

Implementing the OECD Jobs Strategy - Assessing Performance and Policy

Remarks by Jørgen Elmeskov¹ at The Conference on Jobs, Helsinki 27 and 28 January 2000

I will present our most recent review of countries' progress in implementing the OECD Jobs Strategy². In so doing, I will follow its title and split my presentation in two. First I will review countries' labour market performance and second I will look at the role of policy in influencing performance.

Performance

In the time available I cannot give a complete overview of recent labour market performance along the lines of our recent publication. So without any excuses I will emphasise just three aspects of performance that I consider particularly important.

The first is unemployment. [FIGURE 1] At the OECD level, unemployment has moved sideways for most of the last two decades with some ups and downs but without much trend. This overall stability conceals considerable inter- and intra-regional difference.

- In Europe and Japan, unemployment has trended up since the early 1980s. In North America, by contrast, it has trended down whereas the picture for Oceania is one of broad stability.
- Within Europe, some small European countries and the United Kingdom have experienced falls in unemployment. This is especially clear if the decade of the 1990s is considered. By contrast, the main continental countries have seen increases.

The upshot of this diversity is that there is hope. Considering the decade of the 1990s, a fair number of countries have actually managed to reduce unemployment in a significant way. And this is not just an effect of countries having moved from the bottom to the peak of an economic cycle. The countries that saw significant drops in unemployment did not generally witness any increase in inflation, suggesting that the improvement was structural in nature. It should also be noted that some of these countries are European. Denmark, Ireland, the Netherlands and the United Kingdom are examples. So there is nothing inevitable about European unemployment in particular.

The second aspect is that different features of labour market performance tend to be correlated. That is, countries that do well in one respect tend to do well in other respects as well. For example, countries that did well in terms of reducing unemployment tended to have strong growth of employment. [FIGURE 2] This chart aims to abstract from the cyclical fluctuations and shows that countries with an underlying strong unemployment performance also tended to have an underlying strong employment performance. This is actually an important point. It shows that countries that were successful in reducing unemployment were so because they boosted employment - not because they were better at hiding unemployment.

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1. Deputy Director, Policy Studies Branch, Economics Department, OECD. The views expressed are those of the author and do not necessarily represent those of the OECD or its Member Governments.
 2. See OECD (1999). The OECD Jobs Strategy was first presented in OECD (1994). Reviews of countries' progress in implementing the Jobs Strategy have previously been presented in OECD (1997) and OECD (1998).

Indeed, quick-fix policies to reduce unemployment through early retirement, etc. may not be effective. There is nothing to suggest that a rising labour force leads to higher unemployment because labour demand is somehow constrained. [FIGURE 3] Rather, countries with rapidly growing labour forces also have rapid employment growth.

The third aspect is that those that suffer from weak overall employment tend to be people at the margins of the labour market. [FIGURE 4] The chart shows the contribution of different population groups to the overall employment rate. What is significant about it is that prime-age men give almost the same contribution in all countries because they make up the same share of the population, they are mostly in the labour force and they tend to be employed. Prime-age men are of course often considered as being at the core of the labour market. By contrast, women, the young and the old give very different contributions to overall employment in different countries. In the chart, they are lumped together under the label 'Other'. They give a large contribution in countries with high employment and *vice versa*.

The upshot is that groups at the margin of the labour market, which would also comprise those with low skills, are likely to benefit disproportionately from policies to increase overall employment. This also has implications for the kind of policy interventions to help groups at the margin. General policies to expand overall employment will often be quite effective. The most obvious case here is youth employment, which is known to react strongly to general employment developments. That said, sometimes group-specific interventions may be required to increase employment among those at the margin of the labour market. Let me give two examples:

- First, many people with a low earnings capacity face the problem that work does not pay or is difficult to get. For these people targeted in-work benefits or payroll tax rebates may be a way forward.
- Second, older workers are often given extremely strong economic incentives to leave the labour market and they may have to be modified to materially strengthen employment among this group.

We devote much space in the recent report to discuss policies to help groups at the margin of the labour market. But I will not go into that here since this conference will move on to these issues this afternoon and tomorrow.

Policy

Having already moved into the policy field, let me move to the second part of my speech, which will focus on how performance is related to policy.

First two words on the OECD Jobs Strategy and our monitoring of countries' progress in implementing it. The Jobs Strategy was agreed by OECD governments in 1994 after several years of analytical work. [BOX 1] It covers both macroeconomic policies and structural reforms in a great many areas. This partly reflects that employment and unemployment were not the only objectives of the Strategy, which also aims to raise living standards in general. But the comprehensive nature of the Strategy is also important because more and more evidence suggests that there are important synergies between reform in different fields. For example, macropolicies, reform of job protection, and dismantling of undue product market restrictions may help to create vacant jobs but they will be more effective in boosting employment if income support schemes and taxation at the same time ensure that job seekers have appropriate incentives to accept jobs.

Since the Jobs Strategy was launched in 1994, a fair amount of follow-up work has deepened our understanding and sharpened the policy recommendations in specific areas. One track of the follow-up work has taken the many, but general, policy recommendations of the Jobs Strategy and has fashioned country specific recommendations for how to implement the Jobs Strategy³. These country-specific recommendations have reflected both the size and character of problems in individual countries' labour markets but also the institutional set-up and cultural and historical features of individual countries. After having issued country-specific recommendations we have subsequently followed countries' record in implementing these recommendations. The new report presents an overview of how countries are doing in terms of implementation and how that is related to their labour market performance.

How have countries then done in terms of implementing the Jobs Strategy? [FIGURE 5] I will focus here only on those policy recommendations, which concerned structural reforms directly affecting labour markets. We have tried to measure the degree to which countries have followed through on the policy recommendations they received. The indicator is a bit more sophisticated than just counting the recommendations on which countries have made progress and dividing that with the total number of recommendations received. We try to take into account the extent of progress and the importance of the recommendation. This obviously implies that there is an element of judgement involved. In any case, the chart shows that countries differ strongly as to how much progress they have made. It also shows that, on the whole, there has been substantial progress made. The same conclusions hold when we look at progress on policy recommendations regarding the education system and those, which concern competition in product markets and the dynamics of the business sector.

Instead of looking at progress across countries one can also look at progress across different recommendations. [FIGURE 6] Again there is a substantial difference between carry-through rates, but this time across policy recommendations. This at least to some extent seems to reflect the political economy of undertaking reform. There is, not surprisingly, a tendency for countries to make most progress on the recommendations that are politically least controversial. An important contrast here is between reforms that affect the well-established groups on the labour market and those with more of an outsider status. For example, the follow-through rate was very high on recommendations to ease up on regulation of temporary contracts - something which affects mainly outsiders. By contrast, when it comes to reforming job protection for permanent workers - the core troops on the labour market - there has been much less progress.

How is the policy progress then reflected in performance? [FIGURE 7] Evidently a scatter plot is not high science. But the chart seems to illustrate that countries with a high follow-through rate on the labour market recommendations, which is measured on the horizontal axis, have had stronger business sector employment over the 1990s, which is measured on the vertical axis. [FIGURE 8] Another, similar correlation exists between the follow-through rate and the change in our measure of the structural unemployment rate. We have undertaken more "serious" analysis of the inter-relations between policy settings and labour market outcomes⁴. That tends to confirm the impressions from the simple figures. That is, labour market policy reform along the lines of the Jobs Strategy is associated with improved employment and unemployment performance. But the experience also shows that it takes a long time for the positive effects to show up. Some of the countries, which have experienced improved performance in the 1990s, began the process of comprehensive policy reform in the early to mid-1980s.

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3. Other follow-up work has aimed to deepen the analysis and explore appropriate policy orientations in specific fields. A number of thematic reviews have been issued covering active labour market policies, policies to make work pay, interactions between macroeconomic policies and structural reform, the role of technology, and policies to enhance entrepreneurship.
 4. Econometric analysis of the determinants of unemployment across countries and over time was presented in, for example, Scarpetta (1996) and Elmeskov *et al.* (1999).

At this point it is probably worth noting, as shown before, that the Jobs Strategy contains many other items than those directly related to labour markets. But policy reforms in areas such as education are likely to show up in improved labour market performance in the very long term. And part of their effect - together with the effects of policy recommendations to strengthen development of technology - will show up more in higher living standards than in labour market performance narrowly defined. That is why I have put the focus on those reforms which directly affect labour markets.

Macroeconomic policies are also very important as underlined in the Jobs Strategy. They will contribute to improved labour market performance in different ways. Here I will focus just on two channels. One is that sustained and sustainable growth is required to improve labour market performance. As an empirical observation, countries where estimates of structural unemployment have declined over the 1990s have usually also seen falls in actual unemployment. There are questions about causality here, but it seems to be difficult to reduce structural unemployment without a fall in actual unemployment. At the same time, there is clearly some evidence that persistence mechanisms are at play in determining unemployment. And there is probably a tendency for persistence to be stronger on the upside than on the downside. In our recent publication we present some evidence that instability is bad for unemployment performance. [FIGURE 9] In this figure, the change in cyclical volatility between the 1980s and the 1990s is measured on the horizontal axis whereas the vertical axis shows the rise in structural unemployment. The country we are in is of course an illustration of the price of cyclical instability. Following the deep recession at the beginning of the 1990s, unemployment has only gradually moved back down. And to make it do so, it has been necessary to undertake sometimes difficult structural reforms.

The second channel I will mention through which macroeconomic policies affect labour market performance, is that sustained and sustainable growth may enhance the effectiveness of structural policies. For reasons of time, I will just note that active labour market policies are likely to work much better in such an environment. For example, job broking is easier when there are many vacant jobs. Equally, labour offices may have more time to deal with the individual job searcher. And it may be much easier to enforce job availability and job search requirements when there are many vacancies.

Summing up

Let me sum up briefly. We think the evidence is pretty clear that a comprehensive policy effort along the lines of the Jobs Strategy works. This is borne out by analytical research, which I have not dealt with here, and by country experience, which has been my main focus. But it takes time for these policies to work. When such policies boost employment and reduce unemployment, groups at the margin of the labour market may benefit disproportionately.

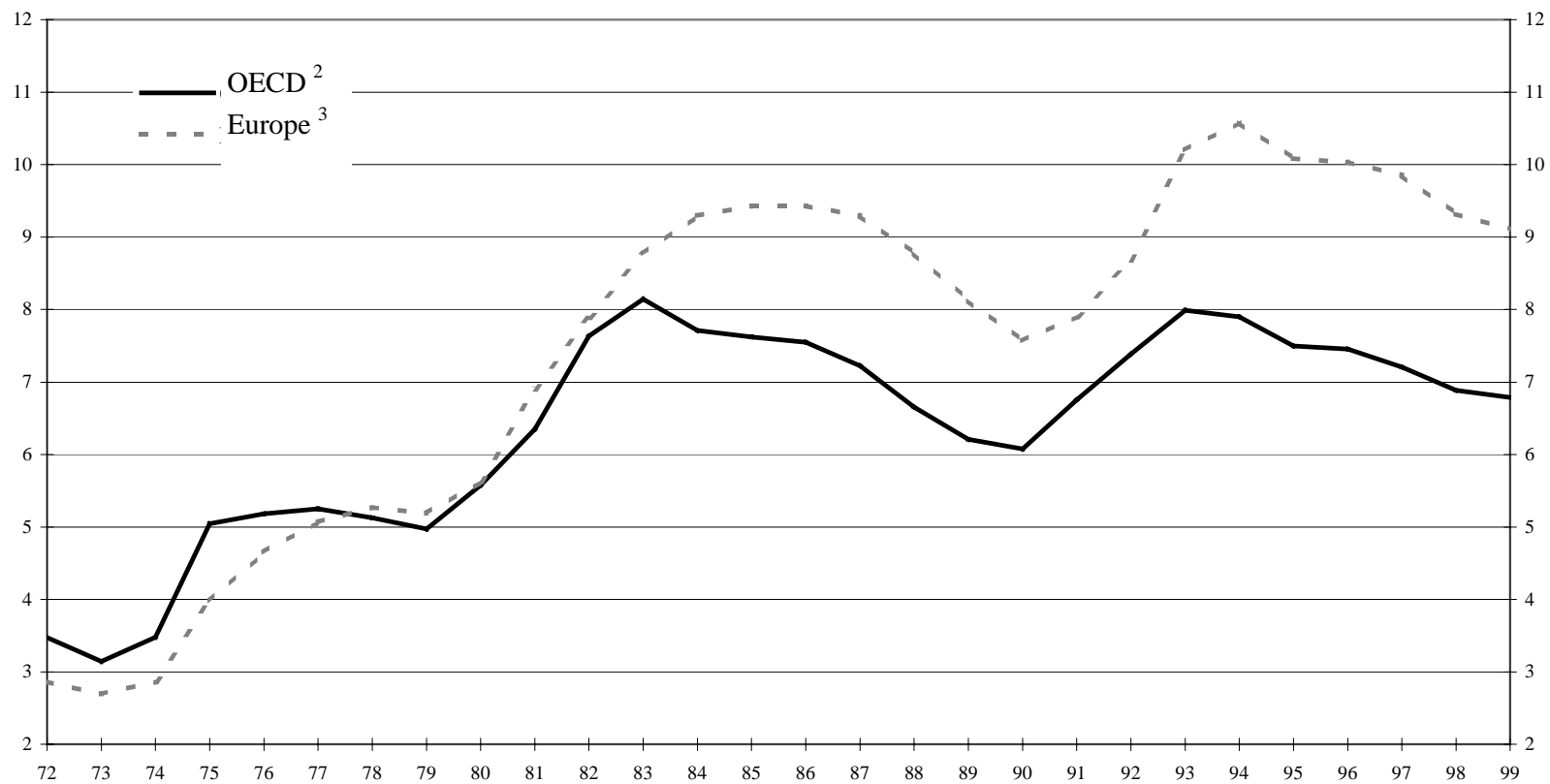
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Box 1. The OECD Jobs Strategy

1. Set *macroeconomic policy* such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, i.e. non-inflationary.
2. Enhance the creation and diffusion of *technological know-how* by improving frameworks for its development.
3. Increase flexibility of *working time* (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an *entrepreneurial climate* by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
5. Make *wage and labour costs* more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
6. Reform *employment security* provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on *active labour market policies* and reinforce their effectiveness.
8. Improve labour force *skills and competencies* through wide-ranging changes in education and training systems.
9. Reform *unemployment and related benefit systems* -- and their interactions with *the tax system* -- such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of the labour markets.
10. Enhance *product market competition* so as to reduce monopolistic tendencies and weaken insider-outsider mechanisms while also contributing to a more innovative and dynamic economy.

Figure 1. Standardised unemployment rates in OECD Europe and total OECD, 1972-99¹



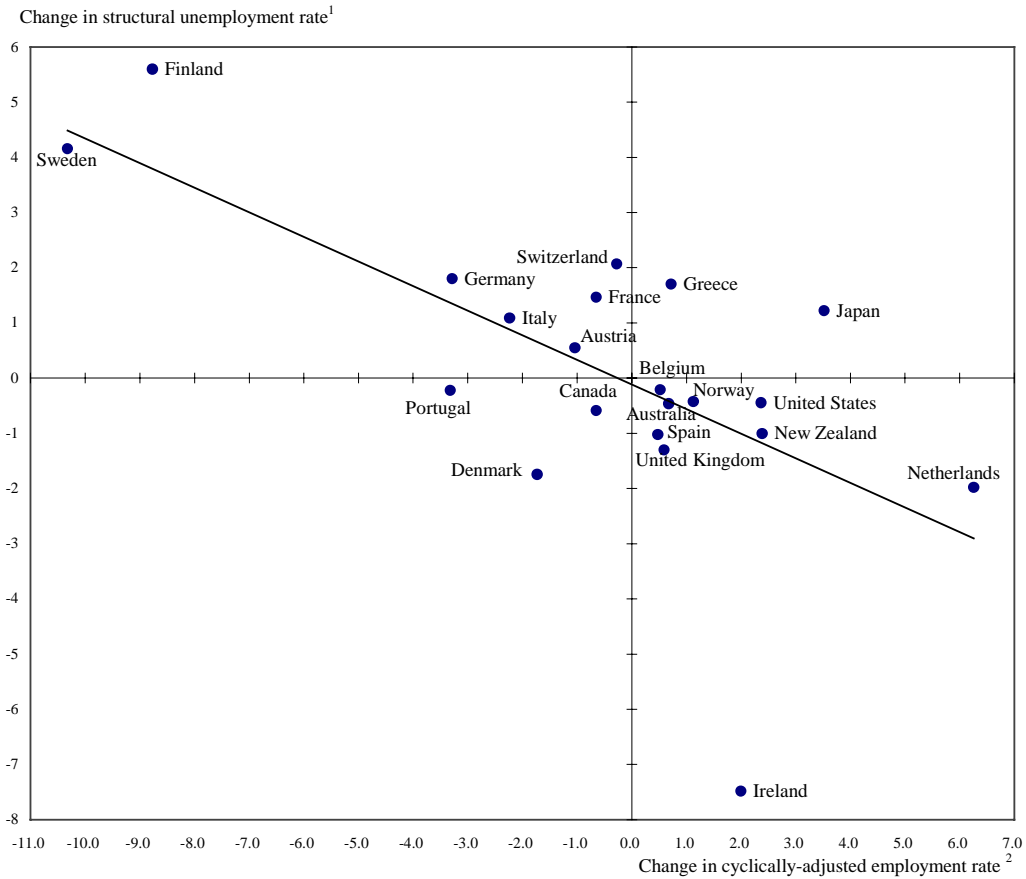
Notes:

1. Standardised unemployment rates for all countries except for Greece, Iceland and Turkey, where data are based on commonly used national definitions.
2. Excluding Czech Republic, Hungary, Korea, Mexico and Poland.
3. EU 15, Iceland, Norway, Switzerland and Turkey.

Source: OECD, *Labour Force Statistics*.

Figure 2. **Change in structural unemployment and employment rate, 1990-98**

Percentage points



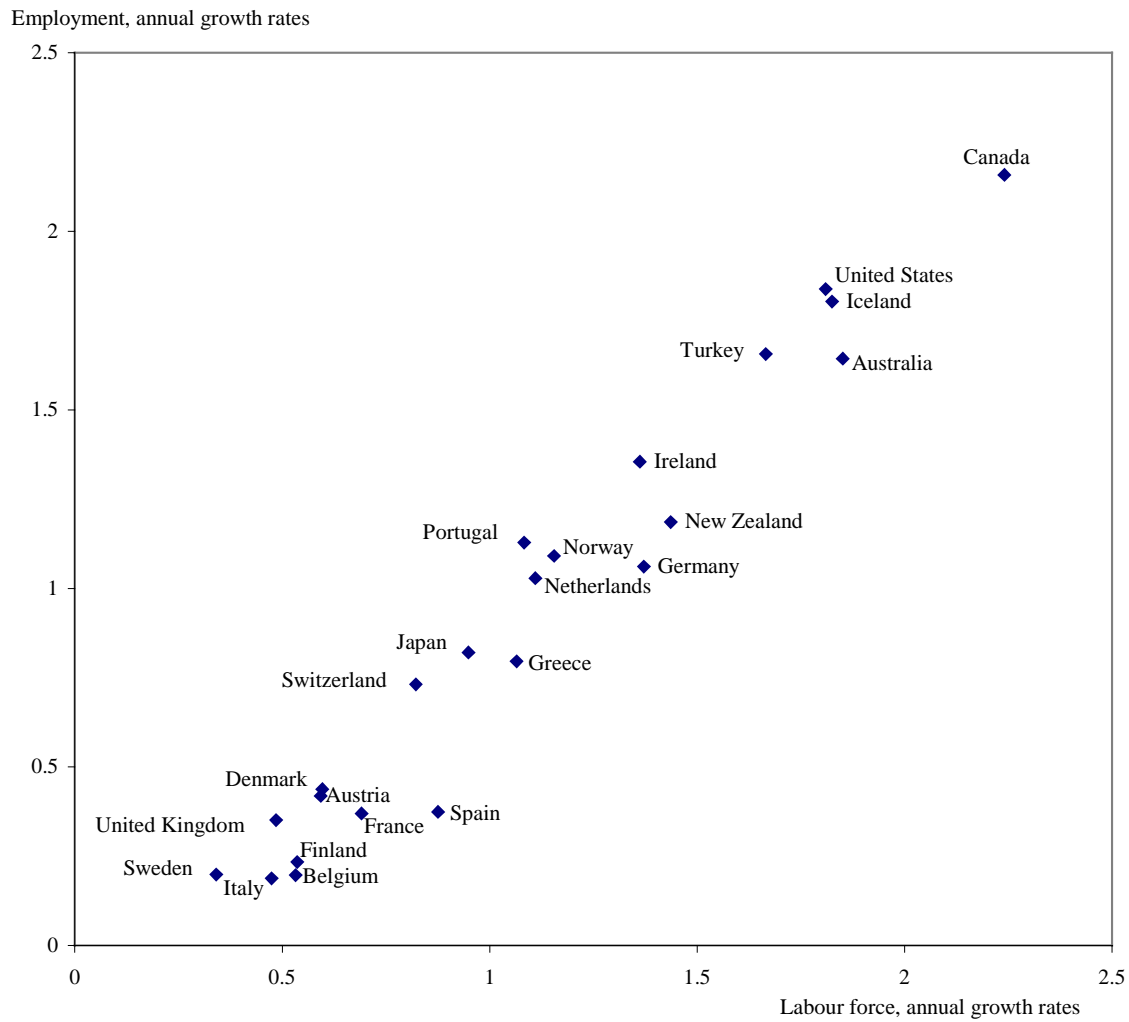
Correlation: -0.65
t-statistic : -3.81

Notes:

1. Structural unemployment data are based on Secretariat estimates of the non-accelerating wage rate of unemployment (NAWRU). Changes in structural unemployment for Finland, and to a lesser extent for Sweden, have to be judged with care given the uncertainties surrounding the evolutions of the NAWRUs for these countries. The correlation remains negative if Finland, Ireland and Sweden are excluded but the statistical significance is weaker.
2. Cyclically-adjusted employment rate series have been estimated in the following way: i) for each series of employment (x), a linear regression was performed as: $x = a + b \cdot \text{GAP}$, where GAP is the difference between real output and real output smoothed with a Hodrick-Prescott filter (i.e. an estimate of the output gap); ii) the non-cyclical estimate of each variable (x') was then obtained as: $x' = x - b \cdot \text{GAP}$; and iii) a Hodrick-Prescott filter was then used to smooth the x' series.
The employment rate is defined as the ratio of total employment to the population of working age, i.e. the age group 15-64.

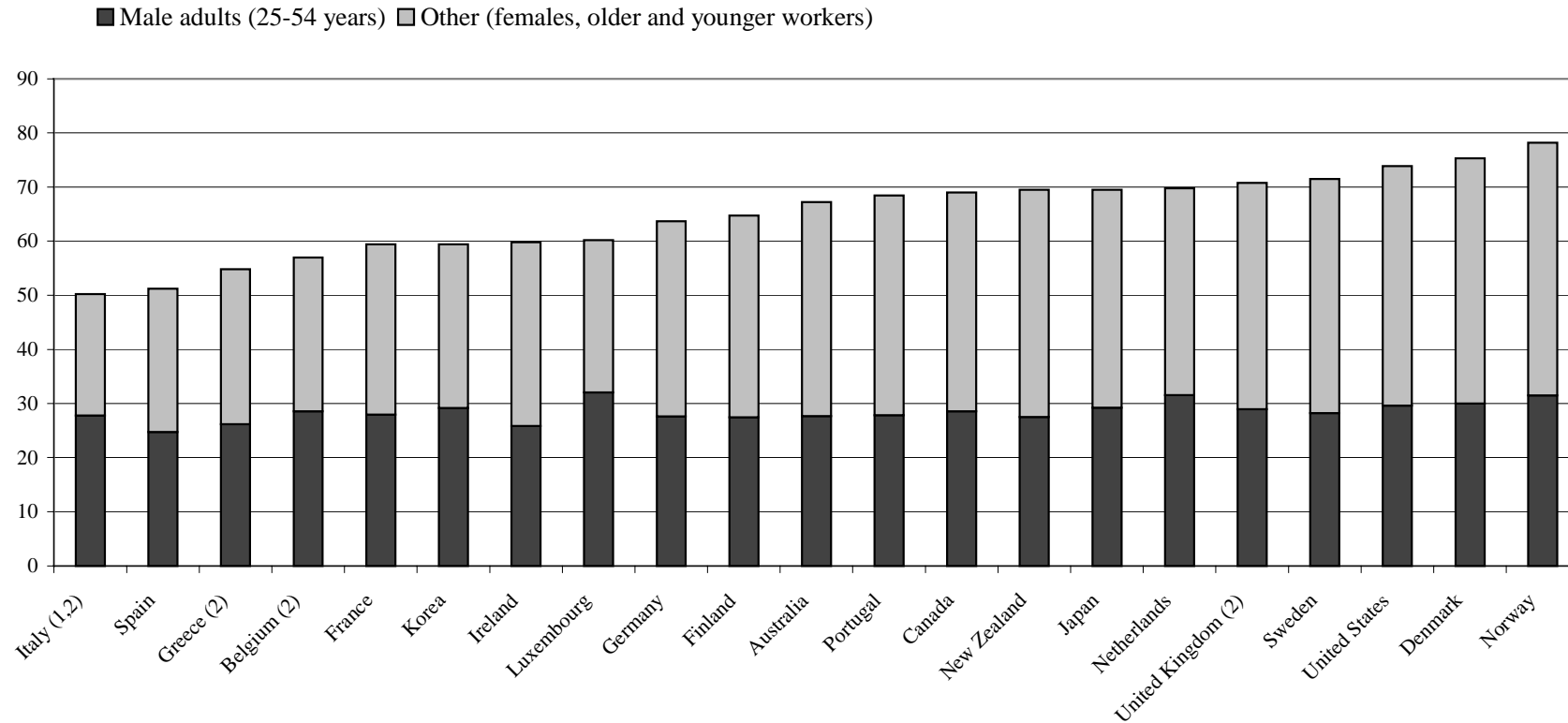
Source: OECD Secretariat.

Figure 3. Labour force and employment growth, 1970-99
(in per cent)



Source: OECD Economic Outlook (No 66, December 1999).

Figure 4. **Employment rates in OECD countries, 1998**



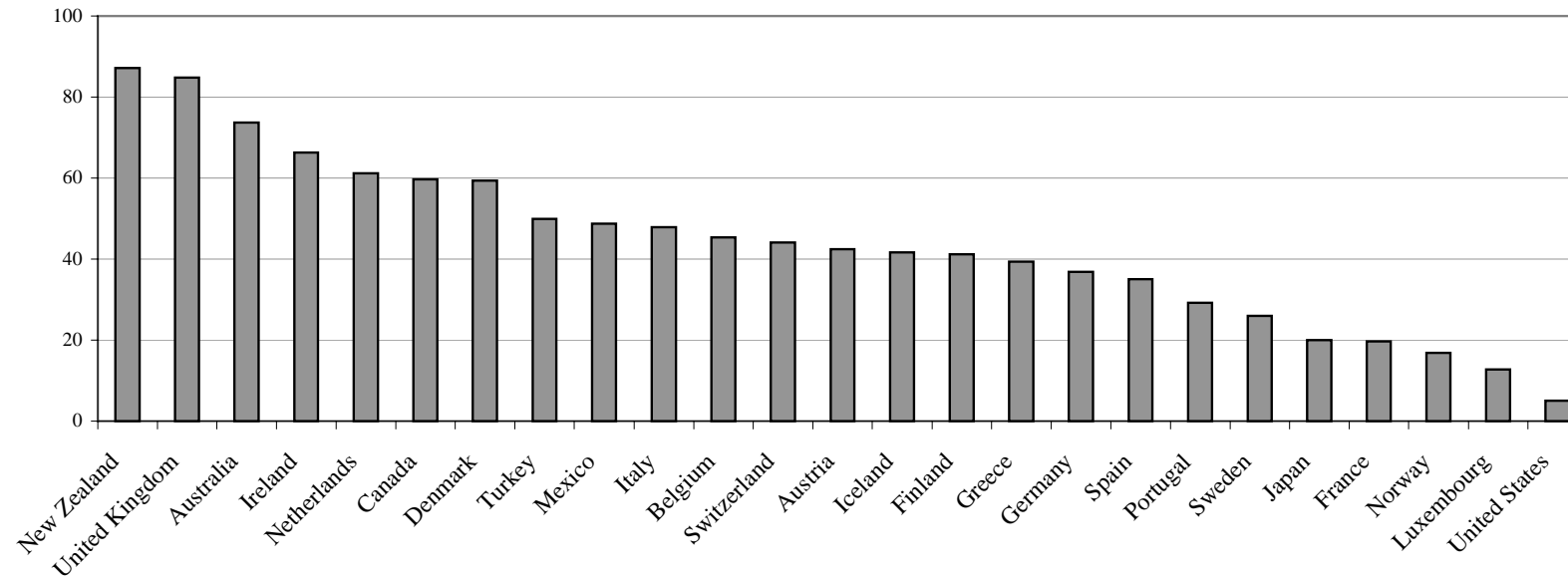
Notes:

1. Adults, 25-59 years of age.

2. 1997.

Sources: OECD Labour Force Statistics ; OECD Employment Outlook, 1999.

Figure 5. **Follow-through of recommendations to undertake labour market reform**
 (including previous reforms¹)

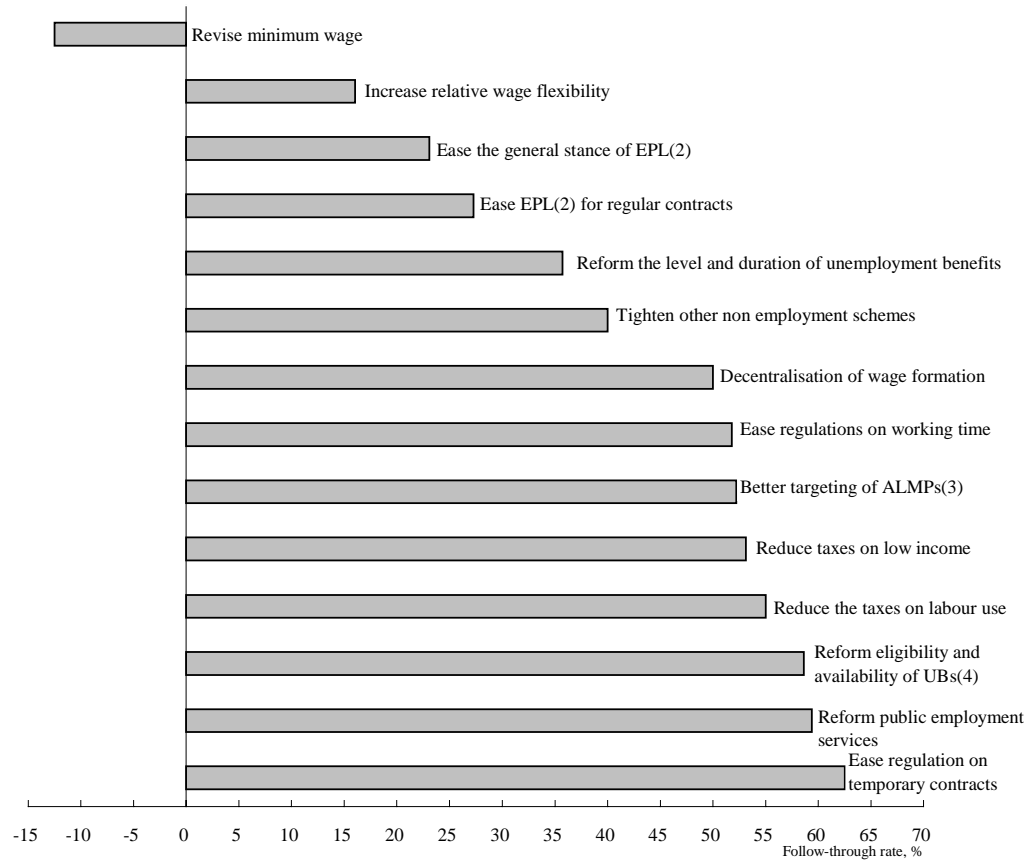


Note:

1. Policy reforms along the lines of the OECD Job Strategy implemented over the period 1990-1995. See OECD (1999).

Source : OECD Secretariat.

Figure 6. Follow-through on different aspects of labour market reforms¹

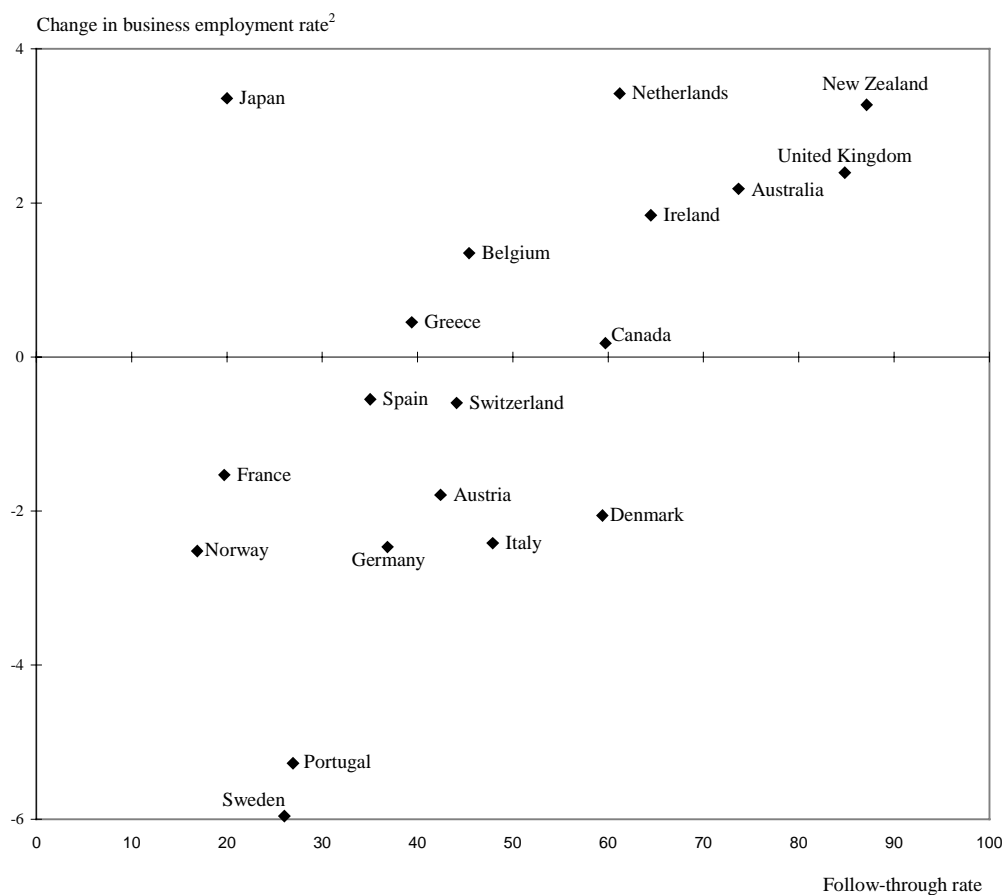


Notes:

1. Policy reforms along the lines of the OECD Job Strategy implemented over the period 1990-1995.
See OECD (1999)
2. Employment protection legislation.
3. Active labour market policies.
4. Unemployment benefit systems

Source: OECD Secretariat.

Figure 7. **Follow-through on labour market reforms and business sector employment, 1990-98**
(excluding Finland and United-States¹, including previous reforms)



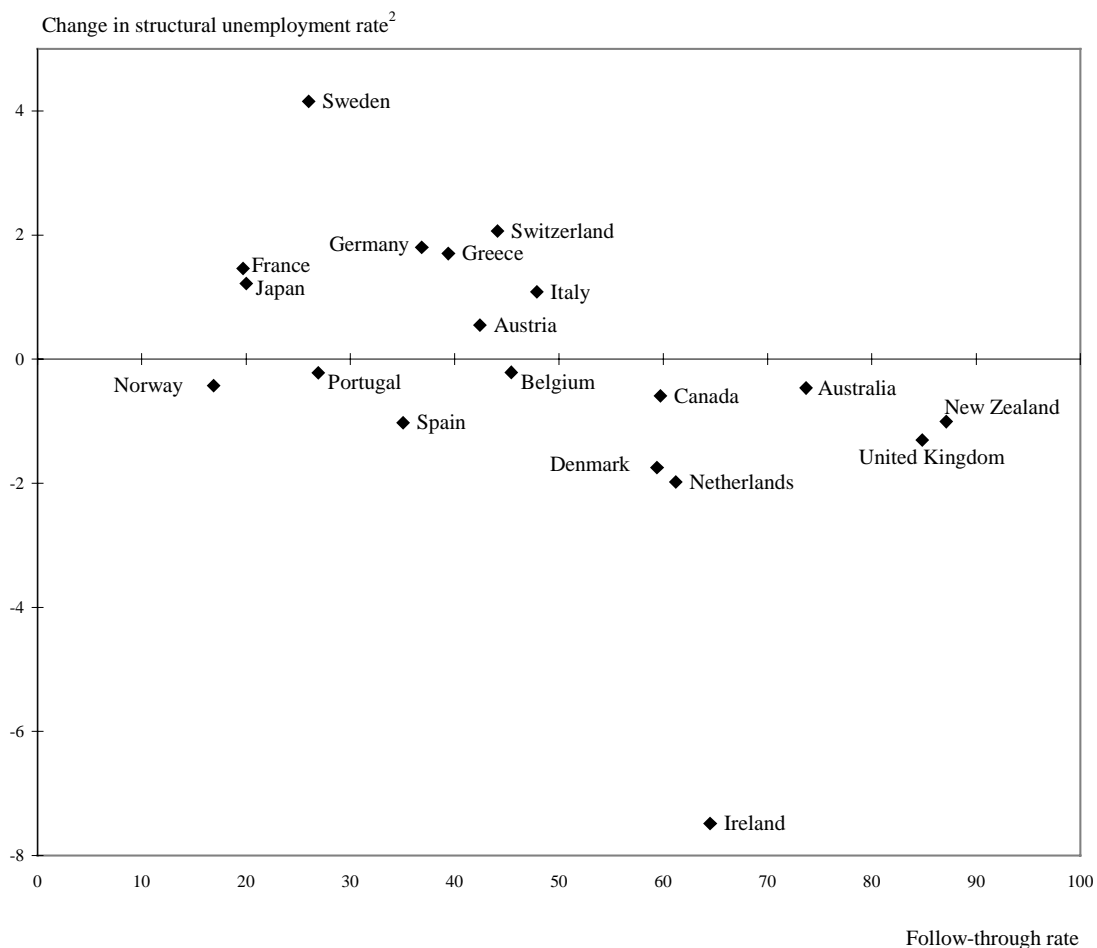
Correlation= 0.59
t-statistic = 3.10

Notes:

1. The United States has been excluded from the sample because of the very few recommendations it received in specific areas. Finland has been excluded because of the deep recession at the beginning of the 1990s which makes it very difficult to assess non-cyclical employment. If the two countries are added to the country sample, the correlation becomes statistically insignificant.
2. Business sector employment rates have been cyclically adjusted on the basis of a regression against the output gap.

Source: OECD Secretariat.

Figure 8. **Follow-through on labour market reforms and unemployment, 1990-98**
(excluding Finland and United-States¹, including previous reforms)



Correlation= -0.51
t-statistic = -2.51

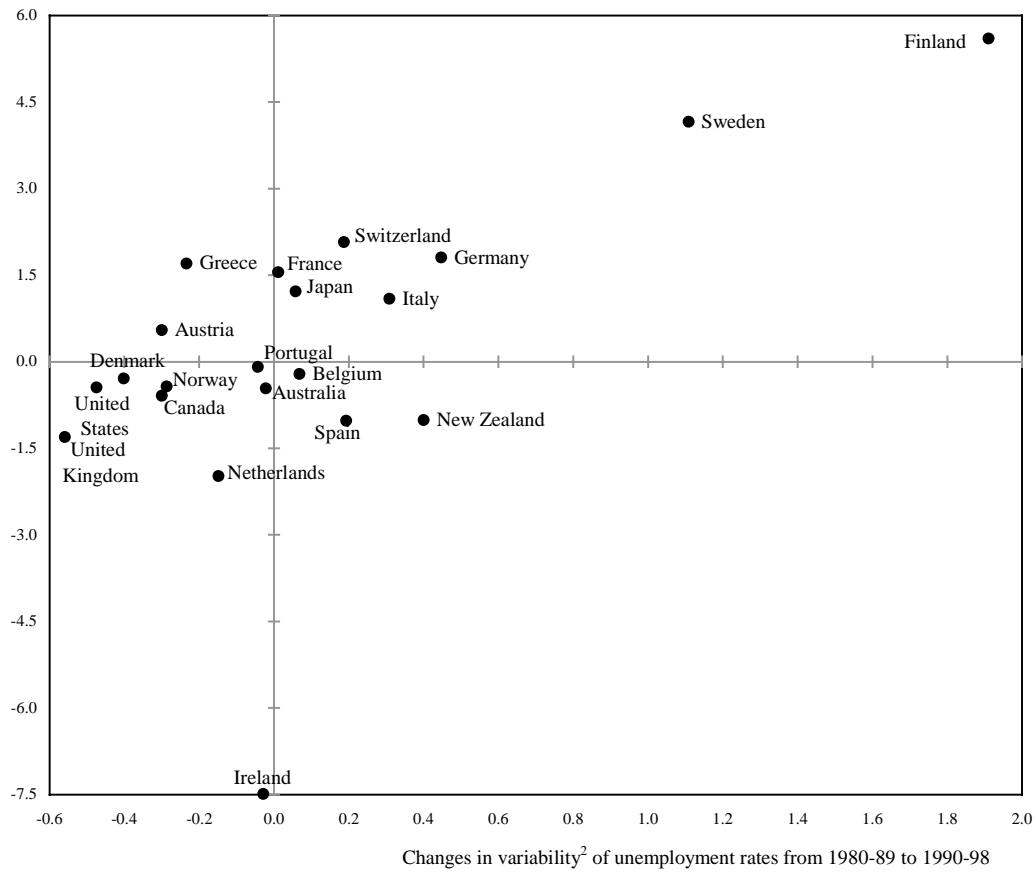
Notes:

1. The United States has been excluded from the sample because of the very few recommendations it received in specific areas. Finland has been excluded because of the very abrupt increase in unemployment at the beginning of the 1990s which makes it very difficult to assess the evolution of its structural component. If the two countries are added to the country sample, the correlation remains statistically significant
2. Structural unemployment data are based on Secretariat estimates of the *non-accelerating wage rate of unemployment* (NAWRU).

Source: OECD Secretariat.

Figure 9. Cyclical instability and structural unemployment, 1990-1998

Change in structural unemployment¹ 1990-98



Notes:

1. Structural unemployment data are based on estimates of the non-accelerating wage rate of unemployment (NAWRU).
2. Measures by the standard deviation of yearly changes in unemployment rates.

Source : OECD Secretariat.

