a). It noted:

> The perception that the international economic system is rigged clearly challenges the democratic legitimacy of current policies and thus needs to be taken seriously. It also challenges the policy advice offered by international organisations like the OECD, which has long emphasised the economic benefits of global integration, but only recently adopted an inclusive growth approach that pays due attention to the distribution of those benefits across the population. (OECD 2017a, 9)

The OECD began detailed work on changes to collective bargaining systems and their impact on labor market outcomes. The 2017 Employment Outlook had included a taxonomy of collective bargaining systems based on three criteria: the formal level of bargaining (company, sector, or national); the space left for lower-level agreement; and the degree of coordination. It acknowledged that policy reforms had contributed to decentralization of bargaining and had "tested the system." The outlook laid out the areas of work that needed to be carried out to inform the wider Jobs Strategy revision.

The initial narrative of the revised Jobs Strategy containing the key policy messages and analysis was adopted at the OECD Ministerial Council meeting in June 2018, and the full report was launched in December 2018 (OECD 2018). The OECD claimed that the Jobs Strategy represented a shift in thinking and policy from both the 2006 version and even more so from the original 1994 study. The TUAC backed this view, commenting:

> The Narrative of the revised Job Strategy…takes a much broader approach than was previously the case. Policy objectives are no longer limited to the quantity of jobs but have been expanded to include their quality and inclusiveness. Moreover, the narrative recognises there is no necessary trade-off between the quantity of jobs on the one hand and their quality and inclusiveness on the other. Importantly, the OECD now concedes that flexibility has been over-rated in view of "new evidence that shows that countries with policies and institutions that promote job quality, job quantity [maximum employment rather than minimum unemployment] and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing market flexibility."

The revision also clearly rejects the argument that collective bargaining defends the interest of "insiders against outsiders" in the labor market—a long-held tenet of the OECD Economics Department (OECD 2018, 147).

However, Janssen (2019) notes that in also claiming that "flexibility in product and labour markets is essential to create high quality jobs in an ever more dynamic environment," the strategy is offering two distinct narratives on labor market flexibility running in parallel. McBride and Watson (2019) wrote off the revision as "an attempt to restore legitimacy through ideological positioning rather than fundamental change in basic strategy." This is hardly surprising in an international organization in which reaching agreement on change between different countries is a complicated process. TUAC's evaluation prioritized the importance of the implementation process. In any case, the positive role ascribed to collective bargaining and the admitting of greater ambiguity in labor market deregulation and flexibility amounted to more than a cosmetic change.

This assessment was reinforced when in 2019 the OECD published its most comprehensive work on collective bargaining in 30 years under the title, "Negotiating Our Way Up: Collective Bargaining in a Changing World of Work" (OECD 2019). The central conclusions of the report were: (1) coordination in wage bargaining is a key ingredient for good labor market performance; (2) collective bargaining systems and workers' voice arrangements also matter for job quality; and (3) collective bargaining and workers' voice play an important role in preventing inequalities in a changing world of work, but they need to adapt.

Most importantly, the OECD came down firmly on the side of the need for countervailing power in the workplace:

> Whether considering key issues such as wage inequality, job quality, workplace adaptation to the use of new technologies, or support for workers displaced by shifts in industries, collective bargaining and workers' voice can complement public policies to produce tailored and balanced solutions. The alternatives to collective bargaining are often either state regulation or no bargaining at all since individual bargaining is not always a realistic option as many employees are not in a situation to effectively negotiate their terms of employment with their employer. (OECD 2019, 13)

Postscript: Labor markets and the Covid-19 pandemic

In the months following the publication of these OECD reports, the Covid-19 pandemic again raised the importance of reducing inequality in OECD countries and beyond. The pandemic and subsequent containment measures have had differential impacts on income groups, age groups, ethnic groups, and social groups. The economic prospects of young people, ethnic minorities, and women—the groups more likely to be employed in service sectors that have been most affected by closures, but which are also overrepresented in insecure and unprotected work (Reitsma et al. 2021; Rogers et al. 2020; Goldman et al. 2021; Williamson et al. 2020; Out et al. 2020)—have been hardest hit in most countries. Sectors with activities that allow teleworking and so are more likely to be performed from home have seen a smaller reduction in employment. Low-income workers are less able to work from home than high-income workers.

An IMF study comparing the distributional impact in the United States of the global financial crisis and the pandemic recession found that young workers, less-qualified workers, and low-income earners were hit hardest in both recessions, but women and Hispanic workers were more severely affected in the pandemic. The concentration of female employment in service sectors together with the difficulty of managing child care when schools and other facilities are closed have resulted in a disproportional impact on women (Shibata 2020).

A study in France (Inserm 2020) found that those living in dense and cramped accommodations have been infected disproportionately during the pandemic, while those in low-paid vulnerable jobs are most at risk from infection and have suffered most from economic hardship. A study in the U.K. of the impact of what was then expected to be the ending of jobs support schemes found that young and ethnic minority workers were twice as likely to lose their jobs when the furlough scheme came to an end (Crossley, Fisher, and Low 2021; Brewer et al. 2020).

Emerging and developing countries have also seen a rise in inequality because of the pandemic. IMF authors concluded that “the estimated effect from COVID-19 on the income distribution is much larger than that of past pandemics. It also provides evidence that the gains for emerging market economies and low-income developing countries achieved since the global financial crisis could be reversed” (Cugat and Narita 2020). The World Bank has warned of “new poverty” appearing in middle-income countries (World Bank 2020).

The growth of nonstandard work and platform work prior to the pandemic had already increased inequality, and since most platform workers do not have employment protection, unemployment benefits, or paid sick leave, economic risk was shifted onto their shoulders during the pandemic. Also, during the pandemic customers for platform workers’ services dried up overnight, and the workers found themselves without income or employment. In a global survey by an online search platform for app-based jobs, over half of the platform workers surveyed said they had lost their jobs, and more than a quarter had seen their hours cut in the first months of the pandemic (AppJobs Institute 2020).

The OECD has noted that the pandemic revealed the shortcomings of safety nets (OECD 2020), in essence admitting that nonregular work leaves many people out of reach of vital social protections for income and health. While before OECD reports made almost indiscriminate calls for lowering labor standards to increase labor market flexibility for employers, they now caution that irregular work can be a danger.

As in the financial crisis, it is already clear that youth are big losers economically in the pandemic. In addition to the disruption of education in most countries, unemployment among first-time job seekers has soared. There is much evidence that initial job market experience influences earnings capacity in the long term, and hence deep recessions lead to scarring effects on individuals and subsequently on economies and societies.

Meanwhile, the wealth of billionaires has increased during the pandemic in all the major economies (Jones and Romei 2020), and U.S. internet companies have seen their stock values rise rapidly. Profits at Amazon tripled to $6.3 billion since the beginning of the pandemic, while turnover at Amazon increased by 37% in the third quarter of 2020.

As economies reopen and pressure for a return to normal increases, there is a danger that a business-as-usual approach will return. But the pandemic has brought into sharp focus the broader importance of social justice. Rising income inequality has fragmented societies, and the countries and communities weathering these trends most effectively will be those with greater social cohesion and where policies are designed to be fair and seen to be fair. The new thinking exhibited in the recent OECD reports represents an opportunity for a positive shift in policy if translated into policy action.

About the authors

John Evans was until 2017 general secretary of the Trade Union Advisory Committee to the OECD, a post he held for more than 30 years. From 2012 until 2017 he combined his TUAC post with that of chief economist of the International Trade Union Confederation. He is currently a visiting fellow at the University of Greenwich in the U.K. and an academic visitor at St Peter's College at the University of Oxford. He is working on a book project on the shifting views of economists toward income inequality and labor market institutions.

William Spriggs is a professor in, and former chair of, the Department of Economics at Howard University and serves as chief economist to the AFL-CIO. In his role with the AFL-CIO, he also chairs the Economic Policy Working Group for the Trade Union Advisory Committee to the OECD, and serves on the board of the National Bureau of Economic Research. He is currently president-elect of the Labor and Employment Relations Association and vice chair of the board of MDC Inc. (Durham, N.C.). He serves on the advisory boards of WorkRise (of the Urban Institute) and the Opportunity and Inclusive Growth Institute of the Federal Reserve Bank of Minneapolis. From 2009 to 2012, he was assistant secretary for the Office of Policy at the U.S. Department of Labor.

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Notes

1. For an analysis of the country-specific recommendations from 1994 to 1998, see Casey 2004.

2. Unpublished Trade Union Advisory Committee mimeo to the OECD.

3. A common measure of income inequality that ranges from 0 when income is the same for all to 1 when all income goes to one person.

4. See, for example, International Trade Union Confederation, *Equal Times,* April 2013.

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