IMPLEMENTING THE JOBS STRATEGY
INTERIM REPORT ON THE COUNTRY REVIEW PROCESS IN EDRC

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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(Note by the Secretariat)

Introduction

As part of the follow-up to the OECD Jobs Study, country examinations in the EDRC have since autumn 1995 included a discussion of the country-specific policy priorities for implementing the OECD Jobs Strategy and of recent progress in that direction. A main basis for discussion has been provided by special chapters in the draft country reviews that both describe important features of developments in employment and unemployment and their relation to structural policy developments in various areas, and provide suggestions for priorities for further structural policy action in the various areas identified in the Jobs Study. In a more general sense, the whole of a country review by the EDRC may be seen as a follow-up to the OECD Jobs Study, including in particular detailed structural chapters which have often dealt with issues of direct relevance to the objectives of increasing employment and reducing unemployment. In addition, the stance of conjunctural macroeconomic policies and the longer-term evolution of macroeconomic settings is a central theme of country examinations and evidently also of great importance for developments in employment and unemployment. The present note attempts to pull together the lessons learnt from these examinations so far -- both as regards the substance in the form of policy conclusions and as regards the process applied in the EDRC.

At the current stage, the conclusions drawn from such a pulling-together have a very preliminary and tentative character. So far only six countries have been covered: Italy (examined in October 1995), Spain (November 95), Denmark (December 1995), the Netherlands (February 1996), the United Kingdom and New Zealand (March 1996). This set of countries not only makes up less than a quarter of all OECD countries, it is also strongly European. The risk is, of course, that the stress put on individual policy requirements will reflect this particular sample of countries. Nevertheless, the set of countries actually spans a wide range of employment and unemployment performance against widely different institutional backgrounds.

This paper first reviews the main lessons learnt in the field of structural policy, emphasising the main priority areas for future policy action and reviewing recent progress towards implementing the Jobs Strategy. It subsequently describes the macroeconomic environment and the role that macroeconomic policies have played in shaping developments in employment and unemployment as well as outlining the future priorities in this area. Finally, the note discusses the experience with the review process in EDRC.
Progress in structural reform

Unemployment is the single labour market outcome that attracts paramount political interest in most countries. Its strong cross-country variation primarily reflects variation in structural unemployment (Figure 1). Indeed, in all countries the estimated structural component of unemployment is by far the dominant one whereas cyclical components are comparatively small. In the countries reviewed, estimated structural unemployment rates ranged from 6-8 per cent in the United Kingdom, the Netherlands and New Zealand, to around 9-10 per cent in Italy and Denmark, and to about 20 per cent in Spain. The dominance of structural unemployment implies that a significant and sustainable reduction of unemployment will have to rely mainly on structural policy measures. At a general level, the main structural policy recommendations for implementing the OECD Jobs Strategy can be subsumed under the nine headings set out in Box 1. For most of these headings, country-specific recommendations have been derived. However, on topics related to the creation and diffusion of technological know-how as well as to the entrepreneurial climate this has not yet been possible.

<table>
<thead>
<tr>
<th>Box 1. Structural policy recommendations for Implementing the Jobs Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance the creation and diffusion of technological know-how by improving frameworks for its development.</td>
</tr>
<tr>
<td>Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.</td>
</tr>
<tr>
<td>Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>Reform employment security provisions that inhibit the expansion of employment in the private sector.</td>
</tr>
<tr>
<td>Strengthen the emphasis on active labour market policies and reinforce their effectiveness.</td>
</tr>
<tr>
<td>Improve labour force skills and competences through wide-ranging changes in education and training systems, including to strengthen the foundations for learning throughout life.</td>
</tr>
<tr>
<td>Reform unemployment and related benefit systems -- and their interaction with the tax system -- such that societies’ fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of labour markets.</td>
</tr>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>

For most countries, the reduction of structural unemployment is seen as the overriding objective towards which the recommendations in Box 1 are directed. However, achieving higher levels of employment is also seen as important, even if such increases were to be largely matched by higher labour-force participation. Indeed, variations in employment rates across countries are much larger than variations in unemployment, suggesting that the benefits of structural policy reforms are larger than their effects on recorded unemployment alone (Figure 2). Beyond this, countries also pursue other objectives including the stimulation of earnings capacity among the least skilled, the need to tackle poverty effectively, and the enhancement of output and real income growth through improved resource allocation, accumulation of human capital, faster development and diffusion of new technologies, and a more dynamic entrepreneurial climate. The multitude of objectives is a finding that has come out clearly in the course of the six examinations undertaken thus far. While in many cases the different objectives are complementary, at times they appear to be in conflict, and in such situations an important role for structural policy was seen to be to soften such conflicts and allow the pursuit of one objective at lower cost in terms of deviations from fulfilment of others.
The possibility of conflict between policy objectives has been presented most clearly as a potential trade-off between targets of achieving some degree of horizontal equity in income and of enhancing labour market efficiency through, for example, policy measures that might result in a wider dispersion of wages. This issue emerged particularly clearly in the reviews of the United Kingdom, Denmark and New Zealand, and to a lesser extent in that of the Netherlands, with the countries addressing the perceived trade-offs involved in quite different ways. The United Kingdom and New Zealand emphasised the importance of establishing appropriate work incentives and saw alleviation of poverty, rather than earnings and income distribution more generally, as the main equity concern. Denmark, in contrast, attached great importance to social considerations and rejected a policy of reduced income support for the jobless and widening wage distribution as a main vehicle for reducing unemployment, a line that was also taken by the Netherlands. At the same time, it was argued that equity should be seen in a dynamic perspective. Thus, considerable mobility of individuals both across the earnings and income scales and in and out of employment implied that a focus on static income and earnings distributions gave too stark an impression of a trade-off between equity and efficiency. Moreover, in the case of New Zealand it was stressed that income differentials provided important incentives for education and skill acquisition. The same type of issues also came up in the context of Italy and Spain, where considerations of regional balance were an important influence on policy.

**Structural policy priorities**

As would be expected given the wide differences of economic and institutional context, the structural policy priorities identified by the Committee differ significantly between the six countries and across the nine general structural policy recommendations (Table 1). In the four continental European countries, a need for action was identified within a majority of the nine structural policy areas. For the United Kingdom and New Zealand, rather fewer areas were identified as in need of action. However, the identification of a need for action says little about the intensity of such a need. Indeed, in some cases very comprehensive reform is called for while in others, required policy action may be concentrated in one or two areas, or may have more the character of further incremental adjustments over a range of existing policies.

Among policy areas, four were identified as being in need of action across all six countries. A main reason for stressing the importance of improving labour force skills and competences was the perception of an on-going shift in labour demand away from less-skilled labour. Such a shift has often been ascribed to the introduction of new technologies and to growing trade with the non-OECD area. In all countries examined, the result was a tendency for higher unemployment among less-skilled workers though in some, notably the United Kingdom, but also to some extent New Zealand, this effect might partly have been cushioned by a widening wage distribution. While such a development strengthens the incentives for investment in human capital, policy makers may need to bear in mind the position of those at the bottom. The difference in the way the same underlying development; i.e. the shift in labour demand, manifested itself across countries was seen to reflect the degree of relative wage and labour cost flexibility, which again was reflected in the priority given to the recommendation of enhanced wage flexbility across countries. The need for a strengthening of vocational education was noted for a majority of countries and establishing or further developing a system of nationally recognised qualifications was also widely recommended. For some countries, notably Italy and Denmark, stress was put on measures to reduce high drop-out rates from secondary education.

The negative incentive effects arising from transfer and tax systems were also a cause for concern in all six countries. However, within this broad category the focus differed somewhat across countries, to some
extent reflecting the character of their income support systems. In the United Kingdom and New Zealand, where means-testing is widespread, high effective marginal tax rates for certain groups were seen as a problem to be addressed by shifting tax thresholds, lowering tax rates and changing schedules for withdrawal of transfers, so as to enhance the incentives for seeking and accepting work. At the same time, however, such reforms tend to increase the numbers of people in work who are affected by very high marginal tax rates or to raise budgetary costs. An additional concern in the case of New Zealand related to the absence of any reduction in the scale of benefits even over very long spells of unemployment. Reflecting the high overall tax pressure in Denmark, high effective marginal tax rates were seen as creating incentive problems across a broad spectrum of actual and prospective workers, in the latter case amplified by generous income support, the negative incentive effects of which were only partly offset by administrative mechanisms. More generally in the continental European countries with universal income support schemes, a main thrust of recommended policy was to review the generosity of unemployment insurance in respect of replacement rates, maximum benefit duration and eligibility criteria. In addition, recommendations comprised tightening of eligibility for disability or invalidity pensions (Italy, Netherlands) and curtailing generous early retirement schemes (Denmark, Netherlands) and leave schemes (Denmark).

The rationale for active labour market policies is based on the preference for helping the unemployed to get back to work rather than just providing them with income support and thereby risk prolonging unemployment. More generally, active labour market policies may be seen as measures that in a pre-emptive and forward-looking way aim to avoid that cyclical and frictional unemployment becomes structural. But the record of such policies has in practice been patchy. Among the six countries it was noted that, on existing and somewhat incomplete data, expenditure on active labour market measures was comparatively low in Spain, while for most other countries the stress was being put on enhancing the efficiency of such spending. Active placement, job search assistance and other measures to help the long-term unemployed find employment should be strengthened (Spain), together with a streamlining of the operation of the public employment service (Italy, Denmark, Netherlands) and the introduction of more competition into placement activity (Netherlands, Spain). In addition, and aimed at alleviating the conflict between equity and efficiency considerations, targeted and limited wage subsidies for long-term unemployed could be considered for the United Kingdom and Spain. In the case of New Zealand, the usefulness of backing up passive income support with active measures was stressed, and it was argued that compulsion on benefit recipients to accept offers of activation could act as a check on availability and thereby on continued eligibility for unemployment benefits.

The enhancement of product market competition was stressed, with a view to improve allocative and dynamic efficiency as well as to prevent product market rents from spilling over into the general wage level and thereby lead to higher unemployment. Among the actions recommended were the strengthening and more effective enforcement of competition law (Denmark, Netherlands, United Kingdom), the stronger exposure of public sector activities to competition (Italy, Denmark, Netherlands, Spain) and efforts to curb the power of professional organisations and enhance entry possibilities, notably in the service sector (Italy, Spain).

Concerning wage and labour cost flexibility, a need to enhance relative wage flexibility so as to better align the structures of labour demand and supply was identified in Italy, Denmark, Netherlands and Spain. However, the reasons for lack of relative wage flexibility varied across these countries as did the policy recommendations for alleviating this problem. In the Netherlands and Spain, administrative extension of wage agreements and rigid rules guiding collective bargaining were seen as major obstacles to flexibility, and introducing or extending the possibility for firms to opt-out of general agreements was advocated in both cases. In Italy, regional wage compression, which was unjustified by productivity developments, had been underwritten by public transfers and other support policies for the South. Moreover, widespread tax
evasion was seen as a factor putting upward pressure on tax rates and labour costs for those subject to taxation. In the Netherlands, although the legal minimum wage had fallen relative to bargained minimum wages, it was seen as effectively truncating the wage distribution, suggesting that it should be abolished or reduced, whereas in Denmark generous transfer payments had pushed up bargained minimum wages which needed to be reduced. In the case of the Netherlands it was argued that a wider wage distribution could be better aligned with equity objectives via in-work benefits such as an earned income tax credit, while in the case of Denmark it was noted that more evenly distributed employment possibilities across education groups, brought about for example as a result of wider wage dispersion, might reduce unevenness of life-time income more efficiently than traditional redistribution policies.

Too strict employment protection legislation was seen as a drag on job creation and as needing to be reformed in Italy, Netherlands and Spain with recommendations including the reduction of hindrances to the use of fixed-term contracts (Italy, Netherlands), the simplification of dismissal procedures (Netherlands) and streamlining of court procedures and reduction of severance payments (Spain). In Italy, hindrances to atypical work patterns, including part-time work, fixed-term contracts etc., should be reduced further.

Recent structural policy action

At the time of the respective EDRC examinations, all of the six countries had taken some policy action in pursuit of the Jobs Strategy since the previous examination. However, when assessing recent progress it should be taken into account that in a number of countries, notably Italy, New Zealand, Spain and the United Kingdom, preceding years had been marked by vigorous reform activity in a number of fields. In the case of New Zealand and the United Kingdom, there was a sense that much of what was necessary to reduce labour market rigidities had been tackled already, and in both cases there were encouraging signs that moving relatively far along the lines indicated in the Jobs Strategy had been associated with a fall in structural unemployment. This, however, did not mean that further progress could not be made. In Italy and Spain it was felt that while more time was needed to fully evaluate previous reforms, new initiatives are likely to be required. At the same time, the Netherlands, where structural unemployment has also tended to decline, introduced reforms across a broad range of policies while Denmark made progress in a number of areas.

Most countries had since the previous EDRC examination introduced reforms to transfer and/or tax systems with a view to improving the incentives for seeking and accepting employment. Curbs on the (effective) duration or level of unemployment benefits were introduced in Denmark and decided in the United Kingdom and modifications were also made in New Zealand and Italy. In addition, disability and invalidity schemes were tightened in the United Kingdom, the Netherlands and New Zealand, with the Netherlands also planning to introduce the possibility for employers to opt out of the public insurance scheme. Spain, by contrast, increased the generosity of its unemployment subsidy programme for farm workers. In New Zealand, the benefit withdrawal schedule was modified to enhance work incentives.

Several countries also introduced measures to enhance wage and labour cost flexibility. In Italy, public-sector wage formation was reformed to increase flexibility and non-wage labour costs were restructured so as to reduce impediments to atypical work patterns while steps were taken to reform tax administration in order to reduce the evasion that had driven up tax rates. In the United Kingdom, the Netherlands and Spain, non-wage labour costs were reduced, in Spain financed by a hike in the VAT rate and in the United Kingdom and the Netherlands targeted at low-wage workers and long-term unemployed. Measures to strengthen the effectiveness of active labour market policy were also taken in a majority of countries. Among the measures were reform of the public employment service (Netherlands), assistance
to help young job-seekers (United Kingdom, Netherlands, New Zealand), introduction of non-profit private sector job placement agencies (Spain), experimentation with subsidised jobs for long-term unemployed (United Kingdom, Netherlands, New Zealand) and advancing compulsory participation in active measures, including education, to take place earlier in individual unemployment spells, in particular for unemployed youths (Denmark).

The field of education had been identified as a main concern in the case of New Zealand with reform since the previous examination consisting mainly of an extension of the length of compulsory schooling and measures aimed at improving educational achievement among minorities. The Netherlands took several measures to enhance vocational training. The Netherlands also strengthened competition policy by reducing barriers to entry through a less complicated system of establishment licences and was in the process of strengthening merger and acquisition control and of liberalising shopping hours. In addition, measures to improve financing for SMEs were announced.

The macroeconomic environment and policies

An appropriate setting of macroeconomic policy is an integral part of the Jobs Strategy. The OECD Jobs Study identified two main roles for macroeconomic policy: over the short term it should limit cyclical fluctuations in output and employment and thereby minimise the emergence and duration of cyclical unemployment; and over the longer term it should provide a framework, based on sound public finances and price stability, to enhance sustainable growth of output and employment, inter alia through adequate levels of savings and investment.

Concerning the longer term targets for macroeconomic policy, the majority of the six countries had inflation rates of 2 per cent or less in 1995 (Figure 3). However, inflation in both Italy and Spain clearly exceeded this level and implied a need for further disinflation. Italy and Spain were also the two countries with the largest budget deficits (Figure 4). The only country to register a sizeable surplus was New Zealand. Levels of gross government debt varied strongly across countries, from a high of above 120 per cent of GDP in Italy to a low of less than 50 per cent in New Zealand, where government debt is falling rapidly. While defining an optimal government budget balance and debt level is difficult, current levels in all countries except New Zealand were taken to imply a need for further improvement as was also implied by the commitment among EU countries to move towards respecting the criteria embodied in the Maastricht Treaty, though in a wider context the latter were not necessarily sufficiently ambitious. In the context of identifying and implementing an appropriate fiscal policy stance, the transparency embodied in the New Zealand approach to setting benchmarks and providing information to assess policies was commended.

Among the difficulties in assessing the longer-term sustainability of public sector finances are the uncertainties associated with contingent liabilities arising from government programmes such as pensions and health insurance. In most of the countries examined, population ageing will, on unchanged policies, lead to strong upward pressures on government deficits and debt in the decades to come. A main exception is the United Kingdom, where contributions and outlays under the public pension scheme are likely to remain broadly balanced reflecting, inter alia, a smaller projected increase in the elderly dependency ratio and a lower level of pension payments.

Against the background of these longer-term considerations, the Committee considered the stance of macroeconomic policies in the current economic situation. Steps to reduce structural budget deficits in 1995 had been taken in Italy, United Kingdom, Denmark and Spain, whereas in the Netherlands the structural budget deficit remained broadly stable. In New Zealand, the budget moved further into surplus.
These moves notwithstanding, government gross indebtedness as a proportion of GDP rose in Italy, the United Kingdom and Spain and remained stable in Denmark and the Netherlands. Only in New Zealand was government indebtedness falling significantly.

Cyclical positions varied widely across countries despite 1995 output growth rates of around 2-3 per cent in all six countries. In Italy, the United Kingdom and Spain, sizeable output gaps and cyclical unemployment existed (Figures 1 and 3), with recoveries beginning in 1992/3 having been insufficient to offset employment losses associated with the preceding downturns and in Italy not even being sufficient to begin reducing unemployment. In the Netherlands and Denmark, output and unemployment gaps were smaller. Both countries had averted outright recessions and experienced a significant rise in employment in 1995, but this led to a marked fall in unemployment only in Denmark, where the recovery in employment was stronger and labour force growth weaker. In New Zealand, the strong recovery which began in mid-1991 continued to be followed by high employment growth, which more than offset a pro-cyclical labour force response to generate a further significant fall in the unemployment rate in 1995. As a result, both output and unemployment gaps are estimated to have been closed.

Monetary conditions broadly reflected these varying cyclical positions. In New Zealand, monetary conditions were relatively tight, combining a recent real exchange rate appreciation with high short-term real interest rates (Figure 5). Among the European countries, and in particular in the Netherlands, real short-term interest rates were lower. The three European countries with large output gaps, Italy, the United Kingdom and Spain, had experienced sizeable real depreciation over recent years whereas Denmark and the Netherlands, where output gaps were smaller, had witnessed slight real appreciation.

Reflecting the different constellations of monetary conditions and output gaps, the European countries all had upward sloping yield curves (Figure 6). Thus, while levels of interest rates were somewhat higher in Italy and Spain, where inflation was high, the slope of yield curves did not reveal stronger expectation of disinflation than in the other European countries. New Zealand, on the other hand, faced an inverted yield curve as tight monetary conditions were seen to bear down on inflation, ultimately permitting lower short-term interest rates.

In a forward looking perspective, the need for improving the medium-term fundamentals was seen as paramount in the European countries. This point was further strengthened by the Maastricht convergence criteria. Thus, both Italy and Spain needed to sustain trends towards improvement by achieving considerable additional disinflation and consolidation of budget balances. The United Kingdom should continue, and if possible speed up, progress towards the objective of bringing the PSBR back towards balance over the medium term while maintaining the forward-looking mode of policy also in respect of price stability. Whereas in the Netherlands inflation is low and the general government balance is close to the Maastricht threshold of 3 per cent, indebtedness is likely to fall only slowly and the scope for tax cuts over-and-above those already decided appeared to be limited. Denmark, though not slated to take part in stage III of Economic and Monetary Union, fulfils both the inflation and deficit criteria but may, nevertheless, need to aim for a fiscal surplus before reaching the peak of the cycle, given high indebtedness and contingent liabilities. In New Zealand sizeable tax cuts were seen as consistent with a continued reduction of government debt and a move towards a more neutral fiscal stance, though there was a risk that this could add to strains on monetary policy.

**The experience with the EDRC process**

There are several reasons why the Jobs Study process needs to develop from the stage of general recommendations to that of single-country surveillance of implementation. First, implementation of the...
Jobs Strategy has positive spillover effects between countries even though the policies involved are usually considered "domestic" in nature. For example, improved labour-market performance may reduce both protectionist sentiment and the risk of currency pressures. Second, the consolidated views of a country's main partners may carry considerable weight in general debate and be helpful in generating sufficient domestic support for needed reform. Third, the process may be helpful as a source of inspiration both for countries under review and those reviewing.

The need for in-depth discussion of individual countries at a reasonable frequency made EDRC the only committee capable of carrying out the reviews of Jobs Study Implementation. Nevertheless, in order to discharge this new task, modification of EDRC practices and procedures were seen as necessary to assure an adequately "horizontal" approach to the issues. Thus, delegations from both examined and examiner countries needed to be strengthened in terms of labour market expertise. In the event, Ministries of Labour and Social Affairs were represented in the majority of cases in the delegation of examined countries and, to varying degrees, on the side of examiners. Moreover, other delegations have occasionally included representatives of Labour and Social affairs administrations. In addition, a fixed time-slot has been reserved for discussion of Jobs Strategy Implementation, to facilitate additional participation of those specifically interested in these issues. The length of time devoted to Jobs Strategy Implementation in the EDRC's discussions has put considerable pressure on the other elements of the review process.

On the side of the Secretariat, the process has had a strongly horizontal character. Thus, the Economics Department integrates comments on draft text from five other Directorates that also provide comments and suggestions at earlier stages in the production process and, on occasions, have participated in missions. This is, of course, quite resource intensive -- both as regards the Economics Department and the other Directorates. Given competing work pressures, resource limits may have been reached.

Among the outputs of the process are the chapters themselves and associated conclusions published as part of OECD Economic Surveys. However, in addition to this channel the work feeds into other Committees' follow-up work to the Jobs Study through the Chairman's summaries of discussion and through the regular meetings between Chairmen involved in the Jobs Study follow-up. Moreover, the current report will be part of the background for the report to the 1996 Ministerial Council Meeting on The OECD Jobs Study: Progress with the Strategy. A more comprehensive synthesis report based on a near-full country coverage and including also additional Secretariat input will be prepared for spring 1997. It is envisaged that that report will be discussed not only by EDRC but also by the EPC and possibly by some of the specialised Committees, and will feed into the 1997 Ministerial Council Meeting.
### Table 1. Synopsis of structural policy recommendations for implementing the Jobs Strategy

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Denmark</th>
<th>Italy</th>
<th>Netherlands</th>
<th>New Zealand</th>
<th>Spain</th>
<th>United Kingdom</th>
</tr>
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<tbody>
<tr>
<td>Enhance the creation and diffusion of technology</td>
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<tr>
<td>Increase flexibility of working-time</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Nurture an entrepreneurial climate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase wage and labour cost flexibility</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Reform employment security provisions</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expand and enhance active labour market policies</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Improve labour force skills and competences</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Reform transfer systems and their interaction with taxation</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Enhance product market competition</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
</tbody>
</table>

1. The crosses in the table represent priority areas for reform identified in the respective country reviews.
2. For these policy areas identified in the OECD Jobs Study, it has not yet been possible to derive country-specific policy recommendations.

Source: OECD Secretariat.
Figure 1. Structural and cyclical components of unemployment rates, 1995
Per cent of total labour force

Source: OECD Secretariat.
Figure 2. Unemployment and employment rates
Average for 1990-95

Notes: The employment rate is the ratio of total employment to working-age population (15-64 years). The unemployment rate is measured in relation to the labour force.

Source: OECD Secretariat.
Note: The output gap is defined as the deviation of actual GDP from potential GDP as a percentage of potential GDP. The methodology for deriving potential output is described in C. Giorno, P. Richardson, D. Roseveare and P. van den Noord, “Potential Output, Output Gaps and Structural Budget Balances”, *OECD Economic Studies*, 24, 1995. Inflation is represented by the percentage change in the GDP deflator.

Figure 4. Budget balance and gross public debt, 1995
Per cent of GDP

Figure 5. Real short-term interest rate and change in real effective exchange rate

Notes: The real effective exchange rate is calculated using the consumer price index. The real short-term (3 months) interest rate is obtained by correcting the nominal short-term interest rate for inflation as measured by the GDP deflator.

Source: OECD Secretariat.
Figure 6. Short-term and long-term interest rates
Average for 1995

Notes: In most cases, the short-term interest rate is a 3-month treasury bill rate and the long-term interest rate a 10-year government bond rate.

NOTES

1 The work of the EDRC is part of the Organisation-wide follow-up to the OECD Jobs Study, as described in OECD, *The OECD Jobs Study: Implementing the Strategy*, 1995.

2 The decomposition of unemployment into structural and cyclical components involves considerable uncertainty. For example, short-run rigidities and “speed-limit” effects, where they are present, imply that inflationary pressures could emerge at a higher level of unemployment when unemployment falls rapidly as compared with a more gradual fall of unemployment. The figure, therefore, should be taken as an indicator of relative magnitudes only.

3 In comparison with the nine policy recommendations of the OECD Jobs Study, the recommendation on macroeconomic policy is omitted from the list in Box 1 while the recommendation for enhanced product market competition has been made explicit.


5 Projections and simulations illustrating the rise of contingent liabilities in the major seven countries were published in OECD, *Economic Outlook*, 57, Paris, 1995. For most smaller countries, similar projections are presented in OECD, OCDE/GD(96)79, *Policy Implications of Ageing Populations: Introduction and Overview*. 