

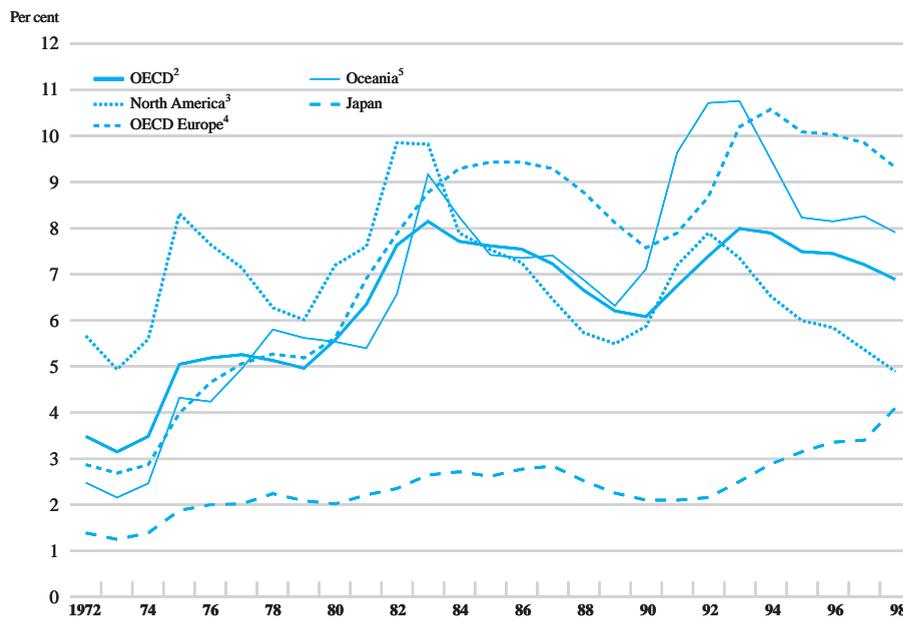
IV. LABOUR MARKET PERFORMANCE AND THE OECD JOBS STRATEGY

Introduction

High and persistent unemployment remains a major economic and social problem for many OECD countries. Currently, some 35 million persons, or about 7 per cent of the labour force, are unemployed in the area as a whole (Figure IV.1). Many, particularly in Europe, have been without a job for a prolonged period. These people, and their dependants, may be threatened by poverty in addition to loss of self-esteem and contact with working life. At the same time, many others are not even trying to find a job, discouraged by high unemployment or by the undesirable side effects of some of the policies intended to deal with it. But getting a job and keeping it does not solve all problems. There is increasing concern about precarious jobs and in-work poverty in some countries.

High and persistent unemployment remains a major problem...

Figure IV.1. Standardised unemployment rates in OECD regions, 1972-98¹



1. Standardised unemployment rates for all countries except for Greece, Iceland and Turkey, where national definitions are used.

2. Excluding Czech Republic, Hungary, Korea, Mexico and Poland.

3. United States and Canada.

4. EU-15, Iceland, Norway, Switzerland and Turkey.

5. Australia and New Zealand.

Source: OECD, *Labour Force Statistics*.

... but it can be durably reduced through comprehensive and sustained reforms as outlined in the Jobs Strategy

The problems of high unemployment, discouragement and in-work poverty are not new. In 1994, they prompted Member countries to agree on the OECD *Jobs Strategy*, which sets out a wide-ranging and balanced set of policies to tackle them (the main policy orientations are presented in Box IV.1). Subsequently, these policies were tailored on a country-by-country basis to take account of the institutional, social and cultural characteristics of each of them, and the country-specific policy recommendations were published in the *OECD Economic Surveys*.¹ In 1997, a report to Member countries (OECD, 1997b) drew a number of key lessons on the implementation of the *Jobs Strategy*. The most important of these is that the strategy could durably reduce unemployment – especially if undertaken comprehensively. However, policymakers have to stay the course because it takes time before reforms lead to better labour market conditions.

Box IV.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 competencies 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.

This chapter provides an up-to-date assessment of labour market performance and progress made in implementing the Jobs Strategy

These conclusions have been reinforced by a more recent report to Member countries (OECD, 1999). This chapter summarises the main findings of that report, first looking at labour market performance over the 1990s and then linking that performance to progress made in implementing the *Jobs Strategy* as well as to structural reforms more generally. Particular attention is devoted to the employment prospects and the quality of jobs of specific groups (youths, older workers and certain categories of women) who have tended to experience above-average unemployment and non-employment.

1. Country-specific recommendations were also based on five thematic reviews on key aspects of structural policy conducted in the context of the *Jobs Strategy*: 1) *Enhancing the effectiveness of active labour market policies* (OECD, 1996a); 2) *Making work pay: A thematic review of taxes, benefits, employment and unemployment* (OECD, 1997a); 3) *Interactions between structural reform, macroeconomic policy and economic performance* (OECD, 1996b); 4) *Technology, productivity and job creation* (1996c; 1998a); 5) *Fostering entrepreneurship* (1998d).

Labour market developments over the 1990s

Unemployment

Despite some decline from the recession years of the early 1990s, the unemployment rate for the OECD as a whole will almost certainly be higher at the end of the decade than at its beginning. At the same time, disparities across countries have increased (see Annex Tables in this *Outlook*). Unemployment in the United States has fallen to rates last seen in the 1960s, and it has drifted up in Japan to record post-war highs (although remaining considerably lower than the OECD average). Europe presents a mixed picture over the decade, with some countries at a later stage of the business cycle (e.g. United Kingdom, Denmark, Ireland and the Netherlands) experiencing falling unemployment. In most other European countries, unemployment has shown only modest reductions from the 1994 peak, despite the recovery in output, and unemployment rates remain higher than at the beginning of the decade. The Secretariat's projections in this *Outlook* point to a further modest reduction of unemployment in Europe, and some rise elsewhere, reflecting the different stages of the economic cycle of the main OECD regions.

Unemployment has fallen from its 1994 peak and over most of the decade in a few countries...

Rapid economic growth can reduce unemployment only insofar as the unemployment is cyclical, and differences in cyclical positions complicate the assessment of countries' performance. It is therefore instructive to look behind the purely cyclical influences on unemployment rates. There is no single agreed method for doing so, but the different measures tend to move closely together. The Secretariat's measure of trend unemployment² and its evolution over the 1990s point to the following picture (Table IV.1):

... but its trend component has differed markedly across countries...

- The United States, Norway and Portugal have maintained low levels of unemployment over the decade (and in the United States there has even been a reduction).
- Other countries, including Japan, Austria and Switzerland, have experienced some increase in trend unemployment, but the level remains well below the OECD average.
- Some countries with relatively high levels of trend unemployment at the beginning of the decade have achieved significant reductions: the United Kingdom, Denmark, Ireland, the Netherlands and New Zealand and, more recently, Australia, Canada and Spain. Nevertheless, Spain still has the highest rate of trend unemployment, whilst rates in Denmark and the Netherlands are now well below the OECD average.

2. Trend unemployment is measured by the OECD time-series estimates of the non-accelerating wage rate of unemployment (NAWRU). The NAWRU indicates the rate of unemployment that, in a given year, and based on the actual history of unemployment, would be associated with a constant rate of nominal wage increases. It should be stressed that it is a short-term concept, and in the presence of slow adjustment of the labour market to exogenous shocks, a lower (or higher) rate of unemployment may be associated with stable wage inflation in the long run. However, the longer-run equilibrium rate of unemployment cannot be reached within a single year without setting off changes in wage inflation, see OECD (1999).

Table IV.1. Trend unemployment¹ in the OECD countries:
levels and changes over the period 1990-98²

		Trend unemployment has:		
		risen	remained stable	fallen
Trend unemployment rate is:	high	Finland Greece Italy France		Spain
	intermediate	Sweden Germany	Belgium	Canada Australia New Zealand United Kingdom Ireland
	low	Switzerland Japan Austria	Norway Portugal	United States Denmark Netherlands

1. Trend unemployment data are based on OECD estimates of the *non-accelerating wage rate of unemployment* (NAWRU). The NAWRUs are calculated using the commonly used definition of unemployment rates. For Germany, Belgium and Denmark, standardised unemployment rates were used instead to improve comparability with other countries.
2. A change is considered significant (in absolute terms) if it exceeds one standard deviation. The latter was calculated for each country over the 1986-98 period. Countries are classified as having low, intermediate or high unemployment rates according to their distance from the 1998 OECD weighted average trend unemployment rate (6.9 per cent). Countries within one half of the (weighted) standard deviation of country trend unemployment rates were classified as having intermediate levels of unemployment.

- There are also a number of countries where trend unemployment has risen to high levels: France, Italy and Greece are in this group.³ Moreover, in Finland and Sweden the increase in actual unemployment in the aftermath of the steep recessions of the early 1990s was partially translated into higher trend unemployment.⁴

*... as has the incidence
of joblessness among youths
and women*

These overall unemployment trends have been reflected in unemployment of specific groups within the labour force, and also in the average time spent out of work by the unemployed. Countries posting significant falls in trend unemployment have often experienced trend reductions in youth and female unemployment and a fall in long-term unemployment (more than 12 months). In contrast, high (or increasing) trend unemployment has been generally accompanied by high (or worsening) joblessness amongst youths and prime-age female workers,⁵ and a high incidence of long-term unemployment.

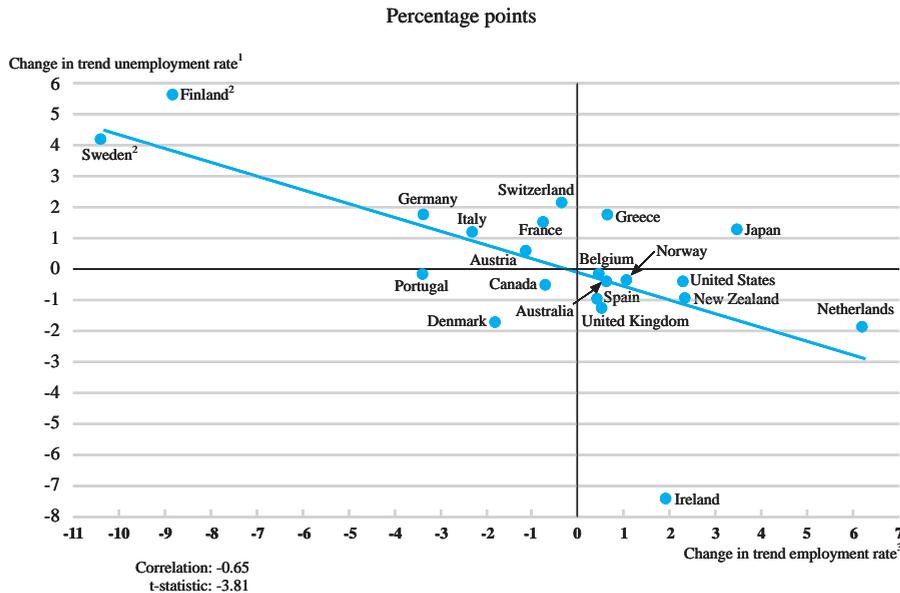
Employment

*Employment growth has been a
key factor in reducing
unemployment...*

Movements in unemployment and employment rates have been closely linked (Figure IV.2). In particular, most of the countries where unemployment fell also posted significant increases in their trend employment rates. And only two (Japan and Greece) of the nine countries experiencing significant increases in unemployment recorded increases in overall employment rates.

3. Germany also recorded a substantial increase in trend unemployment, related not least to the particular problems generated by the reunification and the subsequent high unemployment in the Eastern Länder.
4. It is, however, particularly difficult to assess the evolution of trend unemployment in Finland, and to a lesser extent in Sweden, in the 1990s given the abruptness of the rise in actual unemployment. The OECD estimates of the NAWRU for these two countries are, therefore, subject to greater uncertainties than those for other countries.
5. "Prime-age" adults are those aged between 25 and 54 years.

Figure IV.2. Change in trend unemployment and employment rates, 1990-98



1. Trend unemployment data are based on OECD estimates of the non-accelerating wage rate of unemployment (NAWRU).
2. Changes in trend 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 two countries. See main text.
3. The employment rate is defined as the ratio of total employment to the population of working age, *i.e.* the age group 15-64. Trend employment rate series have been estimated in the following way: *i)* for each series of employment (x), a linear regression was performed as: $x = a + b * GAP$, 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: $x' = x - b * GAP$; and *iii)* a Hodrick-Prescott filter was then used to smooth the x' series.

In a number of countries, there has been a rise in so-called atypical forms of work (*i.e.* temporary and part-time work). In particular, the long-term rising trend in part-time work has continued across almost all OECD countries over the 1990s, going hand-in-hand with increases in female labour-force participation. However, cross-country differences in the incidence of part-time work remain considerable, ranging from 29 per cent in the Netherlands to less than 10 per cent in the Czech Republic, Finland, Greece and Spain (Figure IV.3, upper panel).

In recent years, growth in part-time employment has made a significant positive contribution to total employment growth across a wide range of OECD countries. It has partially offset declining full-time employment in a number of them (especially in those with increasing unemployment, such as Germany, France and Italy). And it has also made a significant contribution to employment growth in countries with declining unemployment such as Ireland, the Netherlands and New Zealand.

The extent to which rising part-time work has been a deliberate choice of workers (“voluntary” part-time) or a second-best choice, due to the lack of full-time jobs, marks a clear divide between countries with different overall labour market conditions. During the recovery from the recession of the early 1990s, involuntary part-time employment has accounted for a large proportion of the growth in total part-time employment in a number of countries with high and persistent unemployment. For example, between 1993 and 1997, growth in involuntary part-time jobs was at least as great as the growth in voluntary part-time employment in Germany,

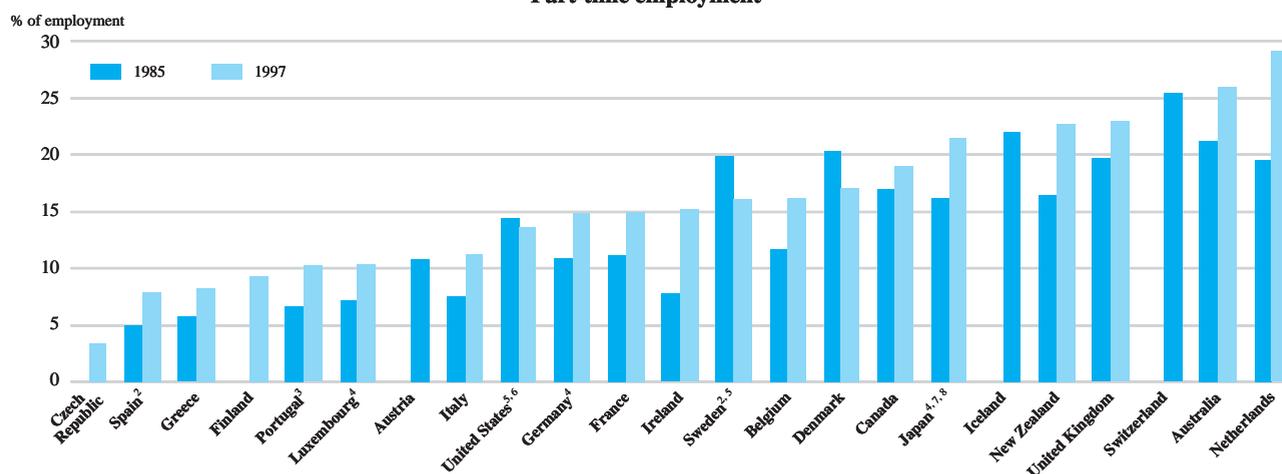
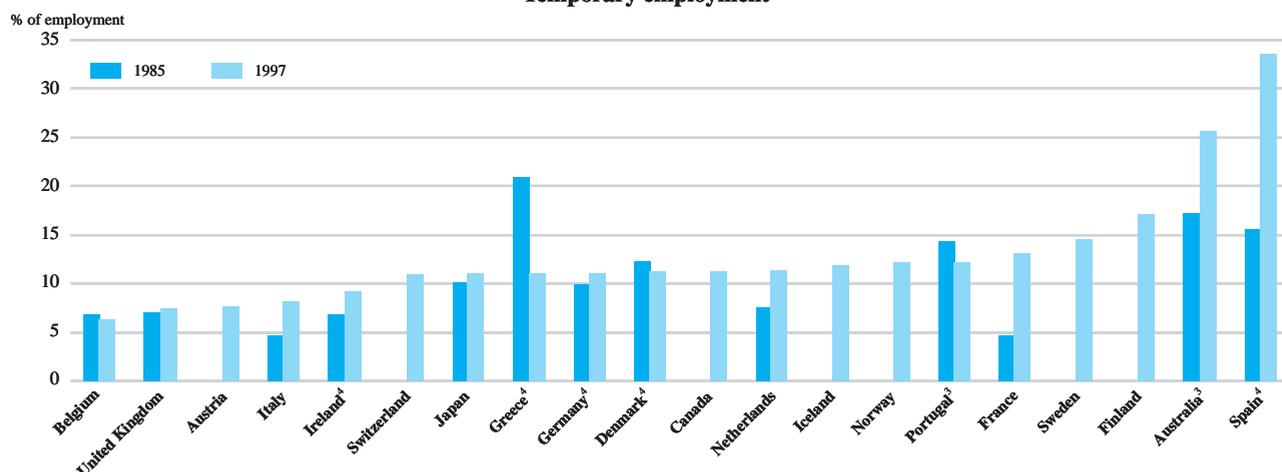
... with a significant role played by “atypical forms” of employment...

Part-time work has made a positive contribution in most countries...

...but sometimes it is a second-best choice

Figure IV.3. Part-time and temporary employment, 1985-97

Per cent of total employment

Part-time employment¹Temporary employment⁹1. See OECD, *Employment Outlook*, 1998, Table E.

2. 1987 and 1997.

3. 1986 and 1997.

4. 1985 and 1996.

5. Data for 1985 are not fully comparable to those for 1997 due to breaks in the series. See OECD, *Employment Outlook*, 1995, Table E for details.

6. Dependent employment.

7. Part-time work is defined by actual hours worked instead of usual hours worked.

8. Part-time work is defined by less than 35 hours worked.

9. Data refer to employees. See OECD, *Employment Outlook*, 1996, Table 1.5 for definitions of temporary employment in each country.Source: OECD, *Employment Outlook*, 1998.

France, Italy, Greece and Spain, all countries with high or rising unemployment. In most other countries growth in part-time work has been almost exclusively voluntary.

Temporary work is becoming an important feature of employment in some countries...

The evolution of temporary employment contracts has often raised concerns as to the quality of jobs being created in the OECD countries.⁶ Although, less than 15 per cent of employees are in temporary work in most of them, there are exceptions: in particular, Australia, Finland and, especially, Spain where about one-third of employees are in temporary employment (Figure IV.3, lower panel).

Similar to part-time work, temporary work has been an important component of employment growth in many OECD countries since the early 1990s. It has offset declining (or stagnating) permanent employment in some of the countries with high or increasing unemployment (e.g. Germany, France, Italy, Austria and Sweden), while a more balanced composition between temporary and permanent employment growth has been observed in countries posting improving (or good) labour market conditions. The shift towards temporary employment in some countries may reflect an attempt by employers to bypass strict regulations on permanent employment, a move that has also been encouraged by a further de-regulation of fixed-term contracts and temporary work agencies in a number of countries (see below).

... also reflecting attempts by employers to bypass strict employment protection for permanent workers

Participation rates

The proportion of the working-age population that participates in the labour market varies a great deal across the OECD countries, and these differences are to some extent related to overall labour market conditions. Thus, some of the countries with high unemployment have particularly low participation rates (e.g. Italy, Greece, Spain), whilst higher participation rates are often found in countries with, at least until recently, prolonged periods of low and stable trend unemployment (e.g. Japan, Norway, Sweden, Switzerland and the United States). However, trends in participation over the current decade only partially reflect developments in unemployment. While the Netherlands and New Zealand have combined falls in unemployment with significant increases in participation rates, and Italy, Finland and Sweden low or falling participation with high and rising unemployment, other countries have maintained broadly stable rates despite significant changes in unemployment.

Participation rates have remained fairly stable over the decade, with persistent differences across countries

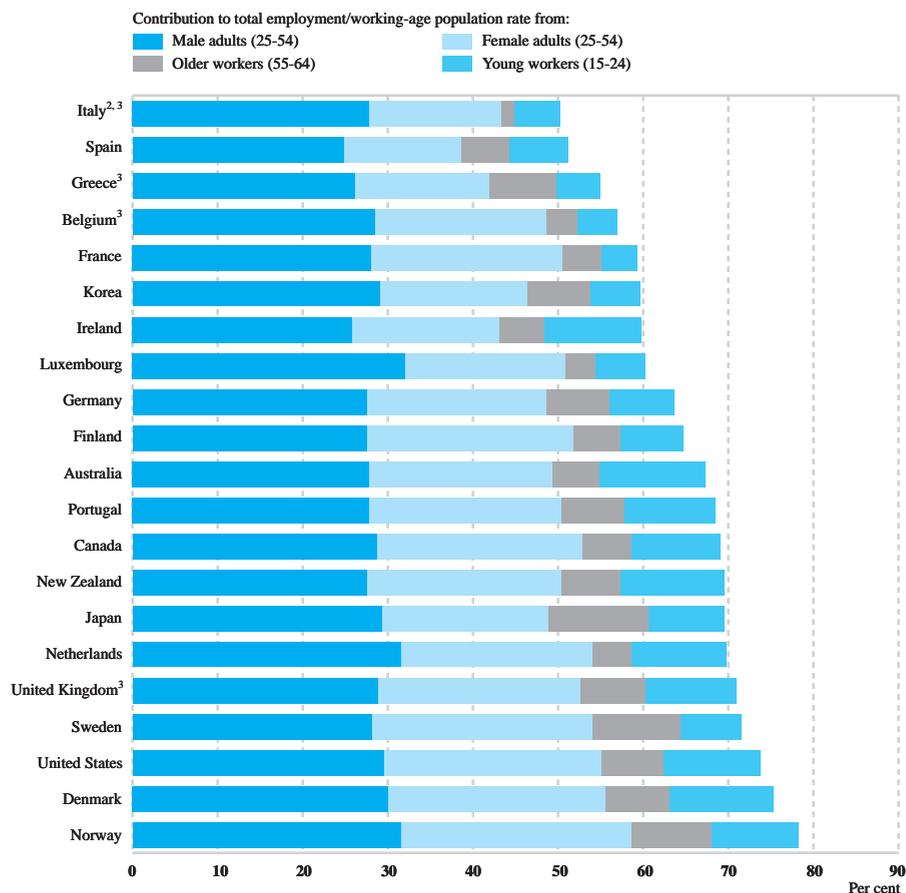
Growing disparities amongst population groups

Aggregate figures of labour demand and supply hide striking disparities between different groups in the working-age population, which tend to be particularly acute in countries with large overall labour market slack. The analysis of employment rates offers interesting insights in this respect. It suggests that prime-age males – often referred to as “core” workers – have very similar employment prospects in all OECD countries. By contrast, the employment prospects of other groups: prime-age women, youths and older workers, are very different and account for most of the large cross-country variations in overall employment rates (Figure IV.4). These differences partly reflect different social and cultural factors. However, especially in countries with high unemployment, youths, prime-age women and older people – as well as the low skilled in general – are particularly affected by joblessness, or may not even look for work because of the scant job opportunities in the labour market. In addition, those

Employment rates diverge across labour market groups, especially in countries with high unemployment

6. Temporary work is typically defined as work under a fixed-term contract in contrast to permanent work where there is no end-date. Employment under temporary contracts often entails a different set of legal obligations on behalf of employers; in particular, certain aspects of employment protection legislation do not apply to temporary contracts.

Figure IV.4. Decomposition of employment rates in OECD countries, 1998¹



1. The contributions of individual demographic groups to the overall employment rate were calculated as the group-specific employment rates multiplied by the share of individual groups in the population of working age.

2. Adults: 25-59 years of age; older workers: 60-64 years of age.

3. 1997.

Source: OECD, *Labour Force Statistics and Employment Outlook*, 1999 (forthcoming).

choosing to engage in alternative activities to paid employment may be doing so partially in response to financial incentives arising from tax and benefit systems.

While youths are spending more time on education they are also discouraged by high unemployment

Employment rates among youths, especially teenagers, have been falling partly because of the increasing enrolment rates in secondary and higher education. However, country differences in education patterns persist, with some countries experiencing relatively low enrolments, and for individuals at the bottom of the educational ladder the incentives and opportunities either to continue education or to enter the labour force can both be weak. In this context, high unemployment exerts a strong disincentive effect on young workers to participate in the labour market, especially for those with low education levels. Thus, policies to reduce overall unemployment are likely to be the first-best approach to raising youth employment. However, discouragement among young people exists in countries which span a wide range of

labour market conditions, suggesting that certain types of economic exclusion cannot be solved by broad labour market reforms and reflect deeper social problems that need to be tackled by more targeted policies.

Countries which have succeeded in ensuring a smooth transition from school to work for those with poor qualifications have placed a strong focus on providing these young people with recognised vocational qualifications after compulsory schooling, and on reinsertion programmes for school drop-outs. Moreover, gaining some form of work experience whilst studying appears to enhance the rewards to education, resulting in better labour market outcomes when youths leave school. This seems to apply in countries with long-established dual-system apprenticeship programmes (Germany, Austria, Denmark and Switzerland),⁷ as well as in some English-speaking countries where an informal combination of work and school is common amongst youths because of a highly developed market for part-time work (e.g. United States, United Kingdom, Canada, Australia).

A smooth transition from school to work is key...

Youths have been disproportionately affected by policy moves to increase flexibility in working hours and employment contracts, especially in countries with high and persistent unemployment. As stressed above, the increase in part-time work among youths may partly be a response to the wish of young people to combine work with continuing education. Likewise, temporary contracts may facilitate job matching, by providing an initial work experience for youths, while also allowing employers to screen suitable candidates. However, in presence of stringent regulations for permanent workers, firms may also use temporary contracts to increase their workforce flexibility over the business cycle, with potential negative implications for youths' longer-term employment prospects. Under these circumstances, temporary employment may not be an initial stepping stone to better jobs for them, but rather lead to a persistent precarious situation, with potentially negative consequences for human capital formation and work experience. Thus, if not accompanied by relaxation of the protection for permanent workers, measures to increase work flexibility through relaxation of regulations governing temporary contracts run the risk of increasing the segmentation of labour markets. In addition, wage pressure may increase as the development of temporary contracts leads to even higher job security among permanent workers.⁸

... but the quality of jobs available for young persons is also important

Youth employment prospects are also potentially sensitive to wage floors. Most OECD countries have some sort of minimum wage, set either by government or collective agreement. The level of the minimum wage varies greatly across countries and there is evidence that, if set too high, it may have dis-employment effects, especially amongst young workers (OECD, 1998f).

... and their employment prospects are also affected by high wage floors

7. However, recent evidence suggests that, in a period of rapid technological changes, formal apprenticeship programmes may be encountering greater difficulties in providing trainees with the right qualifications. See OECD (1999).

8. Saint Paul (1996) discusses the effects on the level and dynamics of employment of the liberalisation of temporary contracts, while leaving in place rigid regulations on permanent contracts. He suggests that the effects of such reform on employment levels are ambiguous, while the variability of employment over the cycle may increase. The reform will also increase the job security of permanent workers, whilst workers with temporary contracts will bear the burden of employment adjustment and have much less employment security.

Older workers are retiring earlier, especially in countries with high unemployment and with strong financial incentives to retirement

At the other end of the age spectrum, older workers have withdrawn from the labour market at earlier ages over the past two decades, especially in countries with high unemployment. Policies in many countries have, until recently, tended to increase the financial incentives for early retirement *via* an earlier access to old-age pension systems under favourable conditions.⁹ Moreover, older unemployed workers, who were not yet entitled to old-age pensions, have *de facto* been able to use other non-employment benefits (*e.g.* unemployment benefits and invalidity benefits) as a bridge from labour earnings to pensions.

Attempts to redistribute jobs from old to young workers have proved to be ineffective and potentially burdensome

Incentives to early withdrawal from the labour market have helped soften some of the effects of industrial change on older generations and may have reduced pockets of high unemployment within certain localities. In a broader context, this policy has been justified in some countries as a way of “creating” jobs for younger workers, by redistributing employment opportunities from the old to the young. But lower employment rates at one end of the age spectrum have not translated into higher or rising employment rates at the other end. Indeed, as a general rule, countries that have high employment rates among older workers also have high employment rates for the young. In addition, this policy option increasingly conflicts with the need to improve the financial viability of public pension systems in the context of ageing populations, which can best be achieved by encouraging people to work longer (see OECD, 1998*e*).

Prime-age women are increasing their active role in the labour market...

In contrast to the decreasing labour-force participation among young and older workers, prime-age women have continued to integrate more fully into the labour markets of most OECD countries. However, the breadth and depth of women’s involvement in working-life continues to differ widely across countries as evidenced by persistent differences in participation rates. Working women are often in part-time jobs, frequently as a matter of choice, and the development of markets for this type of work is thus a factor in encouraging more women to enter the labour market. Recent measures in some countries to make part-time work more attractive through deregulation and adjustments to tax-benefit incentives are therefore particularly relevant to women.

... although material living conditions have not improved for some of them

Nevertheless, material conditions for households headed by young mothers with only a marginal attachment to the labour market have not necessarily improved: their relative and, in some cases absolute, disposable incomes have fallen in a number of OECD countries. These households are often heavily dependent on transfer systems that often fail to keep pace with increasing incomes of those who can devote more time to market work. In response, a number of countries are exploring ways of making work more rewarding for single parents through changes in tax-benefit systems and through encouraging them to search actively for work (see below).

The employment prospects and earnings potential of low-skilled workers are poor in most countries...

Difficult labour market conditions amongst people with low qualifications are found across all age-gender groups. Their unemployment rate is very high (particularly in Europe), and they face a higher risk of being persistently in low pay (especially in North America and the United Kingdom). Cross-country differences in the share of low-skilled prime-age workers in unemployment or in low pay depend on a number of economic and social factors, including the dispersion of earnings and the characteristics of the social transfer systems. For example, the existence of high wage floors may prevent low-skilled people from getting a foothold in employment, and a long spell of joblessness may reduce even further their human capital and, thus, their re-employment probability. At the same time, however, workers with persistently low

9. These issues were discussed in detail in Chapter IV “Low-income dynamics in four OECD countries” in *OECD Economic Outlook*, 64, December 1998.

earnings may not perceive their social and economic prospects as being significantly better than if they were chronically unemployed.

However, differences across countries in the incidence of low pay are greater than in *per capita* disposable income, also because of the redistributive effects of tax and transfer systems. Moreover, the incidence of poverty is generally higher in workless households than in households with at least one member at work. Indeed, work attachment (the number of household members in employment) is the most important factor determining the relative income position of households: households with no workers are often at the bottom of the income distribution and have the highest poverty rates.¹⁰

... although low pay does not necessarily lead to poverty

Implementing the *Jobs Strategy*: progress made and lessons from countries' experience

How do the labour market developments discussed in the previous section compare with the reform effort that countries have made over the 1990s? Figure IV.5 presents evidence on progress in implementing reforms. It does so by highlighting the follow-through of *Jobs Strategy* recommendations in the four broad policy areas of: *i*) labour market; *ii*) education and training; *iii*) the business environment and *iv*) macroeconomic policy. The follow-through of recommendations in the first three areas is calculated by assigning a different score to recommendations that were entirely followed, partly followed, not pursued at all, or where policy went in the opposite direction to the recommendations.¹¹ Major reforms that had been undertaken before the *Jobs Strategy* recommendations – and implying that no further action was required – have been included in the calculation of the follow-through rates.

Many countries have implemented structural reforms over the 1990s

Although there are inherent difficulties with this exercise,¹² Figure IV.5 illustrates that in general OECD countries have made a significant effort to implement structural reforms, although differences exist as to the scope and pace of the policy action (Box IV.2).¹³

Progress in the labour market area has been uneven. In particular, a number of countries with high and persistent unemployment have been hesitant to implement reforms that affect core workers. For example, relatively few changes have been made to stringent employment protection legislation for workers with regular contracts, whereas many countries have eased regulations for fixed term contracts and temporary work agencies. Moves towards more decentralised wage bargaining have been implemented in a number of countries, but most of them have been reluctant to reform minimum wages or, more generally, to allow for a widening of earnings distri-

Some countries have been hesitant in embarking on reforms that affect core workers, preferring to focus on actions at the margin...

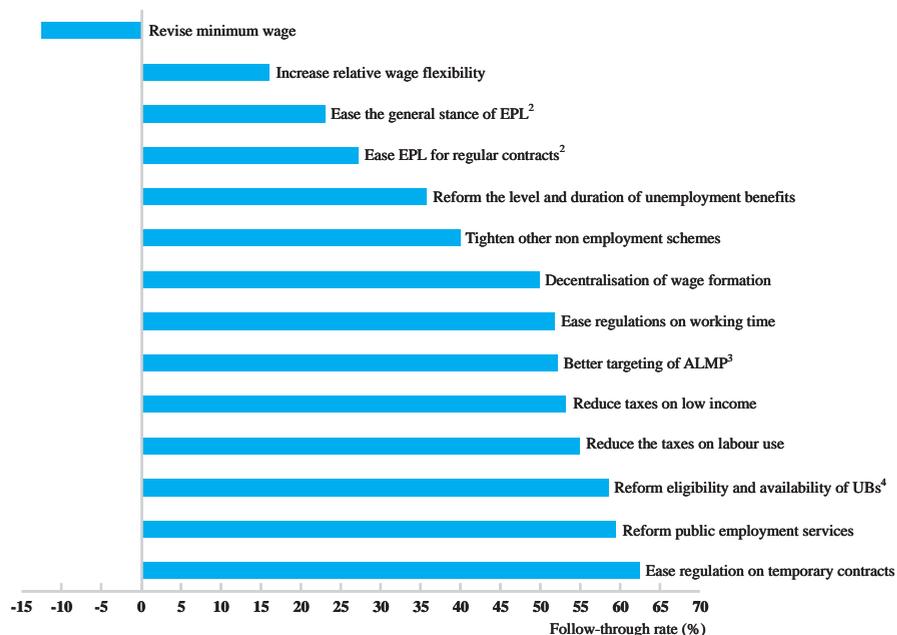
10. These points were elaborated in Chapter IV "Low-income dynamics in four OECD countries" in *OECD Economic Outlook*, 64, December 1998. See also Burniaux *et al.* (1998).

11. The benchmarks for judging countries' progress in implementing the *Jobs Strategy* are based on the recommendations included in the *OECD Economic Surveys*. See OECD (1999) for more details.

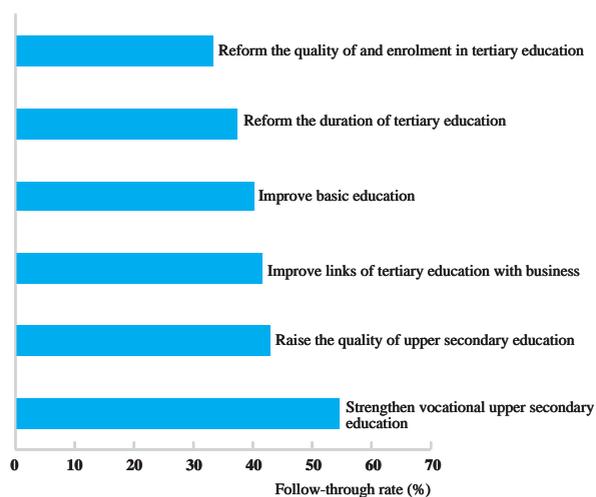
12. In particular, judging the extent to which a country followed a recommendation is difficult in some cases. Recommendations also differ in *scope* and *importance*. Differences in the scope of recommendations were taken into account by re-grouping the original recommendations into a smaller number of thematic areas. In addition, within each of these policy subjects, more weight was given to recommendations referring to the *general* policy stance than to those referring to *specific* policy aspects. See OECD (1999) for more details.

13. The figure reports the weighted proportion of recommendations which were followed. The weights were assigned as described in the previous footnote.

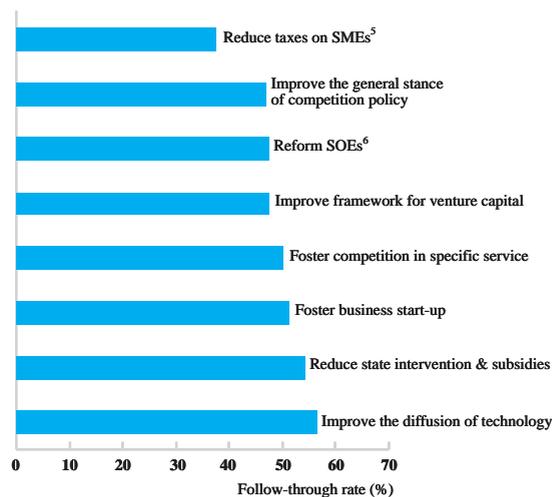
Figure IV.5. Follow-through on policy recommendations to implement the Jobs Strategy

Labour market policies¹

Education and training policies



Business environment policies



1. The follow-through rates in this area include significant reforms which had been undertaken before the Jobs Strategy recommendations, which implied that no further action was requested.
2. Employment protection legislation.
3. Active labour market policies.
4. Unemployment benefit and related welfare benefit systems.
5. Small-and medium-sized enterprises.
6. State-owned enterprises.

Box IV.2. Key structural policy reforms in the 1990s

This box presents the most significant structural policy developments in Member countries over the 1990s, based on the assessment made in the 1997 report (*Implementing the Jobs Strategy: Member Countries' Experience*) and evaluation of more recent policy developments in the 1999 Report to Ministers (*The OECD Jobs Strategy: Assessing Performance and Policy*, 1999).

- *Transfers and taxes.* Unemployment benefit support levels have been cut back in Germany, Canada, Austria, Belgium, Denmark, Finland, Ireland, and the Netherlands whereas the level of benefits and other unemployment-related welfare benefits was increased in Italy (albeit from a very low level), Greece (also from a low level), Iceland and to some extent Switzerland. In France reforms were introduced to reduce benefit support although recent policy initiatives have seen some reversal of this. Maximum duration of benefits was lowered in Germany, United Kingdom, Canada, Belgium, Denmark, Iceland and Norway, while Switzerland increased it. Many countries tightened eligibility, availability or willingness-to-work requirements, as well as rules concerning temporary layoffs. Some countries have implemented – or plan to phase in – changes in early-retirement schemes, including Germany, Italy, Austria, Belgium, Denmark, Finland, Greece and the Netherlands. In a number of countries decisions have been taken or are under consideration to raise the standard age of entitlement to old-age pensions (e.g. United States, Japan, Italy, United Kingdom (women), New Zealand and Portugal (women)). At the same time, conditions for access to invalidity or sick-pay schemes have been tightened in Germany, Italy, Austria, Hungary, the Netherlands, Norway and Spain. Evidence suggests reductions of the overall tax wedge on the use of labour in ten of the 25 Member countries for which data are available, and significantly so in Ireland, the Netherlands, New Zealand and Norway. Moreover, the tax wedge for low-wage workers was reduced in Germany, France, United Kingdom, Canada, Austria, Belgium, Denmark, Finland, Greece, Ireland, the Netherlands, Mexico and New Zealand. Also, measures to reduce “unemployment traps” through the use of employment-conditional benefits were introduced or expanded especially in some English-speaking countries.
- *Employment protection legislation.* Finland and Spain are the only two countries to have significantly eased employment protection for permanent workers, although from very stringent levels. In contrast, employment protection became tighter in France and Luxembourg. Most Member countries eased regulations for fixed-term contracts and temporary work agencies (TWAs). In particular, Italy, Greece, Spain and Sweden have allowed the use of TWAs, while restrictions on fixed-term contracts were eased in Germany, Italy, Austria, Belgium, Finland, the Netherlands, Portugal and Sweden and tightened in France and Spain.
- *Working-time flexibility.* Regulations restricting unusual working hours were eased in Germany, France, Austria, Belgium, Finland, Greece, Portugal and Spain, but measures to discourage overtime were introduced in France and Finland. At the same time, an overall maximum on weekly work hours was introduced at the European Union (EU) level. Regulations concerning part-time work were eased in Germany, France, Italy, Austria, Belgium, Denmark, Greece, Luxembourg, Spain and Switzerland, and tax incentives for part-time work have been introduced in France, Italy, Austria, Finland and Spain. France has, however, restricted the normal working week to 35 hours, and a similar move is under consideration in Italy.
- *Wage formation.* A major reform of the industrial relations system was made in New Zealand with the Employment Contracts Act in 1991, which turned the labour market in this country to one of the least regulated in the OECD. Australia also promoted enterprise-level bargaining and in 1993 the United Kingdom supplemented the reforms of industrial relations legislation of the 1980s. In the continental European countries, reforms in the industrial-relations system have generally been more gradual, maintaining bargaining among the social partners as the key element of wage determination, but trying to improve co-ordination among the different levels of negotiation (national, sectoral, firm level). A number of European countries have also introduced income policy agreements focusing on wage setting and labour market reforms, including the Netherlands and Ireland since the 1980s. Italy, Denmark, Spain and, more recently, Portugal moved in the same direction in the 1990s. Significant relative reductions in legal minimum wages have taken place in the Netherlands, while both the United States and New Zealand have recently raised their minimum wages, although from relatively low levels. Furthermore, the United Kingdom introduced a statutory minimum wage that allows for a sub-minimum rate for young workers and Ireland proposes to introduce a minimum wage in the near future.
- *Active labour market policy.* The most notable change in the orientation of active labour market programmes is the increase in targeting towards job-search assistance (especially in the English-speaking countries, Austria, Belgium, Finland and Switzerland). Several countries made efforts to improve the evaluation of active programmes (in particular, the United Kingdom and Belgium). Significant improvements in the targeting of programmes to disadvantaged workers occurred in many countries for which recommendations were made. Reforms have also been made to rules regarding re-qualification for unemployment benefits via active labour market policies (e.g. Germany, Denmark, Finland and Norway). As a notable policy change, Australia made the market for employment services fully contestable, and public monopolies on job placement services have been eliminated in Germany, Italy, Austria, Denmark, Finland and Spain.

Box IV.2. Key structural policy reforms in the 1990s (cont.)

- *Education and training.* The length of compulsory education has been extended in Italy, Belgium, Czech Republic, Iceland, Mexico, New Zealand, Norway, Portugal and Turkey; while national testing at key stages has been introduced in France, England, New Zealand, Sweden and Spain. Reforms aimed at establishing clearer curriculum frameworks were advanced in countries with decentralised education systems (e.g. United States, United Kingdom, Australia and New Zealand). In these and other countries, secondary schools were allowed greater management autonomy. Steps have been made to improve the quality of vocational and technical education and training in many countries. Purposeful combinations of work and learning were introduced more widely or strengthened in a number of countries, including the United States, Italy, United Kingdom, Canada, Australia, the Netherlands, Portugal and Spain. France, the Netherlands, Norway and Spain introduced financial incentives to employers to offer apprenticeship places, which are also an important feature of “Modern Apprenticeships” in the United Kingdom. Several countries also undertook to reform tertiary education by putting under scrutiny the contents of studies and in some cases modifying and diversifying them (including shortened programmes, either distinctive or as the first stage of a longer study programme), not least to prepare students better for evolving job destinations and paths (Japan, United States in some individual states, Austria, Denmark, Finland, Portugal, Sweden, United Kingdom, France, Germany); facilitating entry routes and varied pathways through flexible admissions, crediting and transfer arrangements, thus enabling students to find more easily the learning options and mixes they need (United States, Japan, France, Belgium – Flemish Community); altering governance arrangements, among other things to foster increased contact and new partnership with businesses and local authorities (Austria, Finland, France, New Zealand); and introducing or reinforcing incentives or processes for improvements in teaching and in learning outcomes, partly *via* such financing mechanisms as user charges, lending and outcome-based funding for students or providers (Australia, New Zealand, Japan, United States in some individual states, Denmark, Belgium – Flemish Community, Finland, France, Germany, Netherlands, Portugal, Sweden, United Kingdom).
- *Product market competition.* Tariff and non-tariff barriers in most OECD countries have been significantly reduced in the context of international and regional trade agreements.¹ Moreover, unilateral reductions of trade barriers took place in Australia, New Zealand and Switzerland. Various aspects of competition law were strengthened in a large number of countries. Measures to ease general licensing requirements have been taken in the Netherlands, and barriers to inter-regional competition are being lowered in Canada, Australia and Switzerland. A few countries (Germany, Australia, Austria, Finland, Ireland, Spain and Switzerland) took action to introduce more competition in professional services (e.g. lawyers, architects) and crafts sectors, which are usually subject to regulation of entry and operational control, enforced by law or by self-regulating bodies. Some progress was also made on the recommendations for liberalising shop-opening hours (Germany, Italy, Austria, Belgium, Denmark, Finland, Greece and the Netherlands) and Japan eased restrictions on large-scale stores, while France has tightened the latter type of regulation. Competition in the financial sector is due to increase in Japan, Mexico and EU countries. Steps towards further liberalisation have been taken in telecommunications (e.g. United States, United Kingdom, Australia, Finland, Sweden), electricity (e.g. United Kingdom, Australia, Finland, Norway, Sweden) and railways (e.g. Germany, United Kingdom, Denmark, Mexico, Sweden), and EU-wide liberalisation is taking place in the telecommunications, airlines and electricity sectors.
- *Innovation and technology.* Innovation and technology diffusion policy has changed considerably over the past decade. Direct public support for research and development (R&D) has been reduced. Greater demand for accountability has led to more emphasis on commercially relevant R&D and on ways to enhance the efficiency of public spending. Market mechanisms for innovation and partnerships with the private sector have been fostered and policies increasingly focus on networking. Recent policy initiatives reflect this new agenda. A number of countries, including Japan, France, Austria, Korea and Mexico, took major initiatives to reform innovation policy. Most initiatives focused on measures to stimulate the diffusion of technology, and to facilitate the growth of new technology-based firms. A few countries (Japan, Finland and Korea) are committed to a substantial increase in public spending on R&D. Other countries, such as the United Kingdom, Austria, the Czech Republic and New Zealand plan to increase public spending on R&D, but these efforts are less ambitious than those of the first group of countries. Changes to R&D support regimes included the reform of the R&D tax credit in France, Mexico and, recently, Portugal. France and Austria have also introduced new thematic research networks, based on public/private partnerships, which aim to stimulate innovation and make public support more effective. Several countries have also undertaken initiatives to enhance the access of firms to finance and risk capital, including broad reforms to financial markets (Germany), reforms to stock markets (Germany, Austria) and

1. There has been a notable increase in anti-dumping cases in the 1990s. See Chapter VII “Trends in market openness” in this Outlook.

Box IV.2. Key structural policy reforms in the 1990s (cont.)

measures to ease access to venture capital (Japan, Germany, France, Austria, Belgium, Sweden). Recent initiatives on technology diffusion policies include incentives for the development of technology transfer institutions (Austria), and measures to enhance the exploitation of patents and promote their commercialisation (Japan, France, Austria, Belgium).

- *Entrepreneurship*. A number of countries have introduced, or are planning to introduce, reforms aimed at reducing “red tape” for business start-ups (Germany, France, Italy, United Kingdom, Australia, Austria,

Finland, Mexico, the Netherlands, Portugal and Spain). Germany has also extended exemptions for very small companies from employment protection requirements. Measures to ease financing constraints for small and medium-sized companies have been taken in many countries, including Japan, Germany, France, Italy, the United Kingdom, Canada, Australia, Austria, Denmark, Finland, the Netherlands, New Zealand, Norway, Spain, Sweden and Switzerland. In Germany, France and Austria, steps have been taken to strengthen links between small and medium-sized enterprises (SMEs) and research centres.

butions. In addition, only a few countries have significantly reduced the level and maximum duration of unemployment benefits and other non-employment benefits. On the other hand, many countries have preferred to tighten the eligibility conditions for these benefits.

More determined actions have been taken in a number of countries to reduce labour costs or increase work incentives for low-paid and inexperienced workers, in recognition of their severe problems in the labour market. Payroll taxes for low-income workers have been lowered in several countries (Box IV.2), while remaining high for other workers in many European countries. In-work benefit schemes have been fostered in some English-speaking economies, and efforts have been made in many cases to improve the targeting of active labour market programmes towards workers with long spells of joblessness and low re-employment probabilities.

In the area of education and training, many countries have made reforms of secondary education, in particular by reinforcing the link between vocational and general education. A relatively lower follow-through on recommendations to reform basic education can be partly explained by the important efforts made before the *Jobs Strategy* recommendations in several countries. Reforms of basic education were largely concentrated on improving educational infrastructure and the enrolment rates of marginal groups. Recommendations concerning tertiary education also had a lower follow-through than those related to secondary education. There are, however, significant differences across countries in this respect.

Efforts to improve the transition from education to work have been made in a number of countries by easing the access to part-time work. Moreover, the workplace component within secondary vocational education has been reinforced in many countries. In addition, a number of countries, attempted to either introduce or expand apprenticeship-type systems for youths.

Countries have made some progress in most of the policy areas relating to the *business environment*.¹⁴ Several countries have implemented recommended reforms to improve the creation and diffusion of technology, to reduce state intervention and subsidies and to encourage business start-up. Furthermore, countries to which it was recommended made efforts to increase competition in certain service sectors. How-

... although there has been a more general tendency to help low-paid workers

Quality in secondary education has been promoted more convincingly than in other areas of education...

... with efforts to ease the transition from school to work

Progress has also been made to improve the business climate, though much remains to be done in fostering competition and reducing taxes on SMEs

14. See also two OECD thematic reviews on these issues (OECD, 1996c, 1998a).

ever, further reforms are still needed in these areas. In the case of competition policy, for example, comprehensive reforms are still lacking. In addition, recommendations to lower the tax burden on small and medium-sized enterprises (SMEs) had a relatively lower follow-through rate, probably because the major fiscal consolidation efforts in the recent past left little room for manoeuvre for tax reductions.

Structural policy reforms and labour market outcomes

Countries that undertook reforms saw progress in the labour market

Bearing in mind the tentative nature of the indicator on follow-through rates, Figure IV.6 suggests that countries that acted on a high proportion of the recommendations of the *Jobs Strategy* concerning labour market policy often enjoyed improved labour market conditions.¹⁵ In particular, most of the countries posting significant falls in trend unemployment and improved overall labour market conditions (the United Kingdom, Canada, Australia, Denmark, Ireland, the Netherlands and New Zealand) have been amongst the most determined in pursuing the *Jobs Strategy*. In addition, they have often tackled key policy aspects for the functioning of the labour market, including unemployment benefits, taxes on labour and the wage formation process (see Box IV.2). By contrast, the majority of countries with high or rising trend unemployment are those which have so far been reluctant to implement labour-market-related recommendations of the *Jobs Strategy* in a comprehensive way.

A comprehensive approach is desirable...

Figure IV.6 also suggests that a relatively high follow-through rate may be required before significant declines in unemployment materialise. One explanation for such a finding is that labour market policies (and institutions) have complementary effects on the labour market, and thus reforms in several areas have a compounded impact.¹⁶ The comprehensive nature of the reform strategy in countries with high follow-through rates may also help to explain the support that reforms received from the population. Reforms on a wide front have affected most workers – including those who play a dominant role in wage-bargaining process – and not just people at the margin, as it is often the case with piece-meal reforms. In addition, the direct involvement of the social partners in the design and implementation of reforms in some countries is likely to have contributed to a favourable environment. Likewise, labour market reforms in countries with high follow-through rates have often been accompanied by measures aimed at fostering product market competition. Thus, it is likely that wage moderation – which has generally been a component of the labour market adjustment process – has translated into lower prices rather than higher producers' rents.

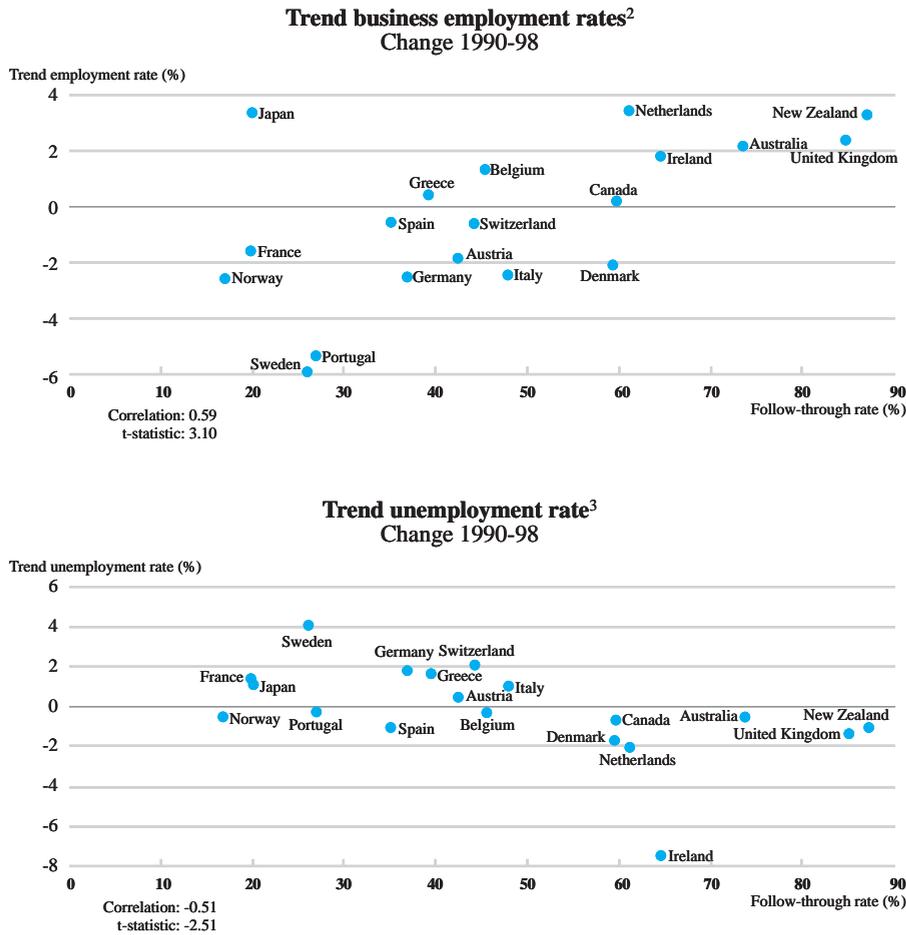
... but it takes time for the effects of reforms to emerge in the labour market

Evidence also suggests that the effects of structural reforms materialise in terms of improved labour market performance with a relatively long lag. Workers and firms have to adapt to the new conditions set by the reforms and there might be short-term adjustment costs. Indeed, some of the countries with significant falls in trend unem-

15. The figure focuses on labour market reforms because policy changes in the other two areas (education and business environment) are too recent to have had a major impact on the labour market. This is especially the case with reforms of the education system, where the effects are likely to materialise in the labour market only over the medium to longer run.

16. Coe and Snower (1997) provide a theoretical justification for the complementarities of labour market policies and institutions, and Elmeskov, Martin and Scarpetta (1998) offer some preliminary empirical evidence. In particular, they suggest that employment protection regulations and taxes on labour use may have a more significant dis-employment effect in countries with industry-level bargaining with little co-ordination where wages do not fully adjust to higher labour costs.

Figure IV.6. Follow-through in implementing labour market reforms and performances, 1990-98¹



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 trend component as well as trend employment. If the two countries were added to the country sample, the correlation between follow-through and evolution of trend unemployment will remain statistically significant while that with trend employment will not.

See OECD(1999a) for more details.

2. Trend business sector employment rates are calculated on the basis of a regression against the output gap (see Figure IV.2).

3. Trend unemployment data are based on OECD estimates of the *non-accelerating wage rate of unemployment* (NAWRU).

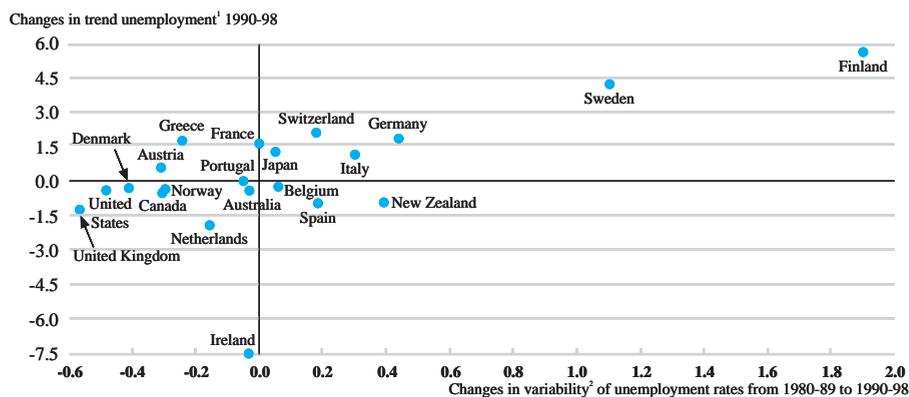
ployment and overall improvements in labour market conditions (United Kingdom, Denmark, Ireland and the Netherlands) began implementing reforms in the early to mid-1980s and even in Australia and New Zealand the start of key reforms can be dated back to the 1980s. In other countries that have implemented major reforms only in the early to mid-1990s (e.g. Canada, Spain), significant reductions in trend unemployment have emerged only in the most recent past and other measures of labour market performance have not yet improved.

The *Jobs Strategy* highlighted the role of macroeconomic policy in improving labour market conditions by providing a supportive framework, based on sound public finances and price stability. These conditions are likely to affect unemployment and employment via the channel of lower real interest rates. A reduction in real interest

A macroeconomic framework geared to strong, balanced and sustainable growth is important

rates will tend to reduce production costs and encourage capital accumulation and labour productivity and, if real wages do not fully adjust to the increase in productivity, this will result in lower unemployment.¹⁷ More stable macroeconomic conditions also allow business to plan ahead with more confidence that structural reforms will not be abruptly reversed or abandoned, and give governments and monetary authorities more room for manoeuvre faced with unexpected shocks. Figure IV.7 provides some evidence of the effects of macroeconomic fluctuations on the labour market. It shows that countries that managed to contain macroeconomic fluctuations – proxied by changes in the variability of changes in actual unemployment rates – generally avoided strong increases in estimated trend unemployment. In contrast, those countries with large macroeconomic fluctuations have often experienced stronger increases in trend unemployment, especially in presence of rigid labour markets.

Figure IV.7. Cyclical variability and trend unemployment, 1990-98



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

Shifts towards stability-oriented macroeconomic policies date back to the early to mid-1980s in most of the countries with high follow-through rates and improvements in labour market conditions. The shift in macroeconomic policy was indeed considered as an integral part of the reform strategy in Ireland and the Netherlands that was agreed with the social partners. Likewise, the shift was introduced either before or at the same time as structural reforms in the early 1980s by new governments in the United Kingdom and Denmark. However, New Zealand experienced some increase in macroeconomic fluctuations over the past decade and this may help to explain why reductions in unemployment did not materialise as early as the scope of its structural reforms would have suggested. Many other OECD countries embarked on stability-oriented macro-policy reforms in the late 1980s or 1990s. This is creating a suitable environment for implementing structural reforms more decisively. However, moves towards more stable macroeconomic conditions without also implementing structural reforms may have been costly in terms of unemployment, especially in countries with rigid labour markets (see also Ball, 1996).

17. OECD (1997) discusses in more detail the links between macroeconomic policies and labour market conditions. See also Phelps (1994) and Blanchard (1997).

Concluding remarks

Evidence in this chapter suggests that the *Jobs Strategy* represents an effective set of guidelines to tackle high and persistent unemployment and improve overall labour market conditions. Countries that have gone the furthest in implementing its recommendations have enjoyed significant falls in unemployment and reached (or maintained) high employment and participation rates. These are also the countries that started a reform process already in the 1980s, which has given sufficient time for the beneficial effects of reforms to emerge in the labour market. Countries that have made a later start, but have progressed a great deal along the lines of the *Jobs Strategy*, are beginning to experience its benefits.

The Jobs Strategy is a valid tool to tackle high and persistent unemployment...

The experience of the countries that have gone the furthest in implementing the *Jobs Strategy* also points to the need for a comprehensive set of structural reforms. This, combined with supportive macroeconomic policy settings, allowed them to exploit important synergies. Wide-ranging reform strategies also contributed to a perception that all workers shared the costs and benefits, including core workers, which is often not the case in piece-meal reform strategies.

... especially if it is implemented comprehensively...

Several other countries have pursued targeted policy reforms to help people at the margin of the labour market, in particular youths and inexperienced people as well as low-paid workers. While sound in their own right, these policies may not produce significant results unless they are accompanied by more general actions that reduce overall unemployment. For example, measures aimed at easing the transition from education to work may prove ineffective if labour demand is constrained by very high wage floors. And fostering temporary employment while leaving in place tight regulations on regular contracts may not durably help young workers who will run the risk of being trapped in precarious jobs. Also, reforms of in-work benefits may not encourage low-skilled people to take up jobs if they are not accompanied by reductions of overly generous non-employment benefits. And targeted reductions of payroll taxes for low-paid workers may not lead to higher overall employment rates if taxes for other workers have to be increased to compensate for the revenue shortfall.

... while piece-meal reforms may not deliver, even if targeted to disadvantaged groups

Countries that have managed to foster employment and consistently reduce unemployment exhibit a variety of economic, social and institutional settings, which inspired the implementation of their reform strategy. However, in all cases of reforms that successfully increased employment rates and reduced unemployment, the approach taken has followed the main thrusts of the *Jobs Strategy*.

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