

OECD FORUM 2007
Innovation, Growth and Equity
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Innovation for Growth and Competitiveness

Lena Westerlund, Senior International Economist, Swedish Trade Union Confederation

Mr Chairman, Fellow Panellists, Ladies and Gentlemen,

I very much welcome the opportunity to discuss the important issues of innovation, growth and competitiveness today, within the framework of this year's OECD Forum. This framework, wisely enough, also include the universal concern of equity, which in recent years - finally - has moved upwards on the international political agenda.

Highly competitive economies need not be unequal

I would like to start by challenging the notion that there is a wide-spread need to increase wage and income inequality in OECD countries in Europe, in order to achieve higher innovative capacity and greater competitiveness. This view point is part of most national economic policy debates in Europe - not least in Sweden - and it usually ends up in demands for fast reduction of tax quotas, as well as for liberalisation of labour markets, weakening of collective bargaining structures and lower minimum wages.

However, several countries with low wage inequality, high taxes and strong collective bargaining are frequent on the world's top competitiveness lists, often made by institutes with close links to business interests. Latest in the row is the ranking of the International Institute for Management Development (IMD), which was published last week in their World Competitiveness Yearbook 2007. According to the IMD, Denmark and Sweden, both generous welfare states with strong collective bargaining models, were among the ten most competitive countries in the world, with numbers 5 and 9 in ranking, respectively.

Furthermore, countries with low income inequality also have low gaps in literacy skills, as shown in data by OECD (see graph below). One can say that countries with low income gaps underpin this through their educational systems. This is one feature also inherent in the highly competitive Scandinavian countries.

The welfare state model of Scandinavian countries is conducive to high growth, competitiveness and innovation. Certainly, there is scope for improvement also in the growth model of these countries, but the need for dramatic change, including increasing income inequality, is definitely not there.

Is there a linkage between innovation and equity?

One may well ask how innovation possibly can relate to the overall OECD Forum theme of equity - the linkage is not necessarily apparent. There are potentially many long and complicated replies to that very relevant question.

Innovation is one factor behind technological development, and hence also a driving force behind structural change, independently of whether this change mainly occurs at national or international level. High productivity increases and growth in GDP, also per capita, will be usual outcomes of strong technological development and structural change, to the overall benefit of countries and their citizens.

But such positive outcomes can for quite long periods of time coincide with rising wage and income inequality, even if employment rates increase. The US economy is indeed the most striking example of such a development over the last couple of decades. These periods may be prolonged by, among other things, inadequate public policies.

The promotion of innovative workplaces is one way of strengthening the link between innovation and equity. It is of great concern that increased short-term profit demands may hamper forward-looking firms that want to strengthen this link. The short term expenditure of promoting so called "secondary innovation" processes that typically occur in the workplace, may of course conflict with high quarterly profit-level demands. The lack of policies to promote the effective use of the skills potential of the workforce is of great concern to trade unions in the OECD.

Competitiveness and active policies

Up-grading of the skills of the workforce, through education, training or labour market policies, is crucial for stronger competitiveness. Public policies need to more efficiently handle educational market failures in OECD countries, such as the underinvestment in skills of adults with the shortest education. Adult education opportunities are important in order to reduce the costs for both society and individuals that occur from import competition, for example. Such opportunities need to be expanded in order to promote both equity and efficiency in OECD countries, as part of strategies to cope with structural change.

Labour market and social policies have in several OECD countries become more focused on reducing budgetary costs, through lowering of the number of beneficiaries. Active policies have a weaker focus on skills up-grading and raising of the human capital of the workforce, which in the longer term may work detrimentally on productivity levels.

Studies show that training components in active programmes can give strong long-term positive effects. Evaluations of active programmes often lack focus on long-term gains in employment and earnings of participants. However, to be able to make fair comparable assessments of active strategies, such long-term impacts on employment and earnings of participants have to be studied, as pointed out by the OECD Employment Outlook 2005.

Efficient active labour market policies need to be designed to increase employment rates, reduce unemployment and provide a sustainable participation in the labour market

for individuals, with stable employment and earnings. The increase in working poor in some OECD countries with strong focus on activation strategies with a work-first approach indicates that there are mistakes being made in current labour market policies. In a longer term perspective, there is also the risk that policies lead to persons leaving the work force.

In the discussion of competitiveness in OECD, both policies that contribute to the upgrading of skills of the current workforce and can increase labour force participation, are important to elaborate upon.

Confidence in change

Generous social insurances, including unemployment insurance, are foundations for workers to feel confident in times of structural change. This needs to be recognised in the current debate of policies aiming at strengthening the social dimension of globalisation. Fear of losing the job is strong for individuals with weak unemployment insurance and few active programmes. Promotion of geographical and skills mobility becomes more difficult. Strong cost cutting focus in social and labour market policies may result in inefficient outcomes, from the point of view of the demands on structural change that are prevalent in most OECD countries.

A social insurance system with high remuneration levels is possible to combine with high employment rates, high labour force participation and strong and sustainable GDP growth. Generous welfare systems need to be coupled with efficient active labour market policies for this to occur.

Is there need for an OECD Innovation Strategy?

Basic conditions for growth and confidence for change among workers both need to be strengthened in OECD countries, before innovation strategies can become highly efficient. OECD can play an important role as an arena for discussions and exchange of experiences among governments, trade unions and employers. This discussion need to focus on forward-looking strategies for both increasing efficiency and equity in OECD countries – and doing this at the same time. Only raising employment rates will not be sufficient.

The G-8 Labour and Employment Ministers Conference in Dresden last week discussed how to shape the social dimension of globalisation. Many of the policy conclusions respond positively to labour market and social concerns raised by trade unions in OECD.

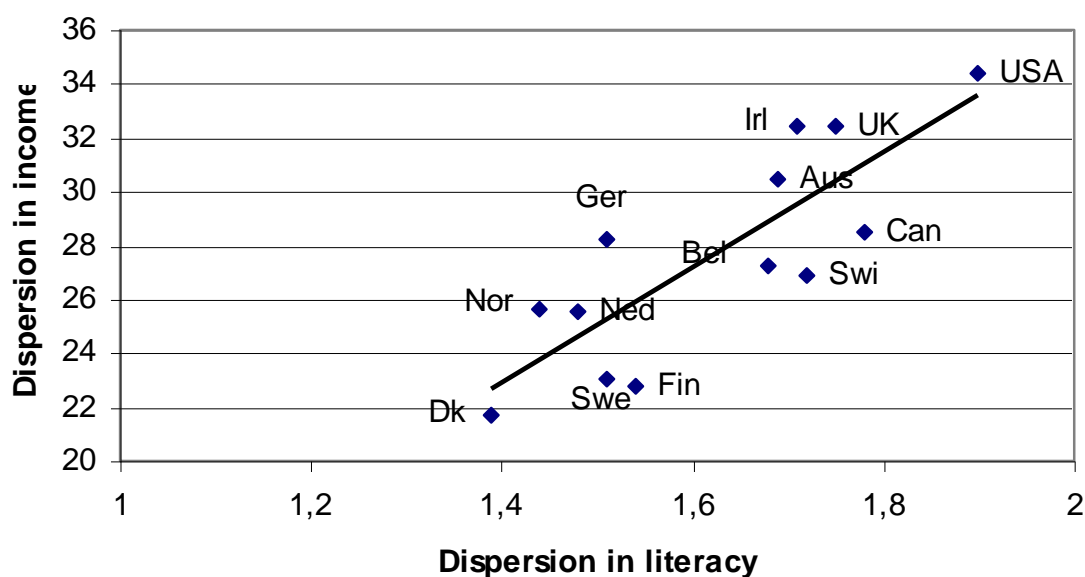
In several policy areas, though, it remains unclear how statements will translate into efficient national policies. For example, the international trend in active labour market policy design – “work first” - is not necessarily facilitating the G-8 Ministers wish to achieve more “successful work transitions”. For broad groups of employees these transitions will be very difficult, given the lack of labour market training and weak adult education systems in many OECD countries. Policies definitely need to be strengthened in this respect, to contribute to the needed expansion of the human capital of the workforce.

Concluding remark

I have pointed at some areas which I judge to be of major importance to OECD policy makers and governments. There is also a need for a consistent view on structural change, including a clearer idea on how globalisation on a broader scale can translate into sustainable employment and earnings.

Lastly, the labour market is not a product market – it is to be viewed as a social institution. In the labour market collective bargaining is an important tool for security of workers, but also for flexibility and efficiency. Social dialogue and social partners - the negotiated change and compromise - need to be promoted for OECD countries to better meet the challenges posed by globalisation.

Dispersion in literacy skills and dispersion in income (Gini-coefficient) in selected OECD countries, early 2000's



Source: OECD