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OECD Employment Outlook
Boosting Jobs and Incomes


# Editorial

## *Boosting Jobs and Incomes*

In the early 1990s, many OECD countries were struggling with high and persistent unemployment. In order to assist them, the OECD released its wide-ranging Jobs Strategy. This had a major impact on the policy debate. While it had its critics, the record shows that those countries which implemented its recommendations outperformed those who did not.

But time passes and challenges evolve. While some countries still need to cut unemployment, especially in continental Europe, new questions loom. How can OECD labour markets cope with population ageing and globalisation? What has been learned from implementing the Jobs Strategy recommendations in terms of what works and what does not? The OECD has recently carried out a comprehensive reassessment of the Jobs Strategy. The empirical results are presented in this issue of the *Employment Outlook*, and the policy recommendations are summarised in a companion volume.*

Many of the policy recommendations are unchanged from the original Jobs Strategy: they have stood the test of time and relevance. But the reassessment has also yielded new insights and policy lessons. We would like to highlight seven of them.

First, new evidence shows that so-called "activation/mutual obligations" approaches can co-exist with relatively generous unemployment benefits while providing strong incentives for the unemployed to find work. What is needed is a judicious mix of incentives. This includes effective re-employment services to help the unemployed find a new job, as well as adequate monitoring of the job-search efforts of the unemployed to ensure that they are actively looking for work, backed up by the threat of graduated benefit sanctions.

As many countries have managed to cut their unemployment rolls by applying such approaches, a new problem has emerged. Large numbers of people of working age are now drawing other non-employment benefits, *e.g.* sickness/disability, lone-parent and early retirement benefits. Some countries are experimenting with different activation approaches to help many of these people to find work. It will be a priority for the future to monitor these efforts closely to determine what works and why.

Second, it is vital to remove existing barriers to labour force participation among women, older workers and under-represented groups more broadly. As regards women, several family-friendly policies have shown their worth. They include flexible working patterns, appropriate tax incentives, adequate but not overly long paid parental leave, good-quality, affordable child care and more sharing of caring responsibilities between men and women. Concerning older workers, remaining disincentives to continued work embedded in old-age pension systems and various pathways into early retirement need to be removed.

Third, it is time to grasp the nettle of employment security *versus* flexibility. Too often, countries have opted to ease the conditions governing temporary jobs while leaving those governing permanent jobs unchanged. While this may deliver some short-term job gains,

* See OECD (2006), "Boosting Jobs and Incomes: policy lessons from reassessing the OECD Jobs Strategy", free policy report, available on-line at *www.oecd.org/els/employmentoutlook/policylessons*, Paris.

it leads to growing duality in labour markets and hinders investment in training, and thereby productivity growth. Fortunately, there are better alternatives to hand. One such is so-called "flexicurity", but there are others such as the Austrian individual savings accounts. These have the merit of guaranteeing much greater predictability to employers concerning the costs of hiring and firing while providing essential income security to workers who are laid off.

Fourth, policies to expand labour demand are crucial. This involves pricing back into employment the lower-skilled who are excluded by tax, social contribution or institutional arrangements. Also, and quite unambiguously, policies to stimulate product market competition will open up many new jobs, especially in services. This holds in particular for continental Europe and Japan.

Fifth, effective lifelong learning has great potential to help workers adjust to changing skill demands and aspire to better-paid jobs. There is much to be done in schools, as the PISA (Programme for International Student Assessment) results show. But learning must continue during working life. Here there are many obstacles to overcome. One task is to ensure that training markets function better. Another is to ensure that there are sufficient financial incentives for firms and workers to invest more in on-the-job training. Co-financing can help a lot here. And it is also important to reduce the time constraints which impede the take up of training, *e.g.* by well-designed training leave schemes.

Sixth, macroeconomic policy plays a crucial role. Stability-oriented macroeconomic policy reduces cyclical output fluctuations, thereby minimising the risk that any temporary decline in employment may have more permanent effects. Macroeconomic policies can also interact positively with structural reforms in order to bring forward the gains in terms of higher output and employment. In this way, they can strengthen the political support for difficult structural reforms.

Finally, experience shows that there is no single golden road to better labour market performance. There is more than one model of success to hand from which to take inspiration to fit specific national circumstances and history. However, this does not imply that anything goes. The successful performers share some common features, not least an emphasis on macroeconomic stability, adequate incentives for all labour market participants and strong product market competition.

It is now vital for the lagging countries to take heart and implement the necessary reforms. The costs of inaction are too high in terms of continued unsatisfactory labour market performance. The successes achieved by some OECD countries show what can be done if there is sufficient political will to reform.

Jean-Philippe Cotis
Director, OECD Economics Department

John P. Martin
Director, OECD Directorate
for Employment, Labour and Social Affairs

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