

THE OECD JOBS STRATEGY: ASSESSING PERFORMANCE AND POLICY

Summary

Most OECD countries are affected by one or more of the problems of high unemployment, discouragement and in-work poverty. These problems are not new. In 1994, they prompted the OECD Member countries to agree on the *OECD Jobs Strategy* (OECD, 1994a), which contains a wide-ranging and balanced set of policies to enhance employment growth, reduce unemployment and increase prosperity (the main policy orientations are presented in the box shown below). Subsequently, the analysis has been taken further in a number of areas.* Moreover, the general policy recommendations of the *Jobs Strategy* were tailored on a country-by-country basis to take account of their institutional, social and cultural characteristics, and these country-specific recommendations were published in the *OECD Economic Surveys*.

High and persistent unemployment has prompted the OECD countries to agree on the Jobs Strategy

The OECD Jobs Strategy

1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, *i.e.* non-inflationary.
2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
3. Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
5. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
8. Improve labour force skills and competencies through wide-ranging changes in education and training systems.
9. Reform unemployment and related benefit systems – and their interactions with the tax system – such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of the labour markets.
10. Enhance product market competition so as to reduce monopolistic tendencies and weaken insider-outsider mechanisms while also contributing to a more innovative and dynamic economy.

* Subsequent analyses and review of the *Jobs Strategy* have resulted in reports covering specific areas of concern, including: *i*) the effectiveness of active labour market policies (OECD, 1996a); *ii*) labour supply incentives embedded in the tax and benefit systems (OECD, 1995a; 1997a); *iii*) the interactions between macroeconomic and structural policies (OECD, 1996b); *iv*) the role of technology for job creation (OECD, 1996c; 1998a); and *v*) the entrepreneurial climate (OECD 1998b).

Experience shows that the Jobs Strategy is an effective means to permanently reduce unemployment...

Based on the country-specific follow-up, a report to Member countries (OECD, 1997b) drew a number of key lessons on the implementation of the *Jobs Strategy*. These include:

- high and persistent unemployment has been the result of both conjunctural and structural forces, and it can be durably reduced;
- many countries have made progress in implementing the *Jobs Strategy*, but progress has been uneven both between countries and between different areas of policy;
- the central issue dividing the more comprehensive reformers from the less comprehensive reformers is differences in judgement about potential conflicts between better labour market performance and concerns for equity and social cohesion;
- there are significant synergies between structural reforms in different fields;
- macroeconomic conditions and their interactions with structural forces are important for labour market outcomes;
- overall, the *Jobs Strategy* remains an effective response to labour market problems in Member countries, and the OECD has encouraged countries to press on with its implementation.

... and this conclusion is reinforced by evidence in this report

These points are reinforced in this report, which is organised in two main parts. Part 1 reviews labour market performance over the 1990s on the basis of a number of indicators (Chapter 1). Subsequently, labour market performance is linked to progress made in implementing the *Jobs Strategy*. The analysis suggests that where countries have taken substantial steps to implement the Strategy, significant effects are visible in terms of higher employment and lower unemployment (Chapter 2). Part 2 of the report investigates how to best improve the employment prospects and quality of jobs for specific groups – youths, older workers, the less skilled and certain categories of prime-age women – who have tended to experience above-average unemployment and non-participation in market work. More specifically, the following distributional issues are considered: the uneven distribution of employment opportunities among different groups (Chapter 3); the disproportionate dependence on part-time or temporary jobs of youths and, in some cases, prime-age women (Chapter 4); and the distribution of labour earnings and income (Chapter 5). Background detail on specific policy reforms in individual countries and technical documentation is provided in Annexes A and B to the report.

Changes in unemployment are generally accompanied by changes in the same direction in other labour market indicators

The review of labour market performance in Chapter 1 draws on a range of labour market indicators including actual unemployment, estimates of structural unemployment, the level, growth and composition of employment, participation rates, and real wage growth in relation to productivity growth. Where relevant, the relative positions of youth, prime-age women, older workers and less skilled workers are also considered. While the correlation between different measures is obviously not perfect, they tend to point in the same direction: countries with a good record on unemployment tend to have rising employment, relatively high participation, a relatively better position of marginal groups, a higher share of those working part-time doing so voluntarily and less of a long-term unemployment problem.

A growing number of countries are showing signs of a robust improvement in labour market conditions...

Turning to the relative performance of individual countries, most labour market indicators in the Netherlands and Ireland point to significant improvements in labour market conditions. For the United Kingdom, Denmark and New Zealand the overall picture is also positive, although some indicators do not show significant

improvements. More recently, Australia, Canada and Spain have achieved significant reductions in unemployment, beyond cyclical influences. However, other labour market indicators have not yet shown significant improvements. Some countries (Norway and Portugal) have maintained favourable labour market conditions, while the United States seems to have improved an already good performance. Other countries (Japan, Austria, Iceland, Switzerland) have experienced some deterioration in their labour markets, but still enjoy conditions that are better than the OECD average.

At the other end of the spectrum, Finland and Sweden both experienced a severe deterioration in their labour market conditions in the early 1990s, although from positions of extremely high labour utilisation, but this has been followed by significant improvements in recent years (especially in Finland). Three of the major European countries (Germany, France and Italy) now have significantly higher actual and estimated structural unemployment rates compared with 1990, and employment growth has been poor – in Germany partly related to the aftermath of reunification.

Based on a detailed review of recent policy actions, Chapter 2 suggests that, by-and-large, countries that have done best in achieving (or maintaining) good labour market conditions are those that have undertaken the most comprehensive reforms in line with the *Jobs Strategy*. They are also the countries that had started the reform process already in the 1980s. Other countries have recently made important reforms along the lines of the *Jobs Strategy*, but too little time has elapsed since their introduction for the beneficial effects to emerge in the labour market. The upshot of the analysis is that the *Jobs Strategy* must be applied comprehensively and in a sustained manner to bring significant improvements in the labour market. A comprehensive set of structural policy actions, combined with macroeconomic policy settings orientated towards growth and stability, has allowed successful countries to exploit important synergies. The wide-ranging reform strategy also contributes to create a perception that all workers were concerned by the reforms, thus generating a sense of fairness, which is often not the case in piecemeal reform strategies. At the same time, and while staying within the framework of the *Jobs Strategy*, the countries that have succeeded in improving labour market conditions have followed different strategies for implementing reforms, depending on their institutional, cultural and social characteristics.

A common feature of labour market outcomes in most OECD countries is the poor employment prospects and low quality of available jobs for certain workers at the margin of the labour market (youths, some categories of prime-age women, older workers and the low skilled). Part 2 suggests that a combination of general policies aimed at improving overall labour market conditions and targeted actions are required to tackle effectively these issues.

The employment of youths responds strongly to overall labour market conditions, underlining the importance of general policies in order to improve youth employment prospect. Also, a smooth transition from education to work is vital and this requires in the first instance interventions that encourage youth not to leave formal education prematurely and that aim to ensure that educational qualifications match labour demand. It also points to the importance of policies that provide vocational qualifications after compulsory schooling or reinsertion programmes for school drop outs. Moreover, gaining work experience while still in education – through apprenticeship schemes or easy access to part-time work – can enhance permanent employment prospects. However, it is important

... whilst in some countries unemployment has remained high or has increased

Countries that have implemented comprehensive reforms have done best in improving labour market conditions, but it takes time for the gains to emerge

People at the margin of the labour market are a key concern

Increasing youth employment primarily depends on general policies, although targeted measures helping the transition from school to work also help

that labour market flexibility be such that part-time and, especially, temporary jobs (which are increasingly important for youth) be stepping stones to wider opportunities rather than trapping people in persistently precarious situations. Wage floors should not block youth from entering the labour market, but it is also important that low wage floors provide the basis for upward mobility rather than permanent low pay.

Policies that aim to encourage people to withdraw from the labour market do little to reduce unemployment

Earlier retirement and lower labour force participation of older workers have been encouraged by a range of policies, motivated in part by the aim of reducing unemployment, *inter alia* by providing jobs for younger people. While such policies may have softened the effects of industrial change on older workers in sectors in decline, there is little evidence that policies aimed at encouraging people to withdraw from the labour force (or to reduce working time) significantly lower the rate of unemployment. Policies that encourage early retirement also have a longer term negative impact on public finances and reduce labour supply, and thus future potential GDP and real income. In any case, as ageing problems loom larger in OECD countries, policy attitudes towards older workers will have to change.

More needs to be done to reduce unemployment in households headed by a single mother

Labour-force participation amongst women has increased over the longer term, and most working women are not at the margins of the labour market. Although the share of women in part-time jobs is higher than that for men, this is not a problem insofar as it is voluntary – which is mostly the case. However, there is one noticeable problem area: households headed by lone parents, generally single mothers. These women tend to depend on the transfer system, partially if they are in part time work or totally if not in work. Policies have been changing to allow women in this group to reduce or escape dependency – but more is necessary in many countries.

Bringing the low-skilled back into rewarding work is a major goal in many OECD countries

People with low qualifications face higher unemployment or, in countries where they can price themselves into jobs, a higher risk of being persistently in low pay and often in poverty. Such difficult labour market conditions are found across all age-sex groups. The fundamental requirement here is to adopt policies that improve education and lifelong training so as to minimise the number of people who do not attain – and maintain – the skills required to command earnings that bring them above the poverty threshold. However, such policies will have their effects only over the long term, even if implemented as rapidly as possible.

It requires policies that support their in-work income without boosting their cost to employers

How can governments deal with workers whose skills are not going to improve rapidly (if at all)? Countries have adopted two policy approaches: providing in-work benefits for the low paid, or reducing the difference between the wages low-skilled workers receive and the total cost of such workers, *e.g.* by wage subsidies or reduced social security contributions. Neither is a panacea, and each has undesirable side effects. Nonetheless, some success in bringing the low-skilled (back) into work and earning an appropriate income has been achieved.