

## Editorial

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### Surveying the jobs horizon

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*Nearly a decade into the policy voyage launched by the OECD's Jobs Strategy, we should take a fix on where it has got to.*

Policy makers – like navigators on a long voyage – should periodically check their bearings to verify that they are on course. Nearly a decade has now passed since the OECD proposed a comprehensive blueprint for labour market reform, the so-called Jobs Strategy. Since then, the OECD has worked closely with Member countries to identify the best ways to implement the Jobs Strategy, in each specific national context, and monitored the results. A reassessment of the policy priorities is therefore timely. As part of this process, OECD Employment and Labour Ministers will meet in 2003. This forum will allow ministers to compare labour market conditions and policy experiences in their countries, and assess the policy agenda in the coming decade. In anticipation of that event, this editorial offers a first survey of the jobs horizon.

#### *Progress achieved under the Jobs Strategy*

*Some countries have travelled further than others. Unemployment has tended to fall most in countries adopting the recommended reforms...*

The results to date of the Jobs Strategy are encouraging overall, although much unfinished business remains. Since it peaked in 1993, the OECD unemployment rate has been cut by 1¼ percentage points. This relatively modest improvement in the *average* labour market performance of OECD countries masks important differences across Member countries. While there was little change or even some worsening of performance in some countries (notably, Japan), a number of other countries registered marked improvements. Furthermore, OECD analyses suggest that the countries which have been most successful in reducing unemployment (*e.g.* Australia, Canada and some EU countries) or maintaining it at a low level (*e.g.* the United States) have – to a large extent – implemented policy reforms along the lines of the recommendations of the OECD Jobs Strategy in a comprehensive manner (*e.g.* pursuing reforms in both the labour and product markets, see Chapter 5).

*... and business-sector jobs have expanded encouragingly.*

Another positive feature of OECD labour market developments over the past decade or so is that much of the improvement in employment performance since 1993 is due to growth in business-sector hiring (for the OECD as a whole, over 47 million extra jobs were created in the business sector between 1993 and 2001). Of course, these trends reflect to some extent the strength of the recent cyclical expansion, but evidence suggests that this is also the result

of structural improvement in a number of countries. Reforms take time and political will, but experience shows that they work.

### *Unfinished business and new challenges*

*Such progress is no reason to slow down; countries should address persisting unemployment and labour inactivity, job retention and progression, as well as demographic and technological change...*

Because of the improvement in underlying labour market performance, it is tempting to conclude that the reform effort could be slackened. However, this would be ill-advised for several reasons. First, even allowing for the recent cyclical downturn in much of the OECD area, unemployment and long-term joblessness remain unacceptably high in many countries. Second, even in those countries having achieved significant improvements in overall performance, large pockets of inactivity (defined as persons of working age who are not in the labour force) remain to be addressed. In particular, employment-population ratios of older workers and low-skilled workers remain relatively low in most countries. Third, the considerable successes that have been registered in bringing more people into work in some countries, open up a new challenge, since some of the individuals “activated” by labour-market policies have difficulty remaining in employment and moving up job ladders. Finally, the need to adapt to population ageing and skill-biased technological change remains an important medium- to long-run challenge in many countries.

*... and also the quality of jobs, while taking care not to compromise other objectives.*

Concerns have also been expressed about the “quality” of the employment relationship – including perceptions of job insecurity, a rising incidence of non-standard forms of employment (short-term contracts, temporary jobs, casual employment, etc.) in some countries and an increased risk of in-work poverty. Although some commonly expressed fears are myths, a substantial number of workers may have difficulty obtaining stable jobs, potentially exposing themselves to recurrent spells of unemployment or joblessness (see Chapters 3 and 4) and compromising their access to the employer-provided training which often plays a crucial role in career advancement. The detailed analysis of temporary employment in Chapter 3 shows just how complicated these issues are and appropriate policy responses are far from obvious, since regulations establishing minimum standards for employment security may have adverse effects on other aspects of economic performance (Chapter 5).

*These challenges imply renewed emphasis on certain Jobs Strategy recommendations, as set out below.*

To meet these challenges, it is essential that countries which have been lagging in the implementation of structural reforms finally move ahead. However, it may also be desirable to give certain Jobs Strategy recommendations increased priority or to pursue them somewhat differently. In this respect, the OECD Jobs Strategy is not written in tablets of stone. Policy recommendations in certain areas have been modified in light of country experiences and new research, and further course adjustments will be required as conditions evolve. Several of the areas where policy priorities or strategies appear ripe for some further refinement are reviewed below.

***Policies to make work pay, by giving money to low-paid workers or reducing the cost of hiring them, have played a constructive role in getting people into work...***

***... alongside various forms of social support, and also a clear obligation to look for work, together with good advice and labour market support services.***

### ***Making work pay and activation policies***

To help move benefit recipients into work, recent OECD research suggests that a “rights and responsibilities” approach is needed, which increases employment opportunities and the financial returns to working, but also obligates benefit recipients to actively search for work or take steps to improve their employability. Over the past few years, several countries have introduced schemes to “make work pay”. These schemes effectively operate as a subsidy to low-paid employment and are of two different types. Some schemes improve the financial incentive for welfare recipients to accept work, *e.g.* via in-work benefits and tax credits for low-paid workers and their families. Other schemes reduce the cost to the employer of hiring low-paid workers, *e.g.* through reduced social security contributions on low wages. In-work benefits and tax credits appear to have been relatively successful in improving incomes of the working poor, while cuts in payroll taxes appear to have been relatively successful in increasing employment of the target groups. However, these schemes must be financed by increased taxes elsewhere and/or cuts in public spending, which themselves might have negative effects on employment, and an overall evaluation of the employment effects of cuts in payroll taxes must take account of dead-weight and substitution effects. Nonetheless, the OECD position is that making work pay policies can play a constructive role as a component of an employment-oriented social policy (see the 2000 and 2001 editorials for more detailed discussions of these complex issues).

Not all people will be able to take full advantage of the better financial incentives that are offered by making work pay schemes unless a range of supporting social and labour market services are on offer. This includes schemes such as help with child-care costs, appropriate transport and work facilities for the disabled, training to improve job-search and job-readiness skills, etc. Moreover, the incentive to move off benefits and into a job will not be very strong if eligibility conditions for unemployment and social benefits with respect to work availability and job-search requirements are not enforced. These concerns have led to a number of policy initiatives by countries to “activate” the unemployed and other benefit recipients. These initiatives differ somewhat across countries, reflecting factors such as the particular benefit system targeted, national consensus on the conditions that can reasonably be imposed on benefit recipients, and traditions of labour market policy. However, a number of common principles underlie all of these activation strategies:

- First, they make receipt of benefits conditional on the benefit recipient demonstrating active job search and/or a willingness to take steps to improve employability.
- Second, they provide a range of re-employment services and advice to help the individuals in question find work or get ready for work.

- Third, they seek to maintain effective contact between the individual and the public employment service or related agency in order to provide timely services, monitor the individual's behaviour and apply financial sanctions in case of inappropriate behaviour.

***But such “activation” measures cannot be simplistic and depend on good programme design.***

The experience of those countries with significant activation initiatives suggests that these measures can help to lower unemployment and welfare dependency, especially in the context of buoyant labour demand. However, progress requires careful attention to good programme design – particularly to the co-ordination of passive and active measures and the strengthening of inter-agency co-operation in delivering these services. Cost-effectiveness is also critical in view of potentially large budgetary impacts. Furthermore, these programmes need to take account of the different opportunities and needs of the diverse population groups they serve. This issue of the *Employment Outlook* includes detailed appraisals of new programme initiatives for youths experiencing labour market difficulties (Chapter 1) and the long-term unemployed (Chapter 4) that document both the progress achieved and the needs still unmet. Among these unmet needs is better follow-up to activation measures. Recent reforms have succeeded in moving large numbers of persons into jobs, less so in building career paths for them. Much remains to be learned concerning the types of policies that could help overcome these problems.

### ***Mobilising additional labour supply***

***A key task will be to meet long-term skill needs and mobilise additional labour supply...***

The renewed prominence of mobilising additional labour supply as a policy goal may be the most striking recent change in discussions of employment policy. In part, this reflects the overall improvement in labour market conditions. The most recent upswing was characterised in many countries by skilled-labour shortages, especially in industries producing or making extensive use of information and communication technology (ICT). However, the challenges posed by population ageing and skill-biased technological change confirm the long-term importance of policies to better mobilise labour supply and ensure that the workforce has adequate skills.

***... especially by raising employment rates for older workers, which requires pension and welfare reform, but also changes in attitude and behaviour among both workers and employers...***

Population ageing means that, in the absence of any change in patterns of labour market participation, the labour force is likely to fall in relative, and even in a few countries perhaps in absolute, terms over the coming decades with major consequences for economic growth, public finance and living standards. This is why raising the employment rate for older workers is so critical. Some countries have started to tackle the problem, increasing the standard age of retirement or reining in early retirement schemes and welfare programmes that offer significant financial incentives favouring early exit from the labour market. Such reforms are crucial and need to be pursued energetically, but a broader approach is required that addresses public perceptions. Many workers in their 40s and 50s today

think of early retirement as an *entitlement* and have not adjusted their expectations to the need to stay longer in work. Employers are also very reluctant to adapt their hiring, firing and skilling strategies to the looming situation of ageing workforces. Indeed, firms are prone to layoff older workers when adjusting employment in the face of economic difficulties. It is therefore essential to act on both the supply and demand sides of the equation.

*... and also mobilising more disabled people and women, especially women with children and with lower skills.*

Untapped labour supply potential also exists among other population groups, including women and disabled people of working-age. Chapter 2 analyses employment patterns for women in detail, showing that OECD countries differ greatly in the extent to which women work in paid employment. Most of the international differences in female employment rates reflect whether or not mothers and less educated women have employment rates similar to those of childless and better educated women. These patterns indicate that both work-family reconciliation measures (*e.g.* adequate child care, flexible working time and parental leave) and policies lowering overall barriers to employment, as well as those that affect low-skilled women, could make important contributions to aggregate labour supply in a considerable number of countries, while also expanding life-style choices and equality of opportunity.

### *The critical role of skill development*

*Higher skills are needed in a more technological economy, but shortfalls persist, partly because the lower-skilled receive less training. Another major challenge is to keep older workers employable...*

There is widespread agreement that the skills and competencies of the workforce need to be upgraded. One reason is skill-biased technological change. In particular, the rapid diffusion of ICT and the changes in work organisation that go with it are associated with higher demand for skilled labour. This shift in skill demands has worsened the employment and earnings prospects of unskilled and semi-skilled workers, thereby rendering the activation measures discussed above more difficult. Indeed, one of the key difficulties facing policy makers in this area is that too many workers still lack basic literacy skills. This is especially problematic because the unskilled typically receive much less on-the-job training than their skilled counterparts, thereby falling progressively further behind. Another factor at work is population ageing. To ensure that ageing does not impact negatively on growth and living standards, it is essential that the trend towards early retirement be reversed. This means that workers will have to remain employable throughout their career, implying a need for continuous adult learning.

*... and while we know too little about what works in adult training, a key factor is to provide the right financial incentives to firms and workers – especially to retrain rather than retire.*

Through what mechanisms should adult skills and competencies be upgraded? Unfortunately, this is an area where few rigorous evaluations exist of what works and what does not. What has become clear is the importance of a funding strategy that provides incentives to both employers and workers to invest in appropriate types of training. Removing the financial incentives to early retirement still found in many pension schemes would strengthen incentives to train older workers, by lengthening the expected period of time during

which new skills would be used on the job. Similarly, instituting well-functioning systems of recognition and certification of learning may help address some of the motivation problems of unskilled workers. A few countries are experimenting with creative initiatives, such as Individual Learning Accounts, and their experiences should be followed closely in order to identify the most promising ideas for meeting this challenge.

### *Towards a dynamic and inclusive labour market*

**Over time, the destination of this voyage has become clearer. It features: wider inclusion in the labour market; welfare support that does not discourage participation; and lifelong learning.**

A prerequisite for successful navigation is to know one's destination. The reflections above indicate that labour market policies must be dynamic and inclusive. They must be policies that help the economy adjust to major demographic and technological developments by enabling a wide cross-section of the community, and not just those who are the most able-bodied or best educated, to participate in the world of work and to engage in a continuous renewal of job skills. One lesson learnt from the experience of the past 30 years is that policies which discourage labour force participation (e.g. early retirement or loosely administered disability/long-term sickness schemes) are ultimately unsustainable and may end up promoting rather than alleviating social exclusion. Another lesson is that success in the fight against unemployment and social exclusion requires renewed emphasis on a comprehensive lifelong learning strategy. In any event, the discussion about how best to adapt employment policies to 21st Century conditions is underway and next year's meeting of OECD Employment and Labour Ministers will contribute to this important reflection.

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