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# Jobs and incomes

## The restated OECD Jobs Strategy

### DELSA Newsletter Issue 3

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The Directorate for Employment, Labour and Social Affairs (DELSA) at the OECD works on labour markets, social policy, international migration and health. The third issue of the Directorate's newsletter focuses on the restated Jobs Strategy and on the challenge of increasing employment in OECD countries, the topic of a recent high-level policy forum.

OECD countries have made much progress in reducing unemployment in the past 10 years, but not all countries nor all groups in countries have benefited equally from improved labour markets. Immigrants, youth, women, older and less skilled workers encounter more difficulties in the labour market than prime-age men.

Also, new challenges have emerged, notably population ageing and globalisation. If nothing is done, the labour force will shrink dramatically in many OECD countries in coming years. Both firms and workers will have to adapt to the changes caused by globalisation and technological advances, especially as large, labour-rich countries, such as China and India, become better integrated into the world economy.

To help governments meet these new challenges, the OECD revisited the Jobs Strategy, a package of policy recommendations to improve labour market performance endorsed by OECD countries in 1994. The main policy conclusions of the project – a joint effort between DELSA and the OECD Economics Department – are presented on pages 2 and 3. Pages 4 to 6 cover the launch of the report on the restated Jobs Strategy – *Boosting Jobs and Incomes* – at a high-level meeting in Toronto in June 2006 and the reactions to the event.

People with disabilities are at high risk of social exclusion and face difficulties participating in the labour market. The restated Job Strategy takes a comprehensive approach to benefit programmes, including long-term sickness and disability schemes. Moreover, DELSA has just completed a first round of country reviews analysing the barriers to work that disabled people face in Norway, Poland and Switzerland. The main results and policy conclusions are summarised on page 7.

Adequate skills are crucial for successful participation in the labour market and for the (re-)integration of people who are currently out of work. But not much is known about how people best acquire skills and when these skills become out-dated or obsolete. A new survey aims to fill this knowledge gap. This new project – joint work between DELSA and the OECD Education Directorate – is covered on page 8.

The next issue of the newsletter will feature our work on healthcare.

**John P. Martin, Director**  
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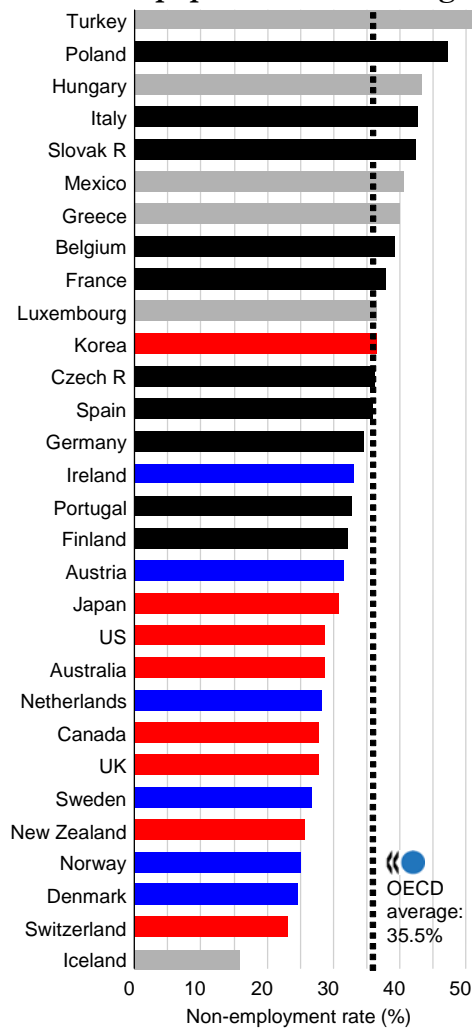
## Boosting jobs and incomes

Globalisation and population ageing require new policies to boost employment and keep welfare systems afloat, says **Raymond Torres**, who, with Sveinbjörn Blöndal of the Economics Department, led the project to revisit the OECD Jobs Strategy 10 years on.

The good news is that many OECD countries have stopped or reversed the growth of unemployment experienced in previous decades. Ireland, Finland and Spain, for example, have seen spectacular falls in unemployment rates. And significant reductions were also achieved in other English-speaking and Nordic countries.

But in France and Germany, unemployment remains stuck at high levels. It has also risen in some central and eastern European countries and – from low levels – in Asian OECD economies. Just over a third of the working-age population remains unemployed or inactive in OECD countries (see chart below and key opposite).

### Unemployed and inactive make up more than one-third of the population of working age



### Out-of-work benefit levels

The 2006 restated OECD Jobs Strategy recognises that there are ways other than cutting out-of-work benefits to encourage people to work. These approaches rely on **activation** – policies to help overcome barriers to work – and **mutual obligations** – the requirement to work once employment obstacles have been removed. By combining these policies with relatively generous unemployment benefits, strong incentives for the unemployed to find jobs are maintained.

Denmark is a good example, with relatively high unemployment benefits and effective, individualised help with job search. Job-seeking effort of the unemployed is closely monitored and people are expected to take any suitable job.

This approach, however, is not without its own problems. It can be costly to the public purse. Also, people may react to the closer monitoring of their job search and benefit sanctions by applying for other out-of-work benefits, such as sickness or disability, lone-parent and early retirement benefits. In some countries, falls in unemployment have indeed been matched by increased flows onto these other programmes. All social policies should be employment-oriented: aiming to get all those who can work into jobs while providing adequately for those who are unable to work.

### Who is not in work?

Only 65% of women of working age are employed in the OECD, versus 87% of prime-age men. The restated Jobs Strategy stresses the importance of family-friendly policies, such as flexible working patterns, appropriate tax structures, adequate but not overly long paid parental leave, good-quality and affordable child care. These help women combine work and family life. More equal sharing of caring responsibilities between men and women would also help.

Older workers are another group with relatively low employment rates at only 51% on average in OECD countries. The rules of old-age pension

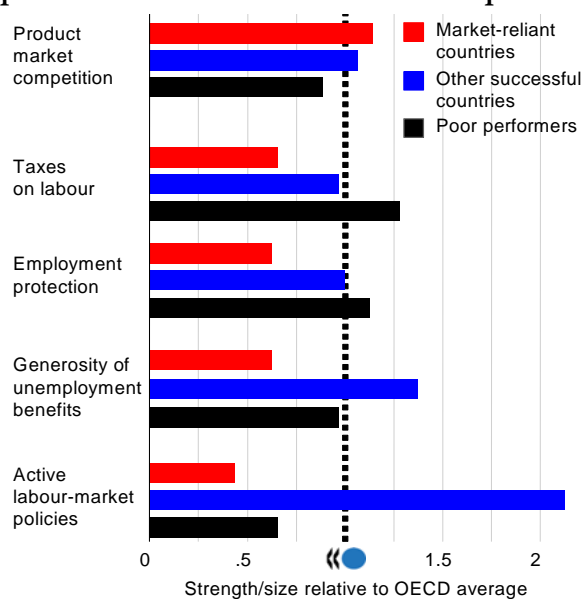
systems and access to early-retirement programmes often discourage older workers from taking jobs (see Issue 2 of the DELSA newsletter: *Older Workers: Living Longer, Working Longer*).

Despite the fact that young people are better educated than previous generations, youth unemployment is double that of adults. Mis-matches between education and the needs of the labour market are a major problem.

### Which policies are effective?

The new report confirms that non-competitive product markets are bad for jobs. They hamper the creation of new businesses, particularly in fast-growing sectors of the economy. The second chart shows that countries with the best-functioning labour markets – coloured red and blue in both charts – all have competitive product markets while poorer performers – coloured black – have more regulation.

### Successful performers have competitive product markets but differ on other policies



Insufficient data exists for classification of countries in light grey on page 2

A new finding is that employment protection legislation seems to affect unemployment less than it was thought a decade ago. Past reforms in this area have been difficult to introduce, but the evidence shows that change can combine promoting economic dynamism whilst protecting workers' rights. One such approach is **flexicurity**: a mix of easy hiring and firing with both efficient re-employment services and decent out-of-work incomes. However, partial reforms of employment regulation can be counter-productive. Liberalising

only temporary contracts, for example, can improve the working of the labour market in the short-term. But in the longer term, it may create a secondary labour market, increase social inequality, and reduce productivity growth.

Both decentralised and centralised **collective wage bargaining** deliver good employment performance, but sectoral bargaining tends to be less effective. A moderate minimum wage does not undermine employment and can support labour-market participation, although lower rates might help some younger people into work.

There is no single strategy for improving labour-market performance. Several successful performers – notably, the United States – combine low levels of social benefits, low taxes and light employment regulations. Others – such as the Nordic countries – offer generous, but well-designed social benefits. However, this does not mean that anything goes. The successful performers share some common features, such as an emphasis on macroeconomic stability and strong product-market competition. These make up the four pillars of the 2006 OECD Jobs Strategy.

### Four pillars: the restated OECD Jobs Strategy

Pillar A: set appropriate macroeconomic policy

Pillar B: remove impediments to labour-market participation as well as job-search

Pillar C: tackle labour- and product-market obstacles to labour demand

Pillar D: facilitate the development of labour-force skills and competencies

### Follow-up

Policy report: *Boosting Jobs and Incomes: Policy Lessons from Reassessing the Jobs Strategy*, OECD, 2006.

Analytical report: *Employment Outlook: Boosting Jobs and Incomes*, OECD, 2006.

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## High-level policy forum in Toronto

Diane Finley, Canadian Minister of Human Resources and Social Development, hosted a meeting in Toronto in June 2006 to discuss the findings and policy implications of the OECD's restated Jobs Strategy. **Glenda Quintini** and **Ann Vourc'h** were at the meeting.

Welcoming "the OECD's excellent report", Ms Finley said that "[it] highlights the need for reform in the light of the current challenges of population ageing and globalisation" and stresses the need for a coherent strategy "to make sure that labour market policies do not work at cross purposes".

The two-day event began with an open forum involving experts, government officials, employer organisations, trade unions, academics, and civil society. The forum discussed the main messages of the restated Jobs Strategy (see the four pillars on page 3).

Both employers, represented by the OECD's Business and Industry Advisory Committee (BIAC) and trade unions (the Trade Union Advisory Committee, TUAC) praised the restated Jobs Strategy. However, John Evans of TUAC thought that the demand side of the labour market should have received more attention. Andrew Jackson of the Canadian Labour Congress found the report too supportive of the "Anglo-Saxon liberal approach". Both employers and trade unions, however, agreed with the strong emphasis on activation policies.

The afternoon saw presentations by, among others, Nobel laureate James Heckman of the University of Chicago and Assar Lindbeck of Stockholm University. The discussion was led by Lisa Lynch of Tufts University, followed by a lively roundtable of distinguished academics, experts and officials from the European Commission and the ILO.

Professor Heckman began by questioning the measurement of labour-market performance. He argued that official statistics are not appropriate in several European countries since many people are enrolled in training and subsidised employment programmes. As such, they are disguised unemployed. He concluded that properly-counted unemployment rates in corporatist countries are far higher than those in the Anglo-Saxon countries. Other speakers argued that his calculations were misleading and that the United

States was not free from the problem of disguised unemployment, in particular because of the high proportion of the population in prison (who might otherwise be over-represented among the unemployed).

There was fierce opposition to Professor Heckman's dismissal of the OECD's finding that corporatist and Anglo-Saxon labour-market models are equally good and his defence of the *laissez-faire* model. Many speakers agreed with the OECD's conclusion that there is no single road to improving the labour market performance. They argued that corporatist countries did at least as well as the United States when judged on a broader set of objectives, accounting not only for benefit dependency but also for the number of working poor and people in precarious jobs. One speaker remarked that the "Nordic" approach also promotes productivity.

### Active labour-market policies

Both Professor Heckman and Professor Lindbeck argued that the OECD's conclusion on the role that active labour-market policies (ALMPs) can play in promoting employment was too positive. Professor Heckman insisted that investment in education in early childhood should be the number one priority.

However, most other participants thought ALMPs and investment in human capital later in life could play an important role. Several speakers noted that the process of population ageing leaves no choice but to invest in adult training. Furthermore, much has been learnt on what works and what does not work. OECD economies cannot wait for the cohorts of pre-schoolers to move into the workforce.

John P. Martin, Director of DELSA, insisted that "activation" does not necessarily mean more spending on ALMPs but improved and effective measures involving mutual obligations (see pages 2-3).

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### Ministerial meeting

On the second day of the policy forum, ministers discussed the respective roles of macroeconomic policy, labour- and product-market reforms, and the best ways to bolster public support for reform. There was broad consensus that governments needed to balance both high and fairly distributed employment.

Ministers agreed that all four pillars of the restated Jobs Strategy are central to designing effective reforms. However, they also stressed that not all changes need to be done at the same time. The experiences of Norway, the United Kingdom and the United States were prominent in the discussion. These countries all pursued macro-economic stability and policies to boost labour demand and competitiveness as a first step in stimulating job creation. Now they are turning to policies that address skill shortages, benefit dependency and broadening labour-market participation.

Ministers praised the comprehensiveness of the restated Jobs Strategy, but suggested additional analysis addressing high benefit dependency, improving the cost-effectiveness of labour-market programmes, and policies to reduce the number of working poor.

Social dialogue emerged as a key determinant of reforms' success or failure. This can take many forms: building trust between social partners, a clear sense of direction for the reform, an open and frank communication policy. While the cost of reforms may be apparent early in the reform process, the beneficial effects on employment and economic growth may take time to materialise. Solid evidence helps to convince the public of the benefits to come. Several speakers said that large reform packages share the burden more evenly across the population.

In her closing statement, Ms Finley stressed the urgency of reform by reminding the meeting that “most OECD nations are grappling with the potential repercussions of ageing populations on labour markets and living standards” and that “the growing integration of economic giants like China, India and Brazil in the world economy offers significant new opportunities but requires adjustment as well”.



**Diane Finley, Minister of Human Resources and Social Development, Canada**

The ministers mandated the OECD “to support their efforts to implement the restated Jobs Strategy by monitoring progress in each member country; shedding further light on what works and what doesn’t in each of the four pillars; and developing labour market and skill indicators.”

### What next?

The OECD Secretariat will take the work forward in a number of ways:

- First, by using case studies of how OECD countries implement the restated Jobs Strategy and the lessons to be drawn from their experience. This will be co-ordinated with the *Going for Growth* project and country economic surveys. It is planned to issue the case studies in OECD *Employment Outlook*.
- Secondly, through country reviews of disability (see page 7) and youth employment policies.
- Thirdly, by work on “activating the inactive”, that is, a mutual-obligations approach to benefits for the non-employed.
- Finally, by developing a novel strategy to assess adult skills and competencies consistently (see page 8).

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### Follow-up

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## The restated Jobs Strategy: reactions

“Intricate workings – Tackling unemployment requires a careful mixture of policies” was the headline in *The Economist*. The newspaper’s analysis of the restated OECD Jobs Strategy emphasised that the new strategy takes a less strictly deregulatory line.

*The Economist* contrasted the new approach with the message of the 1994 Jobs Strategy, which it summarized as “Get more people into work, mainly by loosening labour markets”. The article, which appeared in the *Economics focus* column on 15 June, 2006, set out the do’s and don’ts for achieving good labour market performance. It concluded that “most [countries] still have to do a lot” in this respect. It praised the OECD report for its “thorough review of recent research...sifting study after study of which policies have done best”.

The *Financial Times* headlined its report: “Rich countries’ steps to cut joblessness result in steep rise in disability and sickness claimants”, highlighting the fears of policy makers that measures to slash joblessness have not only increased employment but also increased the strains on other parts of the welfare system. The paper quoted Jean-Philippe Cotis, the Chief Economist of the OECD: “You have to close all the gaps, not just some, and that is quite of a challenge.” Mr Cotis, with John P. Martin, Director of DELSA launched the report at a press conference in Paris on 13 June. The conference was chaired by Angel Gurría, the new Secretary-General of the OECD, who said: “Getting people who want to work into jobs is one of the biggest challenges facing many OECD governments.”

The restated Jobs Strategy was widely reported in France. Of the two financial newspapers, *Les Echos* wrote: “L’OCDE appelle à un sursaut pour lutter contre le chômage” (the OECD calls for a quantum leap to fight unemployment). In contrast, *La Tribune* focused on the expected continuing decrease in unemployment. Both underlined that “il n’y a pas de voie unique” (there is no single road) to improving labour market performance.

The German daily *Süddeutsche Zeitung* focused on the level of unemployment benefits under the headline “Zuviel Geld stützt Arbeitslosigkeit” (too much money supports unemployment).

The Swiss daily *Neue Zürcher Zeitung* emphasised the OECD’s calls for more flexible labour market policies in order to address the challenges of globalisation.

Raymond Torres, Head of the Employment Analysis and Policy Division, explained on the news broadcast channel *France Info* that the main objective of reform should be to raise employment by reducing unemployment but also by allowing people to move from inactivity into work. He also argued that it is important “de conserver une protection sociale [...] qui couvre le plus possible de gens avec un niveau de prestation suffisant” (to preserve a social protection that covers as many people as possible with sufficient benefit levels).

The *National Post* of Canada insisted that “carrots and sticks both help people get off dole”. The paper quoted John P. Martin underlining that mutual obligations and activation policies go further than just spending more money.

Larry Elliot, economic editor of the *The Guardian* of the United Kingdom wrote: “Liberalisation is not the only way to high employment, says OECD.” He reported the reaction of Jim Murphy, Minister for Employment, who was pleased that OECD report stressed the importance of some of the measures brought in by the government to make employment services more effective and remove barriers to participation in the workforce.

## Reviewing disability policies

Health is improving in OECD countries, yet more and more people of working age rely on long-term sickness and disability benefits. Disability benefits are an important reason for labour-market inactivity. **Christopher Prinz** reports on the first reviews of disability policies.

Sickness and disability are key economic and social policy concerns in many OECD countries. More and more people of working age rely on sickness and disability benefits as their main source of income. Unemployment has fallen in recent years in many OECD countries, yet nowhere has this drop translated into more jobs for disabled people.

This new series of reviews looks at how countries can ensure that sickness and disability benefits are not used as pathways to leave the labour market. It also examines ways of matching the abilities of people with disabilities with work opportunities. The first report in the series examines challenges and obstacles in Norway, Poland and Switzerland. All three countries face financial pressure from public spending on sickness and disability programmes. But other policy challenges differ.

In **Norway**, the key issues are to reduce the very high inflow into sickness and disability and to raise the very low outflow from disability benefits.

The main challenges in **Poland**, in contrast, are to raise the very low rate of employment of disabled people and to strengthen coordination between different benefit schemes and employment-support measures.

Co-ordination of institutions and policies is also a priority in **Switzerland**. The country also tends to push labour-market problems into the medical arena. This is particularly visible in the rapid increase in mental and non-specific health problems as a reason for being on disability benefits, from which, as in Norway, there is no pathway back to work.

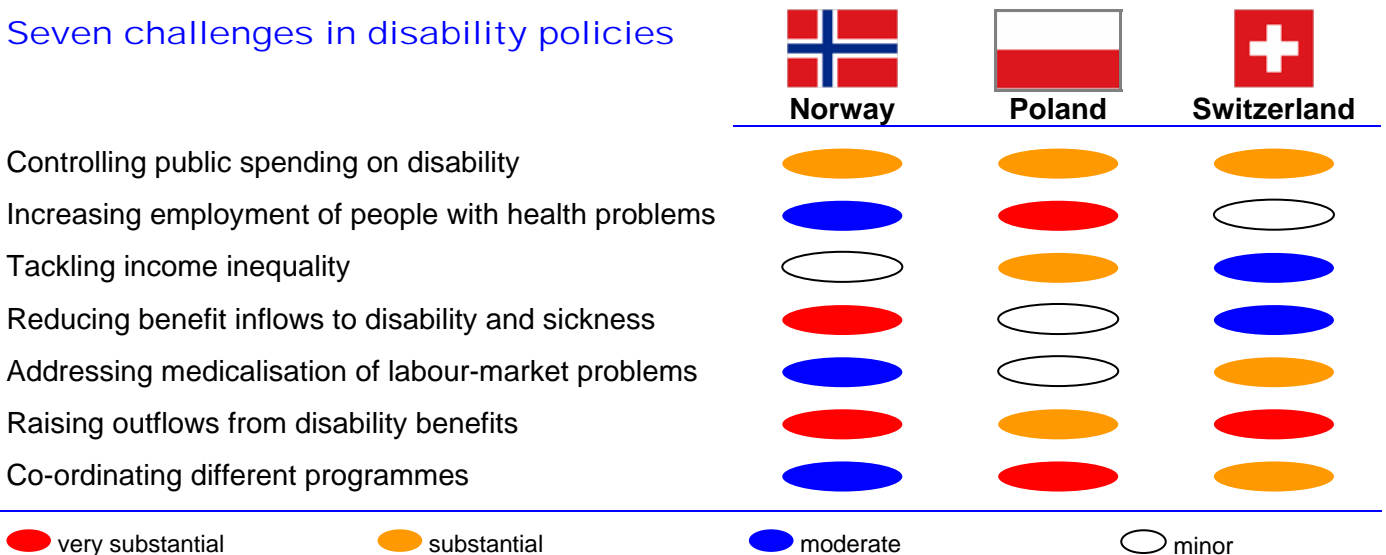
The second report, to be published in 2007, will cover Australia, Luxembourg, Spain and the United Kingdom, and the final one in 2008 will cover Denmark, Finland, Ireland and the Netherlands. The three comparative reports will be followed by an overall synthesis report that will summarise the lessons learned from all the countries reviewed.

### Follow-up

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## Seven challenges in disability policies



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## PISA for grown-ups

Adult skills play a vital part in a vibrant labour market. Building on the success of the PISA study of 15-year-olds, the OECD is developing a new survey of adult skills. **Mark Keese**, who manages the project along with colleagues from the Education Directorate, explains.

A range of skills are required for people to participate successfully in both the economy and society. Low-skilled workers are at greater risk of unemployment and poverty. But little is known about what key skills are required, how people best acquire these skills and when such skills become obsolete.

The Programme for the International Assessment of Adult Competencies (PIAAC) aims to fill this knowledge gap by assessing adult skills in a coherent and consistent way across countries.

### A new survey

First, as in previous surveys, there will be a direct test of literacy of the adult population but with a special emphasis on the skills required to function in the modern information age. A major innovation will be a specific focus on measuring the literacy of the low-skilled.

Secondly, the project will investigate what determines people's competencies, such as demographic factors, learning paths, job changes, and training. It will also look at how skill development might benefit the economy and society. School-to-work transitions will receive special attention.

Thirdly, PIAAC will examine which skills people use every day in their workplace, a first for a cross-country study. This will show where skill gaps are to be found and which skills are lacking.

Finally, the survey will focus on developing internationally comparable measures of investment in job training. The aim is to shed light on the link between investment in training, skill levels and labour-market outcomes.

PIAAC will thus provide answers to important policy questions. How do adult skills compare across countries and groups? How do skills affect economic and social outcomes? How can we explain that women tend to hold more low-skilled jobs despite the fact they are often better educated than their male counterparts? Do educational

systems distribute skills evenly across the population? How can one ensure that older workers have the right skills to continue working?

### What next?

The first PIAAC surveys will be carried out in 2009-10 after an intense research phase to develop and pilot test the new survey. Work is already in progress in DELSA and in the OECD Education Directorate. Experts groups are looking at developing the questions on literacy in the context of the modern information age and on school-to-work transitions. DELSA is developing a module on skill requirements of jobs that will be tested in the first half of 2007 in (it is hoped) at least 3-4 volunteer countries.

The surveys are on a voluntary basis; the response from member countries so far has been very encouraging. Discussions are also underway to secure the support of the European Commission and the European Centre for the Development of Vocational Training.

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### Follow-up

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