

OECD Employment Outlook: 2004 Edition

Reassessing the OECD Jobs Strategy

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The OECD Jobs Strategy has proven useful but a reassessment is needed ten years on

A decade ago, OECD countries adopted the Jobs Strategy as a blueprint for reforms to cut high and persistent unemployment. The Jobs Strategy shares many common features with the European Employment Strategy which was first launched in 1997. Since its inception, the OECD Jobs Strategy has played an influential role in the policy debate in member countries. And a Secretariat evaluation in 1999 suggested that those countries that had applied the Jobs Strategy the most had tended to perform relatively well in terms of improved labour market performance.

Still, much has taken place in OECD countries' labour market policies and outcomes since 1999. Therefore, OECD Employment and Labour Ministers concluded when they met in September 2003 in Paris, that it is timely to reassess the Jobs Strategy in the light of more recent experience and future challenges.

There remains unfinished business with unemployment...

For one thing, high unemployment has not disappeared. True, OECD unemployment is somewhat below its pre-1994 rates and the latest OECD projections (see Chapter 1) point to some reduction in unemployment rates over the next two years, supported by the continuation of strong growth in certain countries (notably the United States) and a

recovery in most others (in particular Japan and, to a lesser extent, the European Union). But this would still leave unemployment rates in many countries higher than they were in the 1970s and 1980s.

...and to meet the challenges of ageing populations, more and better jobs are needed

At the same time, the challenges posed to future economic growth and living standards by ageing populations loom much larger now on policy agendas. Ministers concluded that the best way to meet these challenges is to create more and better jobs, particularly for people who are currently disadvantaged in the labour market and are disproportionately affected by unemployment and labour market inactivity. There is much scope to do this. About 35% on average of the OECD population of working-age are not employed –the majority of them being statistically classified as “inactive”, although they can, and often would like to, work. This figure masks important cross-country differences, with the non-employment rate being less than 30% in Australia, the Netherlands, New Zealand, the Nordic countries (except Finland), North America, Switzerland and the United Kingdom, but over 40% in Belgium, Central and Eastern Europe, Greece, Italy, Mexico and Turkey.

The Jobs Strategy was formulated at a time when cutting high and persistent unemployment was the main preoccupation in many countries. The Reassessment will examine how the policy recommendations of the Jobs Strategy may need to be revised and/or extended to meet the objective of more and better jobs.

However, measures to improve employment must be reconciled with social goals. Governments should be careful about: job security, ...

Pursuing more and better jobs, however central an objective, needs to be combined with other social objectives, in particular adequate social protection, a better reconciliation of work and family life, and equity outcomes in line with national preferences.

The reform of employment protection legislation (EPL) is an important case in point. Chapter 2 shows that less strict EPL may make it easier for employers to hire workers, thereby improving the job chances of groups which are subject to entry problems, such as youth and women. However, at the same time these reforms would make it easier for employers to fire, thereby heightening concerns about job insecurity among prime-age and older workers. Attention should also be devoted to the nature of proposed reforms of EPL. Chapter 2 shows that, in order to promote employment, some countries have eased provisions governing temporary jobs and other “non-regular” contracts over the past decade, while leaving the protection of permanent contracts practically unchanged. The result has been a rising incidence of “non-regular” forms of employment in some countries, in conditions which are not always freely chosen by the workers concerned. The question then arises as to the costs and benefits of reforms that focus exclusively on non-regular contracts vis-à-vis changes to the rules governing regular contracts, and how these costs and benefits are influenced by other labour and product market policies and institutions.

Altogether, some dismissal protection, combined with well-functioning unemployment benefit systems, effective re-employment services and product market competition, may therefore help balance the need for more labour market dynamism with that for employment and income security. The nature of this policy mix, and how it should vary across countries, requires further scrutiny as part of the Reassessment.

... the methods used to promote work incentives, ...

Likewise, while some of the present Jobs Strategy recommendations unambiguously raise work incentives, they may at the same time pose a challenge to social protection. For instance, cutting welfare benefits or their duration will raise the return to work vis-à-vis continued benefit receipt. A significant tightening of the conditions of access to benefits may help ensure that individuals who can work do not withdraw from the labour market. But care must also be taken that, as a result of such measures, hard-to-place individuals do not drop out of the benefit system entirely and fall into poverty.

From this point of view, the adoption of a so-called “mutual obligations” approach to welfare benefits may help meet both employment and social protection objectives. Through such an approach, welfare recipients are offered counselling, job-search support and other re-employment services. In turn, individuals must look actively for a job or take steps to improve their employability as the counterpart for continued benefit support. Much evidence has been collected on the design, implementation and effectiveness of such employment-oriented social policies in recent years. The Reassessment will focus particular attention to how these activation measures can support re-employment effectively and the role of employment services in this respect, particularly for recipients of sickness, disability and lone-parent benefits –whose number has risen substantially in many member countries over the past decade.

At the same time, getting a job must yield tangible benefits to the person in question and her or his family. This is where so-called “making-work-pay” schemes (such as the provision of employment-conditional welfare benefits that top-up low earnings, or cuts in employer social security contributions targeted to low-paid workers) may also help recipients go back to work. Further exploring the reforms to tax-benefit systems that work and those that do not work, as well as their interaction with minimum wages, will also be a central issue in the Reassessment.

... the effects of flexible employment on reconciling work and family life, ...

One of the broad policy guidelines of the Jobs Strategy deals with the need to increase “working-time flexibility” and many OECD countries have witnessed a growing use of “non-standard” work schedules, including increased part-time employment, employment outside of standard working hours and variable work schedules.

To a considerable extent, this experience validates the hope that such measures can facilitate higher employment. For example, expanding options to work part-time can make it easier for parents with young children to combine working and parenting and for some older workers to extend their careers, while greater flexibility of working hours can help firms adjust to changing work loads. However, Chapter 1 makes it clear that other working-time arrangements tend to make it more, rather than less, difficult for workers to reconcile their work and family life. Thus, workers who are on the job evenings, nights or

week ends, as well as those with unpredictable work schedules or particularly long hours, report significantly greater conflicts between their work hours and their family responsibilities. Further progress at raising employment rates, particularly among certain groups, needs to go hand-in-hand with initiatives to better reconcile work and family life. This is an issue which was underplayed in the original Jobs Strategy and it will receive greater attention in the Reassessment.

... and the fallout of widening skill-based pay differentials –which reinforces the case for lifelong learning

There is much evidence to support the hypothesis that technical progress in OECD countries over the past two decades has exhibited a bias against unskilled labour in favour of skilled labour. This, in turn, highlights a potential trade-off between employment and equity objectives. The earnings of low-skilled workers may have to fall (relative to the earnings of high-skilled workers) in order to support labour demand for this group. Evidence in Chapter 3 confirms that, during the past two decades, earnings inequality has tended to widen, while employment developments have often been more favourable in those countries where earnings inequality has increased the most.

Lifelong learning may prove an effective way to improving employment prospects over the long-run, thus easing trade-offs between efficiency and equity objectives. Chapter 4 provides empirical evidence that, other things equal, workers who receive training have a greater chance of keeping their job than their non-trained counterparts. Even when they lose their job, workers who had received training prior to job loss enjoy relatively good re-employment chances. There is also evidence that training policies targeted on a particular demographic group do not entail major displacement effects *within* the group –in other words, there is a positive net employment effect for the group as a whole. Training may thus be especially beneficial to low-paid workers who are especially vulnerable to adverse shocks and often move from work to unemployment or inactivity, thus complicating the task of labour market policies. It may also improve the ability and willingness of older workers to extend their career.

This evidence, as well as that contained in last year's *Employment Outlook*, strengthens the argument for the lifelong learning pillar of the Jobs Strategy. However, this is also an area where more concrete policy proposals are needed. Thus, the role of different co-financing schemes and of policies to improve incentives to invest in the skills of low-educated and other under-represented groups will be further reviewed as part of the Reassessment.

The issue of how to facilitate transitions from undeclared work to formal employment also needs to be addressed

In several OECD countries like Central and Eastern European countries, Mexico, Turkey as well as parts of Southern Europe, and in much of the non-OECD world, a significant proportion of workers have informal or undeclared jobs, and/or the income they get from work is undeclared in order to avoid paying taxes or social security contributions. This risks creating a low-productivity trap. It also erodes the tax base for funding public goods, thereby preventing the adoption of appropriate education and social protection systems, which are of central importance for social cohesion and growth. Undeclared work was not covered in the broad guidelines of the original Jobs Strategy

and one of the challenges for the Reassessment is to develop recommendations in this area.

As a first step, Chapter 5 provides a comprehensive policy analysis of how to facilitate transitions to formal employment. There is first a case for reforming certain regulations. In particular, tax and social security systems should be made more coherent, while burdensome regulations and administrative requirements falling on formal employment should be reviewed. Better implementation of existing regulations is also needed, including through the establishment of well-functioning labour and tax inspectorates. Social protection and employment promotion schemes should reach the really needy, even when they are employed in the informal economy. At the same time, such schemes should be designed in ways that encourage integration into the formal economy. In general, the quality of government administration appears as a key factor in this area.

Finally, the joining up of policies, and alternative policy packages, should be assessed

The Jobs Strategy has sometimes been treated as a list of independent recommendations. However, experience suggests that *interactions* between policies and institutions may affect employment outcomes and the extent to which economies are resilient to adverse shocks. Thus, policies to stimulate labour market participation may be more effective if demand-side obstacles are also addressed, e.g. by having a supportive macroeconomic policy environment, by stimulating product-market competition, or by reducing overly-rigid employment regulations. To take one example, active labour market programmes probably will have greater success at promoting the re-employment of workers displaced by demand shifts (e.g. as a result of trade liberalisation), if product market regulations are reformed so as to foster vigorous competition.

Consideration of policy interactions and complementarities should examine why countries such as Denmark, the Netherlands, New Zealand and the United States achieve similarly high employment rates, despite their different policy settings and institutions. Indeed, one of the challenges of the Reassessment will be to understand whether different reform “approaches” are possible.

The Reassessment will be presented to OECD Ministers in two years time

In sum, in response to the mandate by Employment and Labour Ministers, OECD has undertaken to reassess the Jobs Strategy. Both this and next year’s editions of the *Employment Outlook* will set out some of the evidence for this Reassessment. Based on this evidence, the policy guidelines and detailed recommendations will be modified or extended. The main outcomes of the Reassessment will be discussed by OECD Ministers in two years time. The challenge is to formulate a balanced reform agenda that helps countries adapt to structural change while also meeting employment and social objectives.

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