



# **What works, for whom, and at what costs? Discussion of Keynote Addresses**

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by

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**Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD  
Jobs Strategy**

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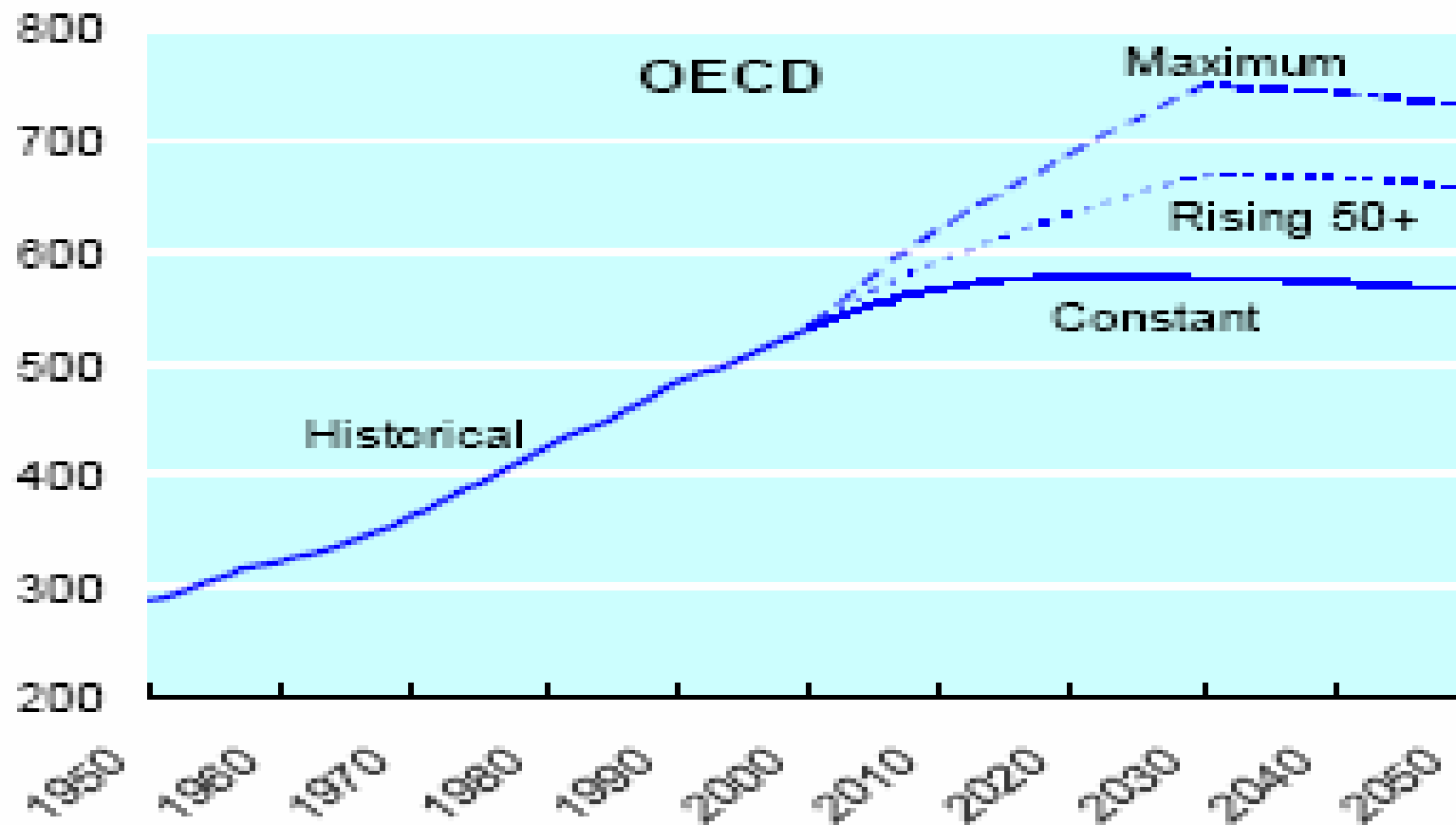
## Greatest Challenge for Strategic Planning

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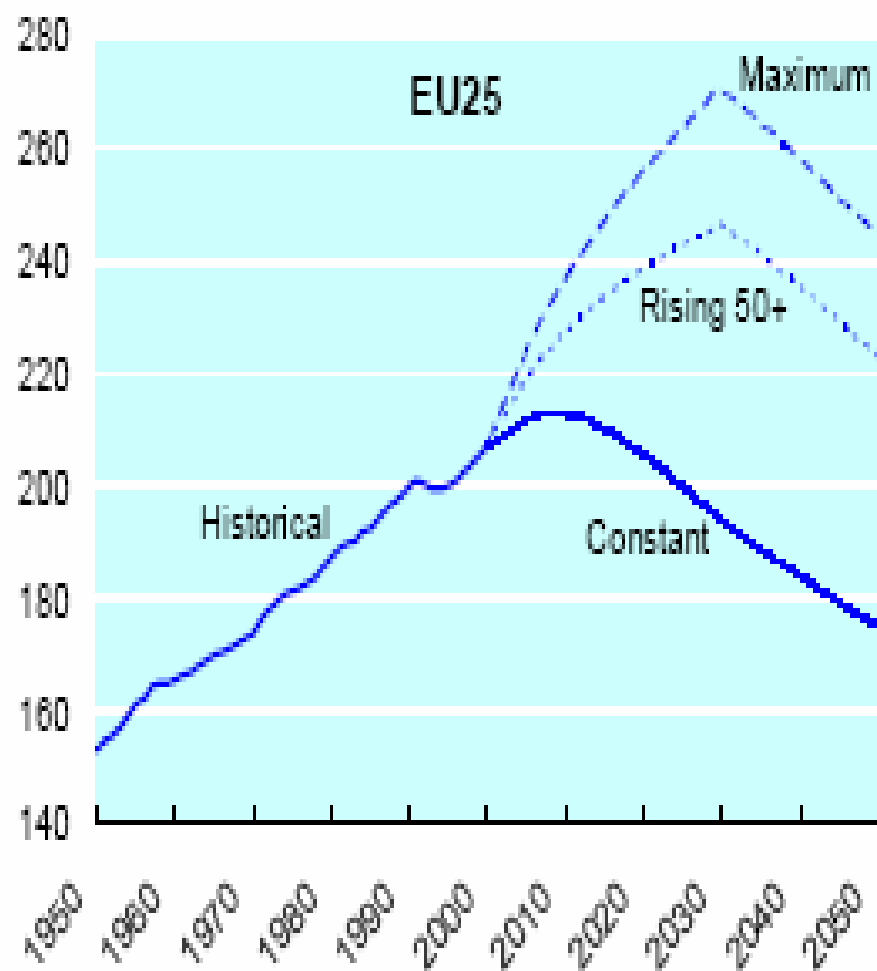
### Ageing of the Workforce

- No change in labour force behavior or productivity growth would mean 30 percent lower growth in annual GDP per capita over the next 30 years compared to last 30 years
- In Europe the number of retirees is expected to exceed the number of young entrants by 2015 – Japan has passed that point
- But this is a projection that is very sensitive to underlying assumptions about labor market attachment

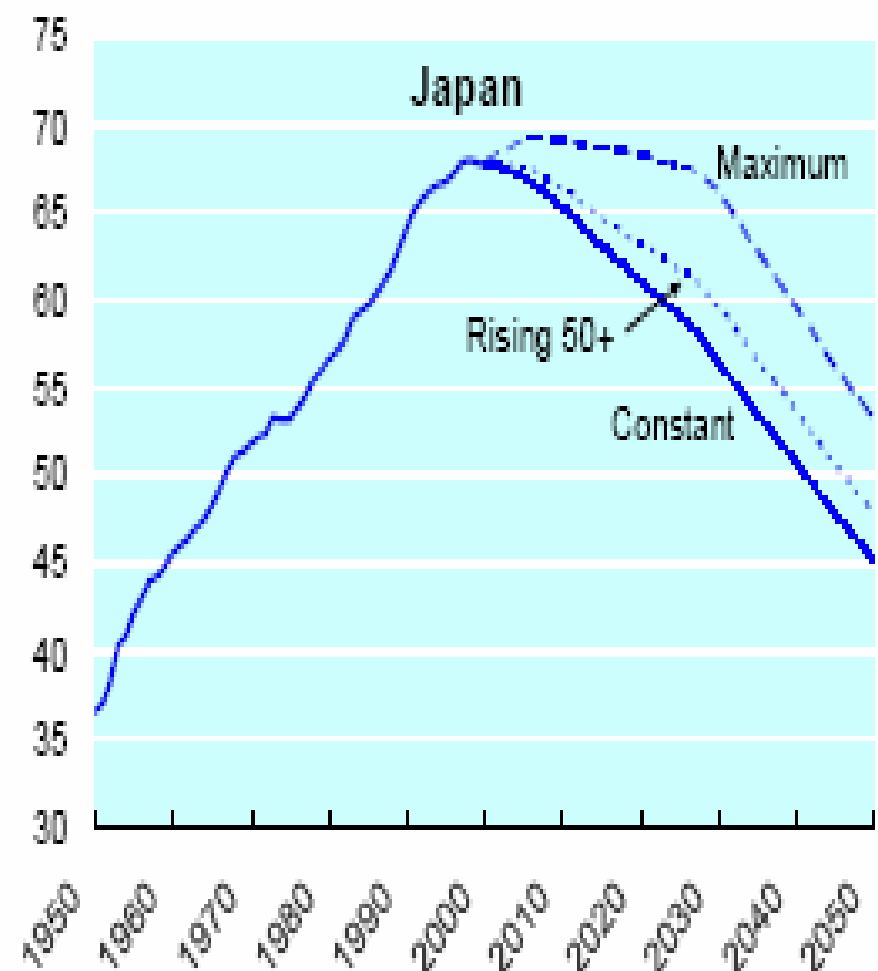
## The OECD labour force will stop growing unless participation rates rise



Europe's labour force could contract substantially unless participation rates rise



A large fall in Japan's labour force is likely to occur even if participation rates rise





## Impact of Ageing Workforce on Ability to Raise Potential Output

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- Good News – Outsiders will finally get their chance
- Need to raise labor supply, including additional incentives to raise effective retirement age
- Need to Improve the Productivity of Workforce



## Sources of Increased Labor Supply

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### Source

### Policy Tools

Women

work/family

Benefits dependents  
unemployed  
early retirement  
disabled

work incentives; training;  
redress balance between insiders-  
and outsiders; tighten eligibility  
rules for some benefit programs

Immigrants

training; integration of family

Those approaching retirement

wage insurance; re-training;  
pension reform



## Strategies to Raise Productivity

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- Ensure sufficient inflow of educated and skilled youth
  - skill does beget skill
- BUT demographic reality of the next decades means we can not rely on youth to supply skill needs since they will not be large enough to offset declines in labor force from retirement
- Consider immigration policy to attract skilled workers
  - But – our gain their drain?
- Retraining for displaced adults



## Training Matters But it is Not a Magic Elixir

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- Characteristics of Effective Training Systems
  - Coinvestment
  - Certification
  - Codetermination
  - Cost-Benefit Evaluation



## Returns to Private Sector Training

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- Large returns to employer provided training (10-26%) that appear to exceed returns to college
- Displaced workers with greater amounts of multi-skilling in pre-displacement job suffer smaller subsequent wage losses
- More educated workers get more employer training
- Smaller employers much less likely to offer training
- Workers with skill needs also suffer from a shortage of discretionary time to undertake training



## Returns to Government sponsored Training Programs

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### **What works:**

- Classroom training – especially math/science and health vocational
- On-the-Job training – for women in particular
- Re-employment bonuses

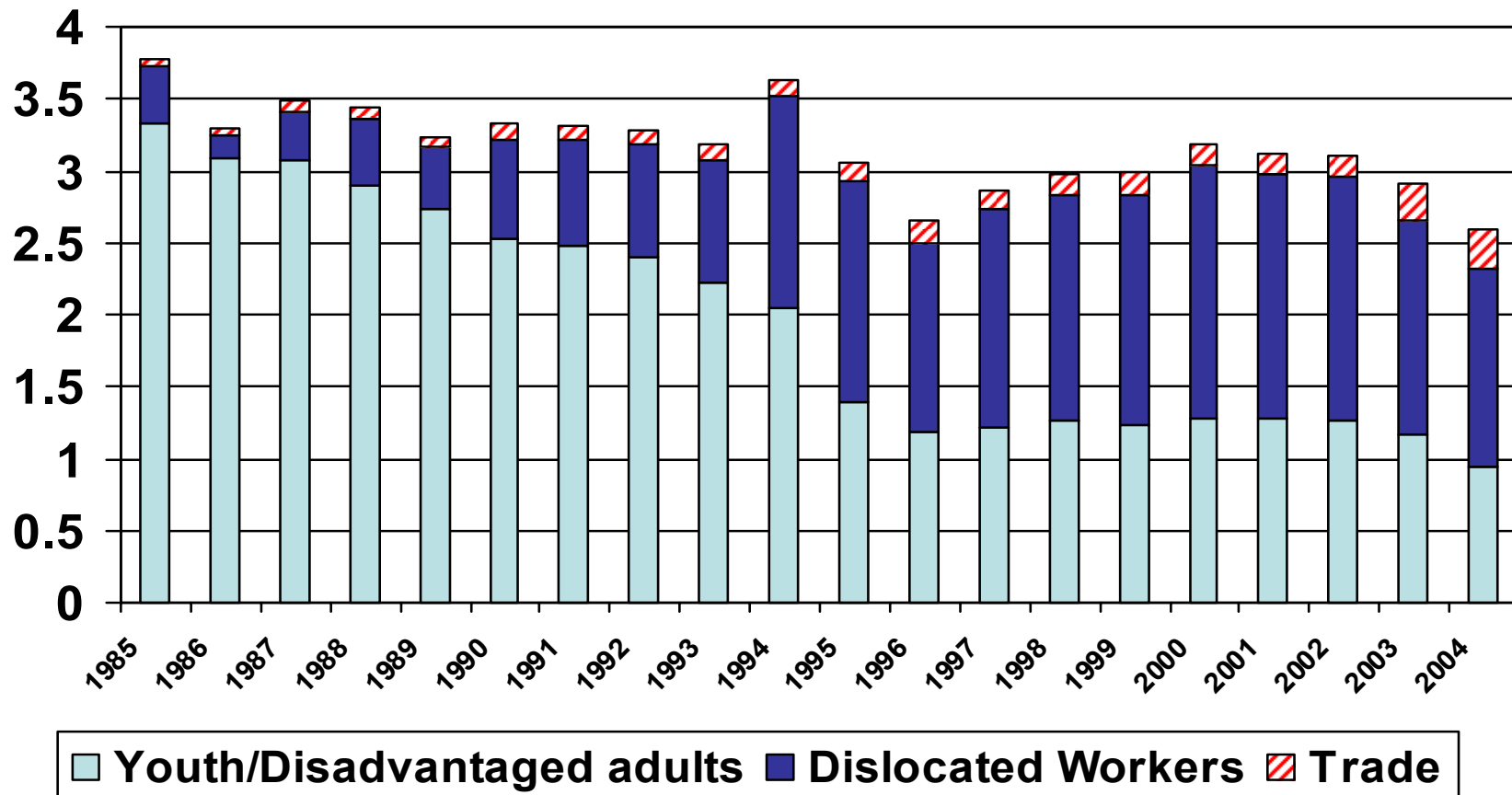
### **What helps make this work:**

- Strict performance criteria
- Smaller programs
- Working with training providers who are well connected with local employers – relevance of training

# Evaluation Studies Can Move Policy

## Case Study : US training programs (1985-2004)

(billions of dollars inflation adjusted)





## Role of Unions and Employee Voice for Productivity

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- OECD study finds U shaped relationship between degree of corporatism and labour market performance - how has micro-econometric work shed light on what might underlie this?
- Black and Lynch (2004, 2001) find that establishments with more traditional labor-management relations with little or no direct participation of employees in decision making had substantially lower productivity than unionized businesses that adopted new workplace practices – even higher than non-unionized businesses
- Lynch (2006) – unionized businesses less likely to adopt workplace innovations



## Implications of Ageing Workforce for Labour Demand

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- The danger of an over promised and underfunded pension system is that taxes will need to be raised to fund this liability
- The OECD study highlights the significant problems with a growing tax wedge
  - Direct negative effect on demand for labour
  - Creates disincentives to invest in skills training



## Additional Issues for Labour demand

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- Role of Unions for demand for labour – effect on total employment rate needs further investigation – likely to be negative (insiders v. outsiders)
- Social norms on the employer side matter too:
  - Employer attitudes toward older workers – too old to learn?
  - Poor management practices
    - When product market competition is weak
    - When family owned businesses pass management control onto eldest male (see Bloom and Van Reenen 2006)
      - Unwilling to relinquish control
      - Resent transparency requirements associated with being a publicly traded firm



## Special Role of OECD in Moving Forward this Strategy

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- Aggregate indexes on institutions are interesting – complement microeconometrics
  - But need to benchmark progress using a wider range of outcomes besides the unemployment rate – e.g. total employment share, wage inequality, under-employment
- Micro evaluation of what works critical for moving the political discussion forward
  - Job training – especially for older workers
  - Reduction of benefit dependency of working age population
  - Role of unions/management