

V. IMPLEMENTING THE OECD JOBS STRATEGY: PROGRESS REPORT*

Introduction

The *OECD Jobs Study* was published in 1994 and contained a comprehensive analysis of the problem of high and persistent unemployment in many OECD countries and widening income differentials in some. The Jobs Study also developed more than 60 concrete, but not country-specific, policy recommendations for dealing with those issues. Building on these recommendations, the *OECD Jobs Strategy* has been articulated around ten broad orientations for macroeconomic and structural policy which together form a comprehensive blueprint for action to create more jobs and reduce unemployment, and to increase standards of living and strengthen social cohesion (Box V.1).

The policy recommendations of the OECD Jobs Strategy...

Box V.1.

The OECD Jobs Strategy

- Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, *i.e.* non-inflationary.
- Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
- Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
- Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
- 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.
- Reform employment security provisions that inhibit the expansion of employment in the private sector.
- Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
- Improve labour force skills and competences through wide-ranging changes in education and training systems.
- 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.
- 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.

... have been made country-specific...

As an important part of the follow-up to the *OECD Jobs Study*, policy recommendations have been developed for implementing the Jobs Strategy in individual countries, taking into account the specific institutional and political background in each. By spring 1997, a first round of such country-specific recommendations had been derived for almost all Member countries and published in *OECD Economic Surveys* and the country-specific experiences with the Jobs Strategy were summarised in OECD (1997). Since then, progress in implementing the first-round of country-specific recommendations has been reviewed in the context of OECD's continuous surveillance process.¹ As part of this process, recommendations have in some cases

* This chapter is an abbreviated version of the paper *The OECD Jobs Strategy: Progress Report on Implementation of Country-Specific Recommendations*, which was presented to the 1998 OECD Ministerial Council Meeting on 27-28 April and has been issued as *OECD Economics Department Working Paper 196*.

1. Moreover, full sets of country-specific recommendations for another two countries, the Czech Republic and Hungary, have been derived.

been withdrawn or modified in the light of policy and other developments. The surveillance process has been undertaken by the OECD's Economic and Development Review Committee, which contains representatives of all OECD countries and under whose responsibility *OECD Economic Surveys* are issued.

... and this chapter reviews countries' progress in implementation

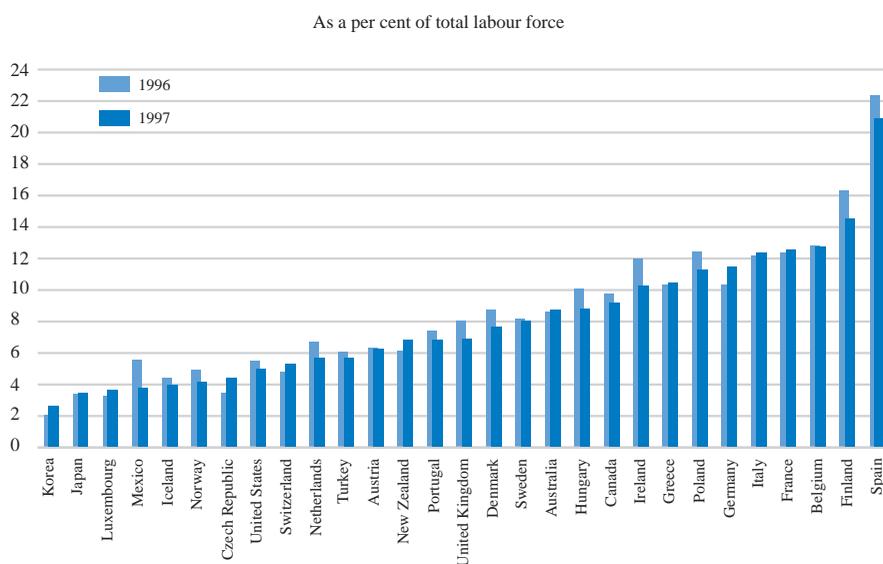
This chapter reviews some recent labour market developments, including countries' progress in reducing structural unemployment, and their macroeconomic background. It also gives an interim report on the progress made in implementing the first round of structural policy recommendations and thereby updates the analysis in OECD (1997).

Recent developments in labour markets

Unemployment rates became less dispersed...

As already mentioned in Chapter I "General Assessment of the Macroeconomic Situation", unemployment declined slightly in 1997 in the OECD area as a whole, but still touched 7.2 per cent of the labour force on average, or some 35½ million persons (national definitions). Unemployment rates fell in more than half of the OECD countries, but they rose in ten countries (Figure V.1). As a result of these changes, the dispersion of unemployment rates across countries decreased though it remained

Figure V.1. Unemployment rates,¹ 1996-97



1. Commonly used definitions.

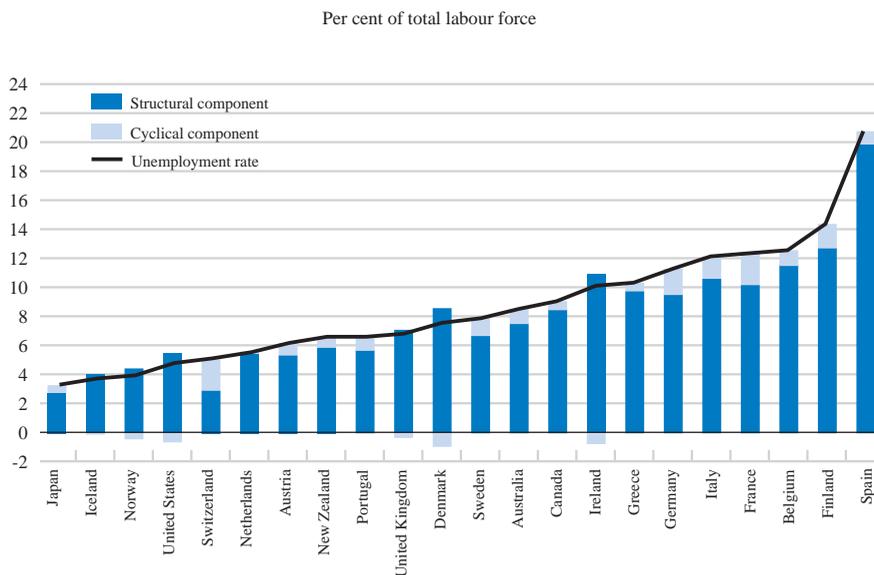
substantial.² Thus, unemployment declined substantially in some high-unemployment countries, including Finland, Ireland, Poland and Spain. The United Kingdom, Denmark, Hungary, Mexico and the Netherlands also experienced sizeable declines. By contrast, unemployment increased by more than one per cent of the labour force in Germany, and significant increases were also recorded in the Czech Republic, Korea, New Zealand and Switzerland – though levels of unemployment remained relatively low in these countries.

2. International comparisons and calculations of dispersion are in principle best done using standardised unemployment rates. However, standardised unemployment rates are not available for all OECD countries.

... and include a cyclical component in many countries

Based on OECD Secretariat estimates of structural unemployment rates for 22 OECD countries, actual 1997 unemployment rates included a cyclical component in the majority of countries (Figure V.2). Indeed, in some of the major continental European countries cyclical components were substantial. However, in a number of other countries, estimated cyclical components had either disappeared (United States, United Kingdom, Denmark, Iceland, Ireland, Norway) or become very small (Netherlands). Nevertheless, the inherent uncertainties associated with a decomposition of unemployment into cyclical and structural components need to be kept in mind when interpreting these indicators.

Figure V.2. Structural and cyclical components of unemployment rates,¹ 1997



1. Based on commonly used unemployment definitions. Structural unemployment data are based on OECD Secretariat estimates of the non-accelerating wage rate of unemployment (NAWRU).

Looking at developments over the 1990s, six countries stand out as having been able to reduce structural unemployment in what seems to be a significant way (Table V.1). In addition to the United Kingdom, Ireland, the Netherlands and New Zealand, which were already identified last year as having significantly reduced structural unemployment, Denmark and Australia have been added to the list.³ Lower structural unemployment in itself implies a major step forward but also carries with it derived benefits for, *inter alia*, government budget balances (see Chapter IV “Forces Shaping Tax Policy”).

Some countries reduced structural unemployment over the 1990s...

Changes in estimated structural unemployment rates over the 1990s have tended to be associated with changes in the same direction of actual unemployment rates, which underlines the importance of getting both macroeconomic and structural policies

3. The identification of the four former countries was contained in OECD (1997), which also describes the criteria and methods used. Compared to the data presented in that publication, estimated trends and levels of structural unemployment have changed for a few other countries. These changes reflect the inclusion of information for 1997 and the review of previous estimates of structural unemployment, not least as a result of additional or revised data. The most pronounced changes since OECD (1997) are as follows: the level of structural unemployment has been revised down (up) over the whole period for Finland and Ireland (Greece), and revised up for the earlier part of the historical period for Portugal. The 1997 estimate is considerably lower (higher) than the 1996 estimate in OECD (1997) for Australia and Spain (Belgium).

— Table V.1. **Structural unemployment in the OECD countries, 1990-97^a** —
As a per cent of total labour force

In the nineties the structural unemployment rate has...

		1990	1997
↑ ... increased:	Finland	7.0	12.8
	Sweden	3.2	6.7
	Germany	6.9	9.6
	Iceland	1.5	4.0
	Switzerland	1.3	3.0
	Greece	8.2	9.8
	Italy	9.7	10.6
	France	9.3	10.2
	Belgium	11.0	11.6
	Austria	4.9	5.4
... remained fairly stable:	Japan	2.5	2.8
	Norway	4.2	4.5
	Spain	19.8	19.9
	Portugal	5.9	5.8
	United States	5.8	5.6
	Canada	9.0	8.5
↓ ... decreased:	Denmark	9.2	8.6
	Australia	8.3	7.5
	New Zealand	7.3	6.0
	United Kingdom	8.5	7.2
	Netherlands	7.0	5.5
	Ireland	14.6	11.0
	OECD structural unemployment rate ^b	6.8	7.1
	OECD actual unemployment rate ^b	6.0	7.5

a) Based on commonly used definitions of unemployment. Structural unemployment data are based on Secretariat estimates of the non-accelerating wage rate of unemployment (NAWRU) made for the *OECD Economic Outlook*, 63, 1998. A change is considered significant (in absolute terms) if it exceeds one standard-deviation. The latter was calculated for each series and country over the 1986-97 period.

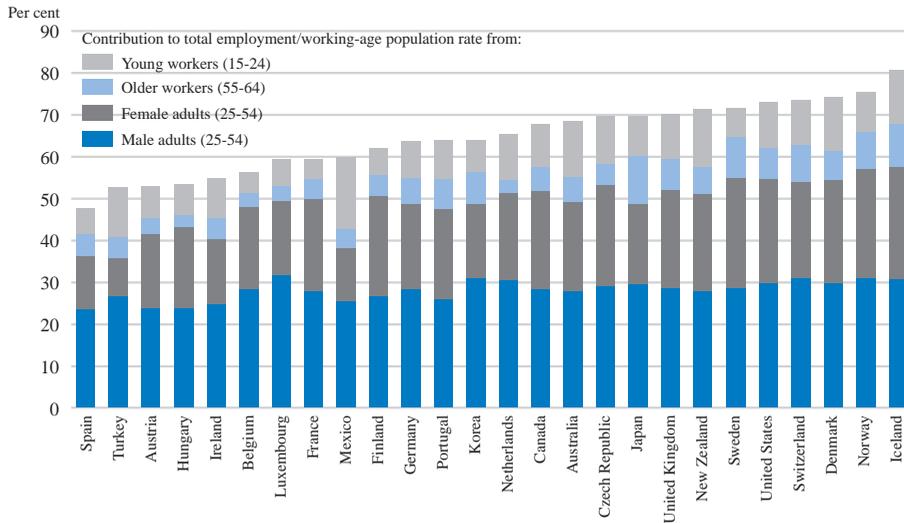
b) Weighted averages of the countries reported in the table.

Source: OECD Secretariat.

right. A number of other features of developments through the 1990s are also worth highlighting :

- Countries where unemployment fell tended to have rising employment rates and vice versa.
- The countries with falling or stable unemployment rates tended to be the ones where participation rates and population growth contributed strongly to the growth of the labour force. This illustrates that strong labour force growth is no hindrance to lower unemployment but, frequently, an accompanying feature.
- Across countries, the differences in the strength of employment trends was almost completely accounted for by differences in private sector employment growth, illustrating that private sector employment is the key to overall employment growth.
- As a result of these and previous employment trends, employment rates differ strongly across countries. In this regard, it is notable that the cross-country differences do not stem from different employment rates for prime-age males, who are frequently seen as the typical labour market insider group (Figure V.3). By contrast, the contributions from women and from young and older workers seem to account for most of the cross-country variation in overall

Figure V.3. Decomposition of the employment rate, 1996



employment rates, pointing to the importance of labour market conditions that enable non-core groups to seek and obtain gainful employment.

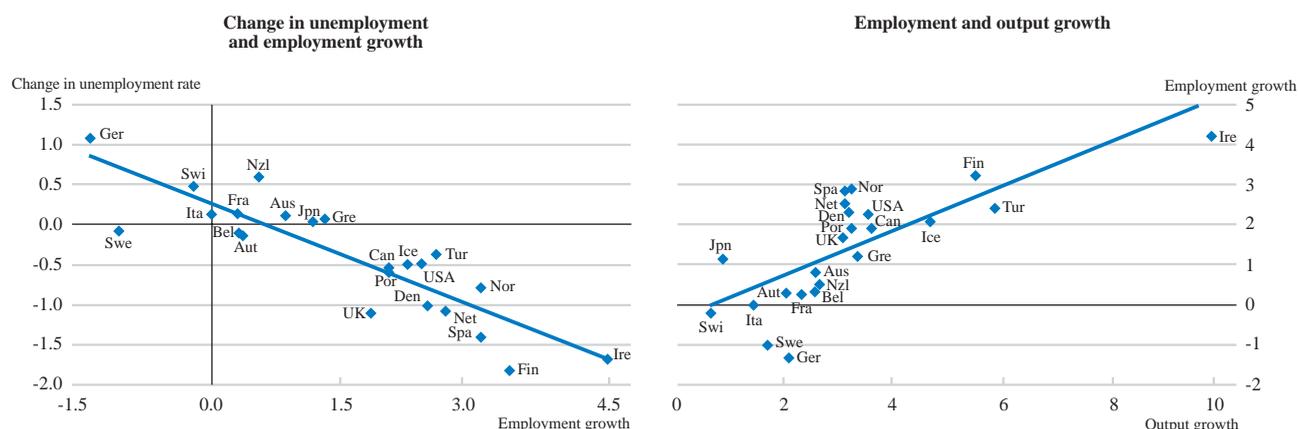
Some of the labour market outcomes just mentioned were somewhat divergent across the six countries which experienced a downward trend of structural unemployment over the 1990s. Thus, falling unemployment occurred against the backdrop of strongly rising employment in Ireland, the Netherlands, New Zealand and, to a lesser extent, Australia. By contrast, the contribution from employment growth to the decline in unemployment over the period 1990-97 was very limited in Denmark, and zero in the United Kingdom. Available evidence also suggests that trends in real wages and in the dispersion of wages and incomes have differed significantly across the six countries. A comprehensive assessment of labour market trends over the 1990s would need to take these and other developments into account but is outside the scope of this chapter. Moreover, it needs to be borne in mind that while the six countries demonstrate that it is feasible to durably reduce high unemployment, other countries managed to avoid a rise in structural unemployment in the first instance. And some of the countries where structural unemployment has gone up nevertheless maintain relatively low levels of unemployment.

The generally positive association between robust employment growth and falling unemployment is borne out by developments in 1997 (Figure V.4, left panel). Countries with high employment growth tended to be the ones where output grew strongly (Figure V.4, right panel). But differences in productivity growth also contributed to different employment growth across countries. In this context it may be noted that low productivity growth is not necessarily a negative outcome. In countries which undertake structural reforms to reduce high unemployment, rapid employment growth is desirable even if it appears to be associated with lower productivity growth. This may be the case, for example, where structural reforms result in increased employment of low-productive labour or results in the use of less capital-intensive production methods. By contrast, in countries where the scope for rapid employment growth is limited because unemployment is already low, low productivity growth unambiguously means slow growth of living standards.

... against somewhat different backgrounds

Lower unemployment in 1997 was associated with employment and output growth

Figure V.4. Unemployment, employment and output growth, 1997
Per cent or percentage points



The macroeconomic background to these employment and unemployment outcomes are described elsewhere in this Economic Outlook. The projections for the coming 18 months suggest, as discussed in previous chapters, that unemployment may stay largely unchanged for the area as a whole, but could fall in Europe, though it will remain high given that it is to a large extent structural.

Interim review of structural policy progress

There are encouraging developments...

OECD Economic Surveys of 21 Member countries have included a review of progress in implementing the country-specific recommendations derived in the previous round of surveys.⁴ Following these reviews, and taking into account the update on structural unemployment and macroeconomic conditions presented above, the main conclusions which had been drawn after the first round of reviews, and which are summarised in Box V.2, seem to remain valid. Nevertheless, it should be underlined that this chapter only integrates policy developments and recommendations analysed in *OECD Economic Surveys*. Thus, policy developments subsequent to the most recent survey are not covered, and countries which have not been covered by a survey since the first round of recommendations were given, are not considered.

... and policies have made good, if variable, progress...

Many of the countries which have undergone a follow-up review seem to have made progress in implementing the structural policy recommendations given in the first round of reviews on implementing the Jobs Strategy. Taking a broad overview of progress, the following features stand out:⁵

- A lot of action has been taken over the review period. Using the first round recommendations as a bench-mark, countries pursued action in the direction indicated by the recommendations in two-thirds of the cases.

4. First-round recommendations were derived for two new Member countries, the Czech Republic and Hungary. The reviews for these countries noted that various benefits were too generous and needed to be reduced. Moreover, it was recommended that Hungary reform social security contributions by workers and move towards decentralisation of wage bargaining. A general easing in employment protection, and specifically a loosening of notification requirements, was recommended in both countries. The reviews of the Czech Republic and Hungary echoed the recommendations given to other countries for more evaluation of active labour market policies. Improvements to the education system also received substantial attention, with improvements seen as needed at the secondary and tertiary levels. In addition to these recommendations, the Czech Republic was urged to ease rent controls and Hungary to enhance the links between basic scientific research and industry and the diffusion of new technology to traditional sectors and smaller firms.

5. A detailed review of individual countries' progress is presented in OECD (1998).

Box V.2.

Lessons from Implementing the OECD Jobs Strategy

- High and persistent unemployment has been the result of both conjunctural and structural forces, and it can be durably reduced.
- Many countries have made progress in implementing the Jobs Strategy, but progress has been uneven both between countries and between different areas of policy.
- The central issue dividing the more comprehensive reformers from the less comprehensive is differences in judgement about potential conflicts between better labour market performance and concerns for equity and social cohesion.
- There are significant synergies between structural reforms in different fields.
- Macroeconomic conditions and their interactions with structural forces are important for labour market outcomes.
- Overall, the Jobs Strategy remains an effective response to labour market problems in Member countries, and the Economic and Development Review Committee has encouraged countries to press on with its implementation.

Source : OECD (1997).

- Very few policy moves went in the contrary direction to that recommended. Indeed, only seven of the 21 reviewed countries took any action in the opposite direction to that recommended and, in most cases, did so only for a single recommendation.
- Across different policy areas, countries moved forward on a relatively large proportion of the recommendations relating to the general business climate which focused, in particular, on strengthening competition in product markets, promoting entrepreneurship and enhancing the creation and diffusion of technology.
- Progress was slower, in this sense, for recommendations relating to education and training policies as well as to labour market reforms, which also was the area where most contrary action was concentrated.
- Within the area of labour market reforms, the lowest follow-through rate concerned policies related to wage formation and industrial relations. By contrast, action was taken on a larger proportion of the recommendations relating to early retirement and invalidity benefits as well as active labour market policies.

A feature which had been noted already after the first round of reviews seems to be confirmed : many countries are anxious about policy reforms which, at least in the shorter term, risk directly leading to a wider dispersion of incomes and antagonising insider groups. Thus, few countries were willing to reduce unemployment benefit replacement rates or their duration, although many tightened eligibility conditions for unemployment insurance, early retirement and disability. Many countries were unwilling to loosen employment protection, but countries did take action to increase working-time flexibility and the use of part-time work and fixed-term contracts. More decentralised wage bargaining went forward in many countries, but loosening up on minimum wages and allowing for wider wage distributions generally did not. And many countries made at least some reforms with a view to making active labour market programmes more effective.

The same pattern was repeated for policies to enhance the business climate. Most countries were willing to undertake broad measures that affected the rules of the game or were likely to improve productivity, but were less willing to take actions which would negatively affect subsidies and rents earned by narrow interest groups except, strikingly, in regard to the state sector. Thus, most countries for whom it was recommended tightened competition law and enforcement and moved forward with privatisation of government-owned firms and the opening up of the government sector

... but some key issues are unresolved in labour markets...

... and policies towards the business climate...

to greater contestability. By contrast, less progress was made in cutting subsidies and state interventions, liberalising shop hours and opening government procurement.

*... and progress in education
were also uneven*

While progress in education and training does not easily lend itself to the same kind of reasoning, it was nevertheless uneven across areas. A number of countries took action on secondary education, and in particular vocational education, whereas policy initiatives along the lines of first-round recommendations were more scant at the primary and tertiary levels.

*Overall, the Jobs Strategy
remains on track*

This interim review has strengthened the conclusion reached after the first round of reviews by the Economic and Development Review Committee : the Jobs Strategy is an adequate response to current labour-market problems and, where implemented over a broad range of policy areas and given sufficient time to work, it is capable of delivering. The mounting evidence that following the Jobs Strategy leads to improved labour-market outcomes and the rising number of countries which have done so and experienced declining structural unemployment should provide an incentive to action in countries which have so far made little progress. The case is getting stronger, that they too could benefit from implementing the Jobs Strategy. This may give rise to some cautious optimism concerning the future.

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