

*Reassessing the OECD Jobs  
Strategy: what have we learnt?*

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# Outline of presentation

- The context behind the 1994 Jobs Strategy
- How has the 1994 Jobs Strategy performed?
- What motivates its reassessment?
- The restated Jobs Strategy
  - What is the evidence behind it?

## *I. A Short Historical Note*

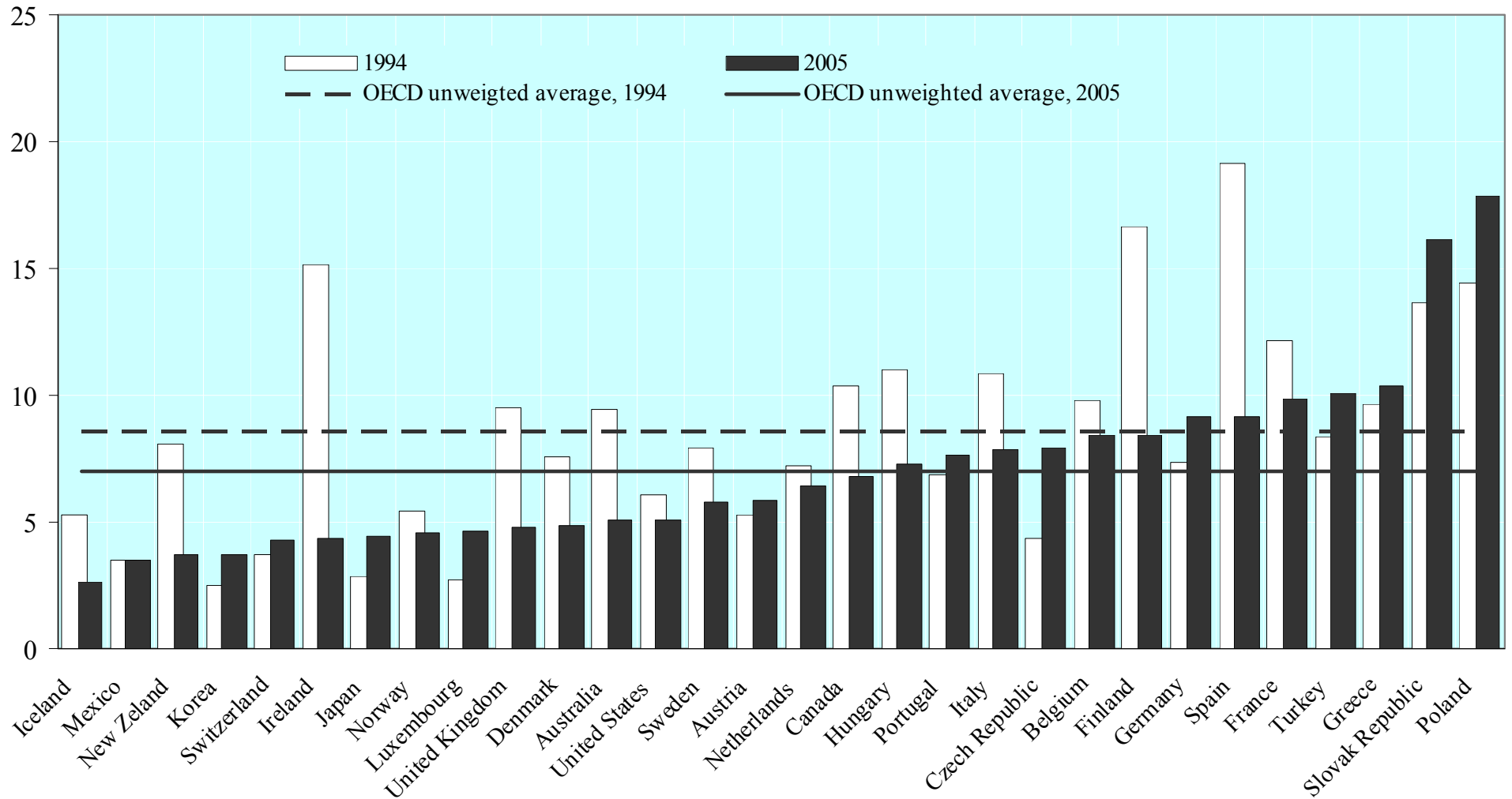
- Ministers gave the JS mandate to OECD in 1992
- Main political concern was high and persistent unemployment
  - OECD unemployment tripled to over 30 mill. since early 1970s
- JS was launched in 1994
  - it consisted of 10 broad policy guidelines and over 70 detailed recommendations
- Since its launch, it has spawned many similar blueprints

## *II. How has the 1994 JS performed?*

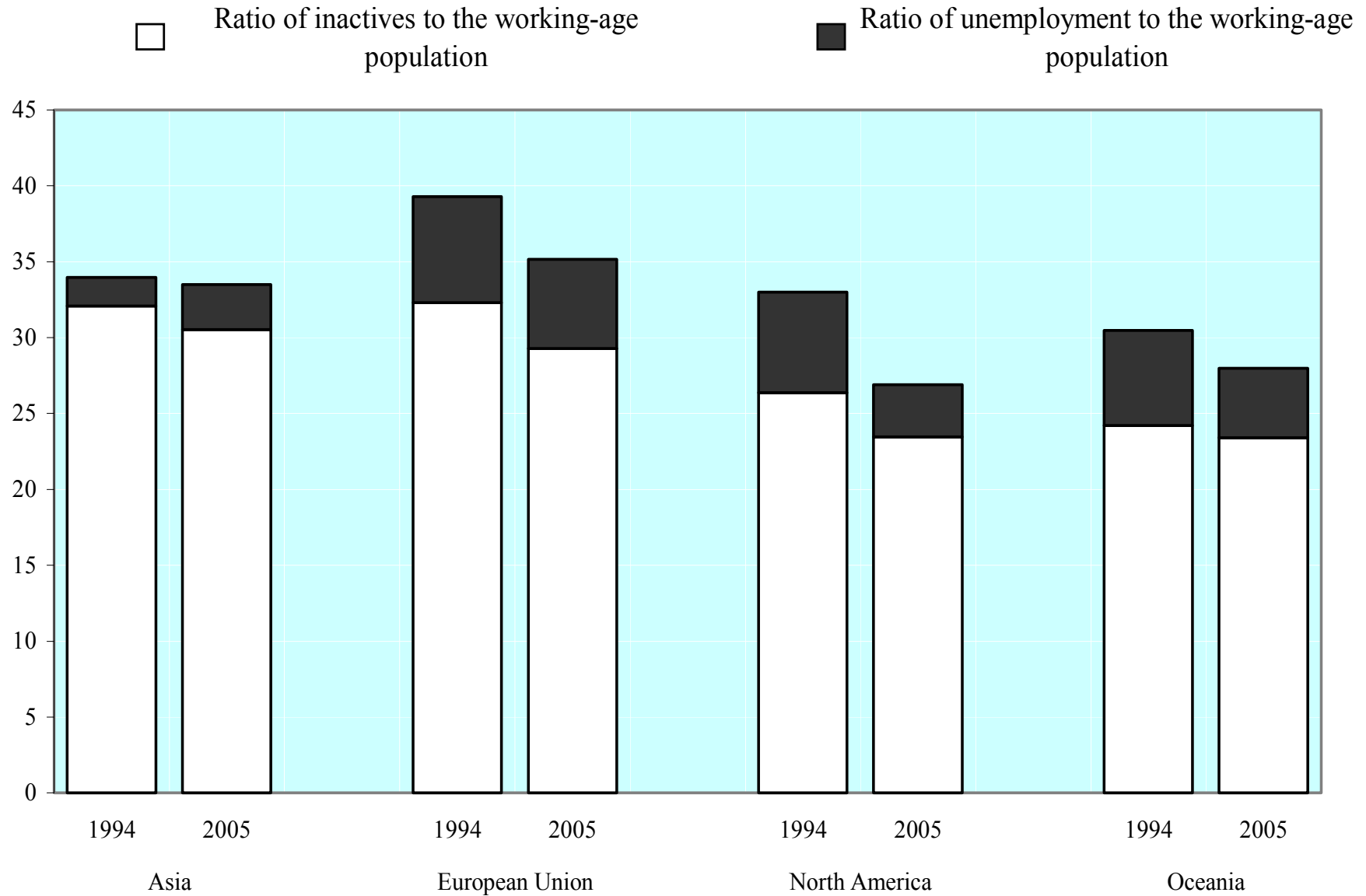
- Since 1994, some progress has been made in cutting unemployment, raising employment
  - OECD average unemployment rate dropped from 7.7% in 1994 to 6.6% in 2005
  - OECD average employment rate rose from 64% in 1994 to 65.5% in 2005
- Performance varies significantly across countries, with those moving ahead with reforms doing better than non-reformers
- Performance also varies across groups

# Unemployment has tended to decline...

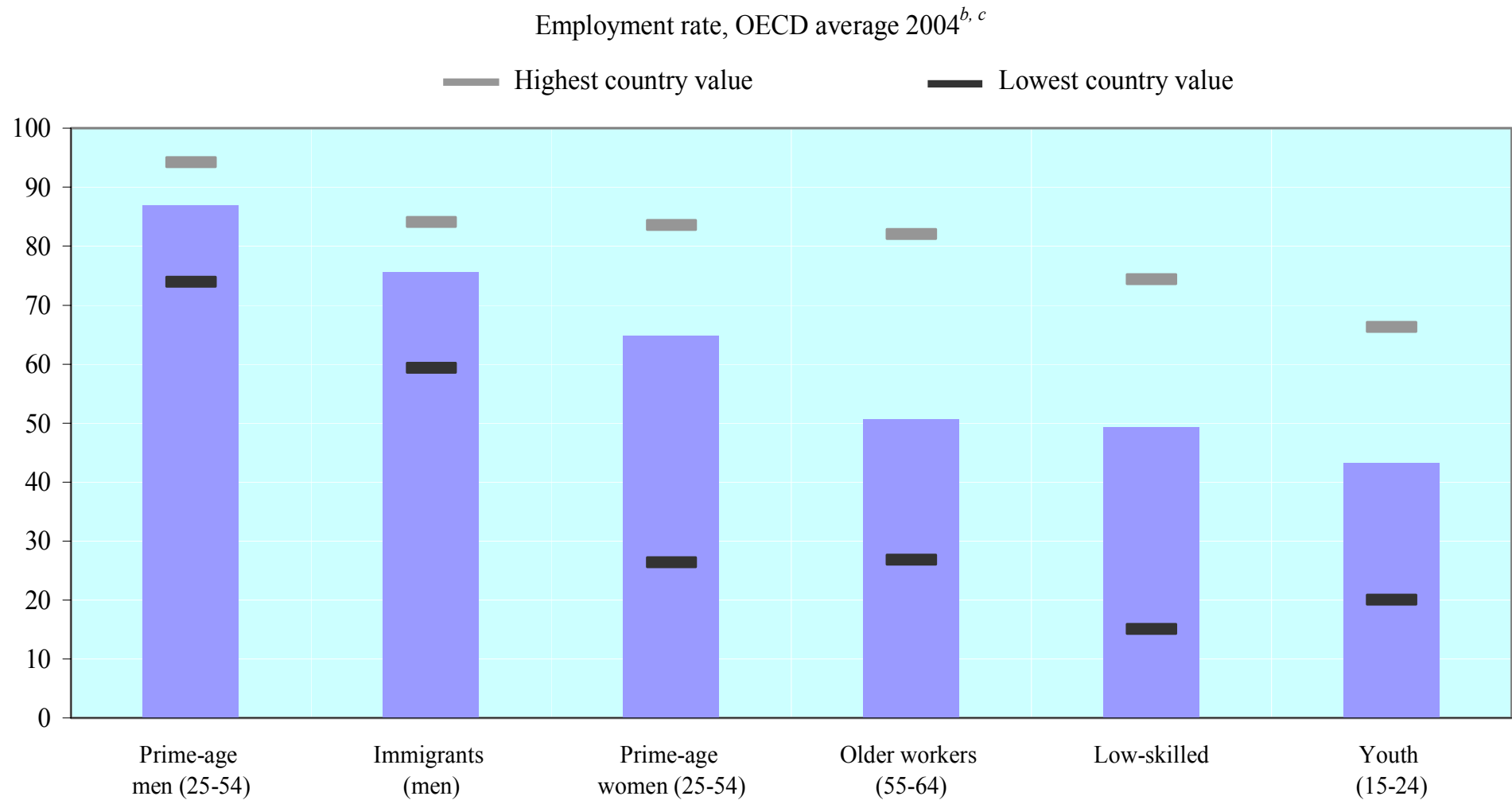
*Countries shown in ascending order based on 2005 UNR*



... but "inactivity" has emerged as a major issue (with major cross-country differences)...



## ...and employment rates vary significantly across groups



### *III. Why have we reassessed the 1994 Jobs Strategy?*

- Ministers asked us in 2003
- Ten years on from original JS, many policy innovations have occurred and countries with somewhat different policy settings have performed equally well
- OECD has new members (e.g. Mexico, Central Europeans), with new problems like informal employment
- Labour markets are facing two major challenges: population ageing and globalisation

## *IV. The restated Jobs Strategy: the 4 pillars*

- A. Set appropriate macroeconomic policy
- B. Remove impediments to labour market participation as well as job-search
- C. Tackle labour- and product-market obstacles to labour demand
- D. Facilitate the development of labour force skills and competencies

## *How to promote participation?*

- High benefit levels reduce work incentives, but this can be offset by well-designed activation policies
- To be effective, activation should be part of a “mutual obligations” approach
  - Needs to be backed by moderate benefit sanctions
- Effective (re-)employment services are essential
  - can be delivered by public or private agencies
  - need to be adequately resourced with appropriate incentives for performance

## *Promoting participation (cont'd)*

- New key policy area: extending mutual obligations to recipients of non-employment benefits, through work-availability conditions and provision of employment services (Australia)
- Tax-benefit reform can help ensure that work pays versus benefit receipt
- This may be done through well-designed in-work benefits combined with moderate minimum wages (Ireland, UK)
- Taxation of second earners affects female employment

## *Promoting participation (cont'd)*

- Early retirement systems need to be phased out and pensions should not discourage work
- Child-care support, part-time and other family-friendly working arrangements can support employment of women and older workers
- Closer links between school and work are needed, early school drop-outs should be reduced --key to help youth have a good start

## *New evidence on demand-side barriers*

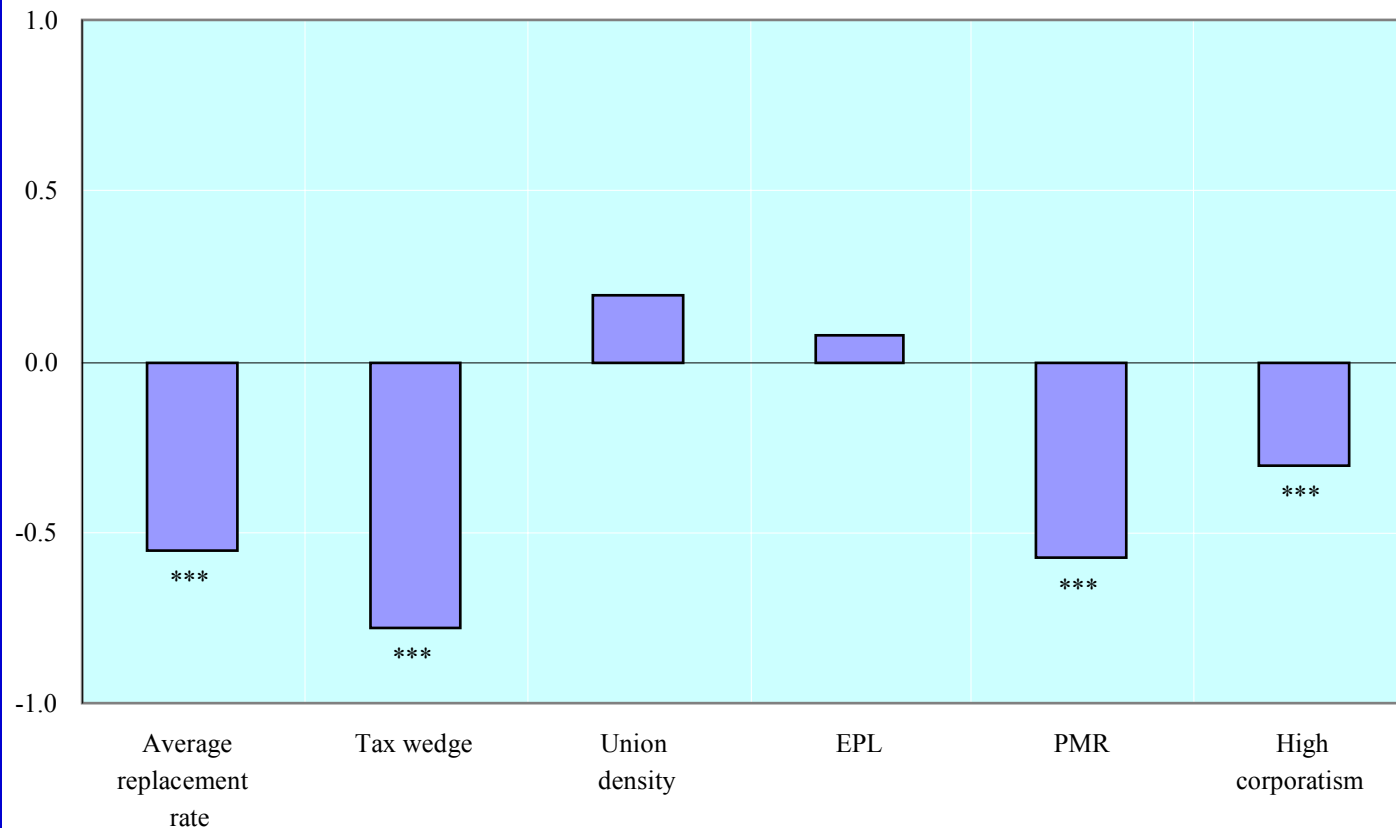
- The role of EPL is more complex than originally viewed in the 1994 JS:
  - No clear links with aggregate unemployment, though overly-strict EPL may affect adjustment to shocks and duration of unemployment
  - Need to minimise judicial uncertainty over severance costs (the Dutch example)
  - Acting on temporary contracts alone may promote job creation but leads to duality and low productivity:
    - Innovations: single contract with protection growing with seniority; portable individual savings accounts (Austria)
  - The Danish example of "Flexicurity"
    - But it is costly for the public purse
    - Is it replicable elsewhere?

## *Demand-side barriers (cont'd)*

- Higher tax-wedges unambiguously increase unemployment, especially with high minimum wages, ...
- While open and competitive product markets promote employment opportunities

# Policies and institutions matter directly...

Percentage-point impact on the OECD average unemployment rate of one standard deviation in policies  
baseline model, 1982-2003



*Note:* The effects can be understood as follows. A *historical typical* cut in the tax wedge (2.8 points) leads to 0.7 points lower unemployment rate, etc. Cyclical effect controlled by the inclusion of the output gap.

... as well as indirectly

- A fall in the *MW*/medium wage ratio of 10 points reduces the negative impact of tax wedges by half
- Higher spending on *ALMPs* per unemployed by 10 points reduces the negative effect of unemployment benefits by 20 %

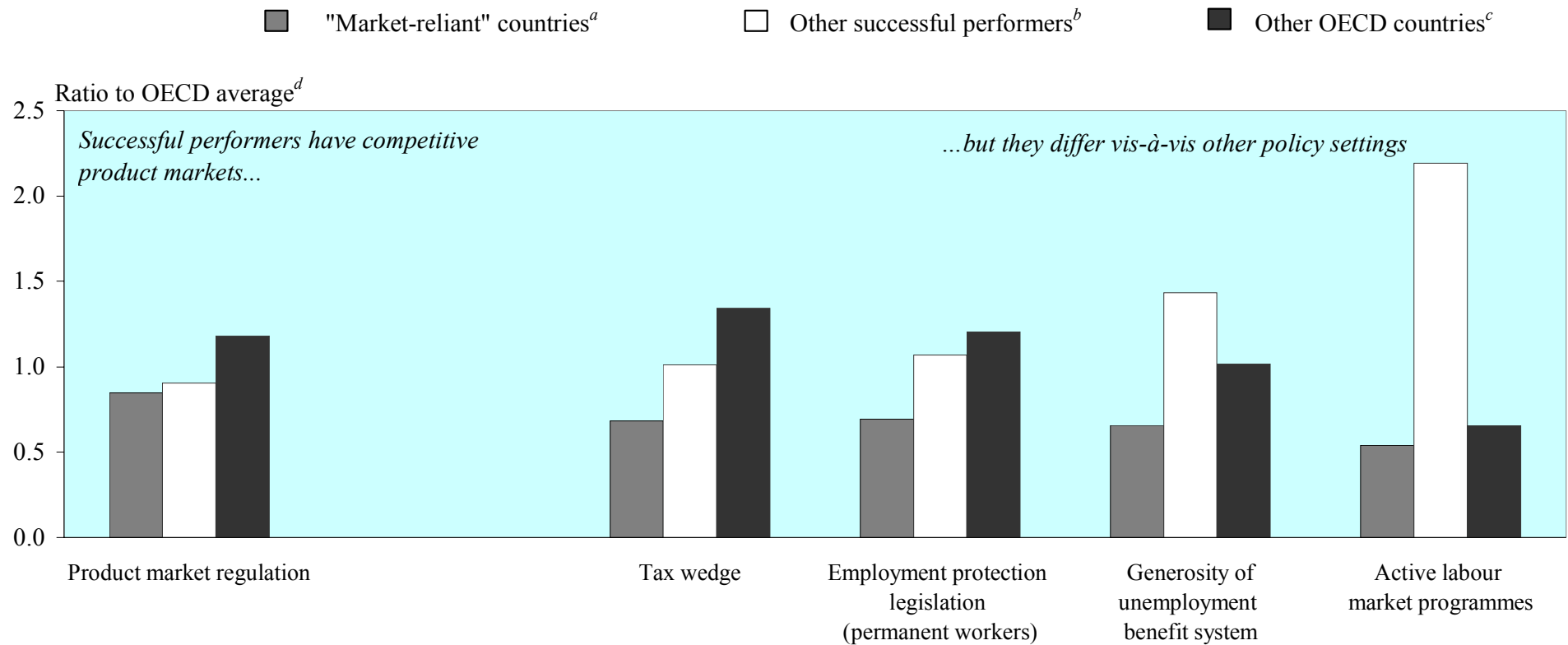
## *New evidence on the role of skills*

- Evidence suggests that training is associated with better job prospects
- Measures like recognition of prior learning, monitoring of performance of trainers vis-à-vis firms' demands, may help improve the functioning of training markets
- Governments may also provide financial support, but this should be matched with firms and workers investments (co-financing)
- Time constraints for individuals can be eased through training leave schemes
- Active involvement of the social partners can help too

## *New evidence on macro policies and interactions*

- Stability-oriented macro policies can:
  - help ensure that the benefits of structural reforms are brought forward early
  - reduce the risk that temporary increases in unemployment become permanent (but this needs solid initial fiscal conditions)
- There is evidence that policy interactions matter: combined reforms in two areas lead to 12% to 19% lower unemployment than separate reforms

# *No single road to Rome, but not every road leads to it!*



Note: The indicators shown in this figure refer to 2003; 2002 for active labour market programmes.

a) Includes Australia, Canada, Japan, Korea, New Zealand, Switzerland, the United Kingdom and the United States. The average employment rate for this group in 2003 was 70.9%.

b) Includes Austria, Denmark, Ireland, the Netherlands, Norway and Sweden. The average employment rate for this group in 2003 was 71.9%.

c) The average employment rate for this group in 2003 was 61.2%.

d) For each of the indicators, OECD average is equal to one.

# BOTTOMLINES

- Much of the original JS still valid
- But needs enhancement to deal with new/looming challenges and new evidence
- Policies and institutions matter, as do interactions between them
- Need for OECD to monitor how the 4 pillars stand the test of time/new empirical evidence