

## **Social partners and Experts express their views on the restated Jobs Strategy**

### ***Morning meeting with social partners***

The two-day meeting, held at the Fairmont Royal York Hotel in Toronto, began with an open forum (15 June), involving academic experts, government representatives, employer organisations, unions and the civil society. John Martin, Director of the OECD Directorate for Employment, Labour and Social Affairs (DELSA), presented the restated OECD Jobs Strategy.

Mr Martin told the audience that while the 1994 Jobs Strategy had proved to be a very useful benchmark for exchanging experiences regarding what works and what doesn't, more than ten years on time had come to reassess the Jobs Strategy in light of what had been learnt in the past decade and of new emerging challenges.

While mass unemployment was the key issue 10 years ago, the challenge is now to expand employment and incomes. Population ageing means that increasing employment –and not just cutting unemployment as was the case a decade ago-- has now become a key priority. Today, there are four active people for each retiree, on average, in the OECD. This is projected to fall to around two active persons per retiree in 2050. At the same time, some 35% of people of working age do not have a job, on average, in the OECD. And the bulk of them are not unemployed people but inactive. The challenge of increasing employment is especially acute for youths, women, older workers and immigrants as these groups are significantly under-represented in employment in all member countries.

The task of promoting employment is also made more urgent in light of globalisation and rapid technological change. The key challenge here is to ensure that people and firms are able to adjust quickly to change, the more so as adjustment pressures will intensify in the future when countries such as China and India, with their large pool of labour, become more integrated in the world economy.

The restated Jobs Strategy proposes 4 pillars as the policy response to these new challenges:

1. First, macroeconomic policies should aim at price stability and sustainable public finances in order encourage higher economic and employment growth. They should also ensure that recessions do not lead to permanent falls in employment.
2. Second, reforming taxes and welfare benefits, enhancing job-search support to jobseekers and adopting family-friendly arrangements like child-care support, are key to promote labour market participation, especially for under-represented groups.
3. Third, labour- and product-market regulations need to adjust to support job creation and mobility. Reforms in this area have been difficult, as workers perceive them as a threat to job security. But evidence shows that reforms can be designed in a manner which instils economic dynamism and yet provides workers with adequate protection.
4. Forth, enhancing human capital is essential. Education systems that provide all young people with basic skills and provide close links with work facilitate school-to-work transitions and reduce youth unemployment. Trained workers have much better employment prospects than their non-trained counterparts. Life-long learning is not only good for economic growth but also for social progress.

Finally, Mr Martin told the audience that the restated Jobs Strategy should adapt to national social preferences. Several successful performers combine low levels of welfare benefits, low taxes and light

employment regulations. The US is a case in point. Other successful countries, like Denmark and the Netherlands, offer generous welfare benefits but “activate” jobseekers in various ways. These countries have achieved high employment and low income inequality, though at a higher budgetary cost.

At the same time, Mr Martin stressed, while there is no successful approach, not everything goes. A common feature of the two successful packages is an emphasis on strong product market competition and macroeconomic stability. A successful package needs to be coherent and embody a good overall incentive structure. There may be strong resistance to introducing some of the recommended policies but implementation problems should not serve as an excuse for inaction.

Mr Martin ended his presentation by expressing his confidence that countries that take action along the lines recommended in the restated Jobs Strategy will be rewarded by a stronger labour market and, most importantly, improved living standards.

The Business and Industry and the Trade Union Advisory Committee (respectively BIAC and TUAC) both took the floor after Mr Martin’s intervention to express their views on the restated Jobs Strategy.

Mrs Loes van Emden Andres, representing BIAC, praised the OECD Jobs Strategy for being a constructive and balanced approach to boost job creation and importantly the economic growth necessary to stimulate investment and create jobs. She also highly recommended that governments and all other stakeholders seriously consider the recommendations made and come to an integrated and sustainable approach for reforms that meets the challenges of the years to come. Mrs Loes van Emden Andres also expressed BIAC support for the different pillars in the restated Jobs Strategy. BIAC is convinced, she said, that activation of all who can work is essential, as well as making way for the creation of new businesses. She also agreed that increased product market competition and focus on innovation would benefit the OECD economies. She added that BIAC believed that sound and sustainable budgetary policies are a precondition for economic growth, the conservation of existing jobs and the creation of new jobs.

Mrs Hughes Anthony, President and CEO of the Canadian Chamber of Commerce, representing Canadian business in BIAC, underlined the relevance of the OECD Jobs Strategy for the Canadian Business Community. She stressed that the new Jobs Strategy tackled many of the new challenges facing the business community in Canada: productivity growth, skills shortages and population ageing. She expressed worries about the disincentive effects produced by some Labour Market Programmes in Canada, and hoped that the OECD could provide expertise on how to improve the effectiveness of these programmes through better design. Mrs. Anthony also expressed her support to a system that would facilitate the recognition of skills and adult training credentials while urging decision makers to provide small and medium enterprises with the support they need for delivering training to their workforce. OECD experience, Mrs Hughes Anthony concluded, could also be helpful in reducing the share of youth who leave school without upper secondary education, thus contributing to building a more skilled workforce.

John Evans, for TUAC, also praised the work carried out by OECD but was more critical than his business counterparts on several points. While they didn’t disagree with the four pillars approach, TUAC found that there should be more balance between the four items and the central role of macroeconomic policy and the demand side of the labour market should be recognised. A critical view of labour market successes over the past decade was also presented as falls in unemployment had been accompanied by an increase in the number of working poor and a resulting deterioration in job quality. TUAC was also critical of several policies approaches suggested by the report such as: reducing unemployment benefit generosity, lowering the tax wedge, activation not accompanied by the necessary labour demand stimulus.

Mr. Andrew Jackson, National Director of Social and Economic Policy, in the Canadian Labour Congress, found that the Jobs Strategy report was still too supportive of what he called the Anglo-Saxon liberal

approach –and still a bit dismissive of the “social democratic” approach in vigour in Nordic countries. He wished more had been done to show that Nordic countries have more equitable labour markets and achieve this by creating better quality jobs rather than by multiplying income supplement programmes. Mr. Jackson reiterated the OECD conclusion that stated that we could improve unemployment benefits without increasing unemployment rate if such benefits were backed by targeted and effective activation measures. Mr. Jackson regretted the relative lack of investment by employers in workplace training. Mr. Jackson finally questioned the OECD approach which would favour phasing out early retirement schemes. According to him, in Canada, there are an increasing number of people who combine pension income with labour income. Incentives to change jobs and facilitate transition to become consultants, free-lance workers, etc. should be implemented.

### *Afternoon discussion with experts*

The afternoon started with opening presentations by Pr. J. Heckman and Pr. A. Lindbeck which were discussed by Pr. L. Lynch. This was followed by a roundtable with interventions from Pr. R. W. Eberts, Pr. J. Goto, Pr. D. Howell, A. Kastrissianakis (Director for Employment, European Commission), Pr. W. C. Riddell, J. M. Salazar-Xirinachs (Executive Director, Employment Sector, ILO) and Pr. K. F. Zimmerman. The discussion was lively, with contrasted views at times, and had three main themes.

#### Measurement of labour market performance and methodological issues

Several of the speakers raised the issue of measurement of labour market performance. Pr Heckman started by arguing that the focus on unemployment as a target for labour market policy embodies an outdated view of how labour markets work. The notion that people either work or are unemployed, he claimed, does not capture the richness of modern labour markets where people drop out of the labour force altogether or work at reduced levels, thanks to the generosity of modern welfare states. Pr Heckman also argued that several among the European countries that the OECD deems *successful* (corporatist countries) disguise their true unemployment and deep structural problems by placing the unemployed in active labour market programs, by subsidizing employment and by reducing labour market activity through a variety of social transfer schemes. He concluded that if properly counted, the unemployment rates in the corporatist countries are far higher than those in the Anglo-Saxon countries, and they are rising.

Pr Lindbeck elaborated further on *benefit dependency* in Western Europe claiming that about 20 percent of individuals of working age are today financed by various types of benefit programs as compared to about 13 percent in the United States and in Denmark, Belgium and France, the figures are even higher (23-24 percent). According to Pr Lindbeck, this large benefit dependency arises because some individuals use the systems of income insurance for much broader purposes than what the systems were originally designed: some individuals use various benefit systems as substitutes for unemployment insurance - because the benefit levels in these systems often are more generous, and/or more long-lasting, than the benefits in the unemployment insurance system – others use various social insurance systems to get more leisure at very small income losses – because the way the benefit system is designed is such that working longer hours brings about very little income gains.

Although the problem of benefit dependency was recognized by OECD and other speakers, several argued that the US was not free from the problem of disguised unemployment. Pr Howell argued that to produce a useful measure of disguised unemployment, one should also incorporate poorly paid and precariously employed workers. On this point, Pr Howell showed that, if judged on wage growth and consumer well-being criteria, the advantage of the *laissez-faire* model would by no means be obvious. This view was shared by Pr Lynch when she pointed to the need to benchmark progress using a wider range of

outcomes besides the unemployment rate – e.g. total employment share, wage inequality, poverty, under-employment.

On the methodology used in the OECD analyses of the role that institutions play in determining labour market performance, Pr. Heckman questioned the reliance on cross-country/time series data and aggregate indexes on institutions as they provide fragile results. He argued that studies of Latin American labour markets are more advanced than studies of OECD. Instead of relying on fragile cross-country time series studies based on arbitrary indices of labour market regulations and institutions, economists working on Latin American labour markets have used well established economic principles to quantify the costs of institutions and policies, and the effects of reforms on labour costs and worker incentives. The effects of these costs on demand, supply and labour mobility are estimated. These studies unite micro and macro data to infer the true costs of taxation and labour market regulation and its effects both in Latin America and in the OECD. The results obtained using these cost-based measures, Pr Heckman argued, are at odds with the OECD analysis as they show that (a) binding minimum wages reduce the demand for labour and the flexibility of labour markets; (b) employment protection reduces the long run demand for labour and also the flexibility of labour markets; (c) higher payroll taxes reduce employment unless benefits from social programs are returned to the workers in the form of real program benefits. He recommended that the OECD follows the lead of the scholars of Latin American labour markets instead of placing as much weight as it does on a measurement system based on fragile data and little economics to produce its conclusions.

By contrast, Pr. Howell – a long-time critique of the use of cross-country time-series to evaluate the role played by institutions as determinants of labour market performance – praised the efforts made by OECD to prove the robustness of the results arising from the quantitative work carried out in the report.

Pr. Lynch was also in favour of using aggregate indexes as a useful complement to micro-econometric studies. She praised the work done by OECD in constructing these indices that allowing comparisons across a wide range of countries. As an example, she cited the OECD measures of product market regulation as having been particularly useful in shifting the debate from just labour market reform to consider the impact of product market regulation reform as well. At the same time, Pr Lynch recognized that aggregate indices do not give enough detailed information on differences in programs that may be the critical reason why one program works and another does not. As a result, she claimed that more micro data is critical for evidence based policy analysis. For example, she argued in favour of using administrative data – especially data that match households with employers – to look at the impact of programs more carefully.

#### Active Labour Market Policies and skill investment

The role of Active Labour Market Policies (ALMPs) was also extensively debated. Prs. Heckman and Lindbeck were of the opinion that the OECD's view on the role ALMPs can play in raising employment was much too positive. They both argued ALMPs are ineffective at mitigating the disincentives provided by other types of labour market regulations or features. Pr Lindbeck even added that the negative link found by the OECD between ALMPs and open unemployment simply reflects the fact that individuals participating in ALMP programmes come from the unemployment pools.

Both referred to empirical studies showing that ALMP programmes have at best minor long-term effects on wages and employment and that most do not survive a cost-benefit test. Few government-sponsored training programmes, Pr. Heckman argued, lift disadvantaged participants starting in poverty out of poverty. The evidence on training programmes suggests that they are effective when they offer genuine education -- i.e. classroom instruction – and are targeted to the young, but much ALMP and training activity is targeted to older workers. Pr. Heckman also mentioned that job search assistance programmes

and other activation programmes survive a cost-benefit test but that they have small effects on participant skills. Pr Lindbeck noted that employment subsidies and public work programmes are usually preferable to retraining programmes to shift individuals from unemployment into work, but that selective wage subsidies are crowding out jobs for other individuals, and that these deadweight losses limit the improvement in aggregate employment. In addition, such subsidies also reduce the incentives for investment in human capital. Prs Heckman and Lindbeck thus concluded that there is some role for employment subsidy schemes, but only in the short run -- they should not remain permanent features of the policy environment - and only for older or less able workers.

Pr. Heckman also insisted that the most effective way to raise long-term economic performance is to boost the skills of workers, but that “something for everyone” policies are economically ineffective. Recent research establishes that the early years before formal schooling begins are critical determinants of the cognitive and non-cognitive abilities that determine successful participation in schooling, adult job training, employment, and a variety of aspects of social life (crime, teenage pregnancy, welfare participation, etc.). Children born in disadvantaged families do not receive the same early environments that are important to the success of children from more advantaged families. Pr. Heckman thus advocated putting a clear priority on investing in early childhood education of the disadvantaged children. Because skill begets skill, these early interventions promote economic efficiency while at the same time reducing economic inequality, implying that there is no equity-efficiency trade-off. Pr- Heckman thus advocated to shift public funding from rehabilitation programmes and public job training for young adults, disadvantaged workers and older workers towards early investment programmes. In the transition period, wage subsidies should be provided to older workers instead of training, as human capital investment is inefficient for such workers.

Most other participants to the round table expressed more nuanced views about the role of ALMP and investment in human capital.

Prs. Lynch, Eberts and Riddell underlined that OECD countries could not stop investing in human capital of prime-age and mature workers. Pr. Lynch argued that the demographic reality of the next decades mean that one cannot rely on youth to supply skill needs, as youth is not large enough to offset the declines in labour force arising from retirement. The labour force will stop growing in most OECD countries, implying that participation and the productivity of the workforce will have to raise, which leaves no choice but to invest also in adults training. Pr. Lynch also thought that Pr. Heckman’s recommendation under-estimates the ability of many older workers to undertake retraining and underestimates the costs of a wage subsidy programme for older workers given their future large number. Her view was shared by Pr. Eberts who pointed that OECD economies cannot wait for the cohorts of pre-schoolers to move into our workforce and that the skills of current workers should also be increased. Pr. Riddell questioned the feasibility of a complete shift out of ALMPs towards early childhood investment: first, there is a good political economy argument for providing ALMP especially to displaced workers as they would otherwise probably resist changes; second eliminating ALMPs would imply relying exclusively on passive policies for unemployed workers. He also noted that a major source of the large cost-benefit ratio of early childhood interventions comes from less criminal activity, a factor which is not transferable to other countries than the United States.

J. Martin underlined that, to be effective, activation of workers has to be part of a “mutual obligations” programme, backed by moderate benefit sanctions. Activation thus does not obligatorily mean more ALMP, especially since not all ALMP is good. Mrs Loes van Emden, the representative of the Business and Industry Advisory Committee to the OECD (BIAC) welcomed this focus on activation and not discouraging people of taking up work.

Prs. Lynch also argued that while training is not a magic elixir, much has already been learnt on what works and what does not work and that training can and does matter. She argued that there are four C's associated with effective training systems – coinvestment (including apprenticeships, youth training wages, pay-back clauses); certification (clear credentials are critical to get workers willing to co-pay for skills); codetermination (involving business, workers and the government in training curriculum improves quality and relevance); and cost-benefit evaluation. She and Pr. Eberts applauded the restated Jobs Strategy for discussing the importance of rigorous evaluation studies, as this is something many countries have been reluctant to undertake and there is still much room to do more of them. The reliable studies already available suggest that training is particularly effective for those actively engaged in the labour market, especially classroom training for displaced workers, on-the-job training for disadvantaged women. Re-employment bonuses are also found to be effective. Strict performance criteria, the small size of programmes and a good connection between training providers and local employers also matter. Prs Eberts and Lynch also underlined the importance of targeting training, as there is a virtuous/vicious circle in human capital accumulation, with those entering the labour market with higher education getting more employer provided training than those with little education. Public intervention should thus concentrate on those unlikely to receive training without government intervention.

#### There is no single road to improving labour market performance

Pr Heckman was very critical of the OECD report's conclusion that there is no single road to improving the labour market performance. He argued that the claim by the new Jobs Report that the corporatist and Anglo-Saxon systems are equally good labour market models is a consequence of this focus on unemployment. The notion that the corporatist model and the Anglo-Saxon model are equally good arises simply from a statistical mirage which misleads both policymakers and analysts. When consumer welfare, employment with wage growth, economic opportunity and economic dynamism are considered, Pr Heckman claims, the superiority of the laissez-faire model becomes apparent. It is on this point that he encountered fierce opposition from the other speakers, most of whom supported the view that corporatist countries in Europe did at least as well as the US on employment and unemployment outcomes and even better when judged on the basis of this larger set of objectives. Most argued that the claimed superiority of the laissez-faire model does not hold when disguised unemployment is properly measured – accounting not only for benefit dependency, but also for the number of working poor, precarious jobs, and people in prison.

Pr Howell was particularly supportive of this idea, and argued that many northern European countries have performed at least as well as the Anglo-Saxon laissez-faire economies and have done so with much lower inequality, much lower incidence of very low wages, much more generous public support for job training and job search, much more job security, and a much stronger social safety net. He also argued that the standard case against protective labour market institutions – the fact that they price low skill workers out of the labour market – has long been proved wrong as less-educated workers are not better off in countries that promote downward wage flexibility, like the U.S.

Pr. Riddell added that the “Nordic” approach has important social advantages and also impacts positively on productivity. He also suggested the job quality dimension should not be forgotten – arguing that the restated Jobs Strategy should have covered this issue more in depth. And even Pr. Lindbeck admitted that, while unemployment and benefit dependency are not major concerns for the US, the country does have a large number of “working poor”. Pr Baker, from the audience, also added that the prison population in the US should also be accounted for in the disguised unemployment measures produced by Pr Heckman.

Mr Martin wrapped up the afternoon discussion with brief comments on the three themes. First, he acknowledged that measurement of labour market performance is indeed an issue and that benefit

dependency, precarious employment, and the other factors mentioned during the afternoon need to be taken into account. However, he stressed, that the bias could go either way –i.e. it is unclear that this would change much cross-country comparisons of employment performance. Second, the restated OECD Jobs Strategy does not advocate more spending on activation programmes. Instead, the recommendation is that an effective activation policy, as part of a mutual obligation framework, be implemented. Mr Martin also acknowledged that more careful evaluation and monitoring of both programmes and employment services is required. He also added that the mutual obligation approach should be extended to recipients of non-employment benefits. Third, Mr Martin further emphasised that, while the Jobs Strategy concludes that there is no single successful policy package, not every road leads to it. Indeed there are common elements to successful strategies. He concluded by acknowledging that the sustainability of different packages needs to be more carefully evaluated on the basis of budgetary considerations and social outcomes.

The discussion continued on the second day, when Forum attendance was restricted to Ministers and official OECD Delegations. The Chair's Statement summarises the discussion.