

The OECD JOBS STRATEGY



**PUSHING
AHEAD
WITH
THE STRATEGY**

Unemployment in the OECD area, 1950 - 1997

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Publié en français sous le titre :
LA STRATÉGIE DE L'OCDE POUR L'EMPLOI
ACCÉLÉRER LA MISE EN ŒUVRE

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PUSHING AHEAD WITH THE STRATEGY

Introduction

The OECD countries as a whole have experienced modest output growth in the past two years. But unemployment remains high and the risks for social cohesion have not been reduced. In most of those countries where unemployment is currently close to or well below its level of 10 years ago, there has been a substantial rise in earnings inequality. In the countries where systems of social protection and redistribution seek to avoid increasing inequalities, unemployment has not diminished significantly. In both cases, political leaders have found themselves caught between what economic logic dictates and what important parts of the electorate and powerful pressure groups wish to protect – what they have acquired in terms of living standards, job security and social protection, which appears threatened by the way economies are developing.

The work carried out by the OECD since the Jobs Study report of May 1994 has confirmed the report's central conclusion – that the differences between countries in their ability to create jobs and to bring down unemployment lie in their different capacities for structural adjustment. In a world where trade in goods and services, as well as international investment flows, develop much faster than domestic economies, where technologies are developed and diffused extremely rapidly, and where domestic markets are being liberalised, competition is constantly increasing. To stay in the race, firms – and their staff – must continuously innovate and improve their efficiency. This objective is essential and is the basis for the general recommendations, now confirmed, which concluded the 1994 report (see Box 1).

The work of the OECD over the past two years has been directed at following up and deepening these recommendations, on the one hand to add to the analysis with a series of thematic reviews (Part I below), on the other hand to tailor policy recommendations to the specific needs and circumstances of each Member country and to step up the existing systems of multilateral surveillance of policies in the fight against unemployment by extending the regular reviews of economic developments in Member countries (Part II).

While confirming the conclusions and recommendations of 1994, the actual implementation of the Jobs Strategy has thrown light on the multiplicity of economic, social, political and cultural factors that need to be taken into account, as well as the complexity of the choices which governments must face. The problems of implementation have highlighted certain policy trade-offs at the margin which have already come out very starkly in the country reviews to date. The lessons for action which are drawn from these two years of work are summarised in the rest of this report.

I. Deepening the analysis – to find more efficient solutions

A series of thematic reviews has been prepared which explore in more detail some of the possibilities for improving job prospects. Action is needed both to ease the way back to work for those currently without jobs but also to improve longer term prospects through efforts to create new jobs and raise skill levels. While encouraging entrepreneurship, promoting technology and innovation and developing new skills are all long-term keys to future prosperity and job creation, they cannot be expected to deal with the immediate problems of today's unemployed. Nor can they guarantee against the continuing exclusion of the part of the workforce that will not be able to adapt to the new skill requirements. In particular the long-term unemployed, often with low skills, little motivation and too little incentive to get back into the workforce, remain a special problem in a number of countries.

The following sections look first at some of the measures – active labour market policies, reforms to tax-benefit systems and mutually-reinforcing macroeconomic and structural policies – which could help the jobless straightaway, and then move to measures – promoting entrepreneurship, technology and lifelong learning – which could improve job prospects over the longer term. While these are issues that have been analysed further in the last two years, this selection of thematic reviews in no way attempts to rank the Jobs Strategy recommendations of Box 1. The country reviews have indicated that two recommendations not covered in the thematic reviews – improvements in labour market flexibility, including flexibility of both working time and of wage and labour costs, and product market reforms – are also crucial for returning to lower unemployment. The message of the Jobs Strategy is that it is important that all of the recommendations be taken into account in seeking to improve job prospects.

Box 1

The Jobs Strategy Recommendations

The recommendations of the *OECD Jobs Study* of 1994 were grouped under nine headings:

1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, i.e. non-inflationary.
2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
3. Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
5. 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.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
8. Improve labour force skills and competences through wide-ranging changes in education and training systems.
9. 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.

i) Enhancing the effectiveness of active labour market policies

The basic rationale for active labour market policies (ALMPs) is the widely accepted principle that it is preferable to help the unemployed get back to work rather than just provide them with income support and thereby risk prolonging unemployment. But the record of such policies, in terms of raising the employment and earning prospects of participants and improving the functioning of the labour market more generally, is patchy. Hence, there is an urgent need to derive practical recommendations on how to enhance the effectiveness of ALMPs.

The Secretariat has derived such recommendations, highlighted in Box 2 overleaf, from two sources: *i)* a review of the recent evaluation literature on ALMPs to establish what works and what does not; and *ii)* reviews of the interactions between active and passive labour market policies in twelve OECD countries.

The evaluation literature shows that the most positive and cost-effective results occur with job search assistance and aid for business start-ups by the unemployed, particularly when they can rely on local support networks. Training is only effective for some groups of the unemployed and only if carefully targeted to the needs of programme participants and employers. Employment subsidies normally lead to only small net job creation but they may have positive longer-term effects on skill levels and work motivation. The same holds for direct job creation in the public sector but the positive longer-term effects are likely to be much weaker.

The country reviews have shown that the design and management of unemployment and related welfare benefit systems can be a particularly important determinant of the effectiveness of ALMPs. There is a close interaction between active and passive measures which is central to the trade-off between equity and efficiency. If the unemployment benefit system is generous and poorly managed, it is very difficult to operate ALMPs in ways which increase labour market efficiency and reduce structural unemployment. Conversely, if active measures are used on a large scale and mainly serve to re-establish benefit entitlements, they risk becoming a *de facto* passive measure. They thus need to be better managed and linked more closely to the benefits system in the various ways suggested in the Box. The public employment service has a central role to play in achieving this better management, especially if it operates as a fully integrated agency combining job placement, benefit payments and placing participants on ALMPs.

ii) Making work pay: reforming tax and benefit systems

If work does not pay, people will be reluctant to work. For the majority of the population in OECD countries, there are clear immediate financial incentives to work. But such incentives may be lacking for many people with low potential wages, particularly if they have children. Some will work in spite of this, often because work experience improves long-run job prospects. But for many workers social and labour market goals may clash. Benefits need to be high enough to ensure income is adequate, but this may mean that taking a job brings little or no extra income, trapping families in a cycle of dependency. High benefits may also raise wage demands, and hence unemployment, by lowering the costs to workers of losing their jobs.

Box 2

Making Active Labour Market Policies More Effective

Key points from the evaluation literature:

- The largest share of resources spent on ALMPs is usually directed towards training but several evaluations show low returns for some groups of the unemployed. Improving the effectiveness of training requires programmes to be targeted on persons with similar employment handicaps and on specific skills sought by employers;
- Job-search assistance, comprising services such as initial interviews with the public employment service, in-depth counselling, jobs clubs etc., is usually the least costly intervention and evaluations show consistently positive outcomes in terms of the re-integration objective;
- While employment subsidies tend in the short run to have large deadweight losses, displacement and substitution effects, and hence small net employment gains, they may yield long-run benefits by helping the unemployed to gain work experience and by maintaining their skills and work motivation;
- Subsidised self-employment in the form of financial aid for business start-ups has been shown to be successful in many countries, albeit for a relatively small group of the unemployed only;
- Direct job creation in the public sector has been of little success in helping unemployed people get permanent jobs in the open labour market. While temporary employment programmes can be used as a work test and as a means of helping the unemployed maintain contact with the labour market, indiscriminate use of, and easy access to, such programmes may reduce effective job search by the unemployed and discourage wage adjustment on the part of the employed.

Enhancing the effectiveness of ALMPs by tighter management and better co-ordination with unemployment compensation can be pursued in the following ways:

- Use “profiling” for new benefit claimants to identify those most at risk of becoming long-term unemployed; provide the latter with immediate counselling and job-search assistance;
- Use “availability for work” (to be controlled by work tests) and “job-search initiatives” (to be confirmed by employers) as independent criteria which must be met to qualify for benefit receipt;
- Make passive income support conditional on accepting participation in ALMPs after 6 to 8 months of unemployment; but do not guarantee a slot in a programme by that time, handling the referral flexibly in accordance with the availability of slots which correspond to the needs of the job seeker and the local labour market;
- Avoid the creation of large-scale programmes or programmes which do not correspond to labour market needs;
- Ensure that participants in training and public sector employment programmes continue to be available for work in the open labour market and provide them with vacancy information and job-search assistance;
- Participation in training and public sector employment programmes should not establish new benefit entitlements.
- Make sure that normal placement work remains the main concern of public employment service staff rather than referring job seekers to ALMPs;
- Make passive income support as “active” as possible by using instruments such as re-employment bonuses, in-work benefits and regular contacts of benefit claimants with the PES.

Tax and benefit systems cause three types of labour-market problems. The first of these is the “unemployment trap” – benefits are high compared with expected incomes when working. Cutting benefits to the unemployed would increase the reward to taking a job, but the social costs of this solution may be unacceptable. The second problem is the “poverty trap” – low-wage workers facing high marginal effective tax rates have little immediate financial incentive to increase hours worked or to invest in education or training, and indeed are able to cut their hours worked with little cost in net income. Various possibilities exist to cut marginal tax rates on low-wage workers but they generally involve raising tax rates for workers and households elsewhere in the earnings distribution. The third problem is that taxes on labour may increase its cost and reduce employment. Cutting labour taxes, especially on low wages, is expensive in terms of the public budget but, if other revenue sources are available or expenditures can be cut, may be desirable on employment grounds depending on how such measures in turn affect jobs.

There are no easy or obvious solutions. Reforming taxes and benefits to make work pay involves trading some policy goals against others. Policies may increase the employment opportunities for the most disadvantaged, but reduce work incentives for the majority. But the social and labour market consequences of permanently excluding a significant minority of the population from the world of work are apparent in too many OECD countries. Short-term social or financial costs may thus be a price worth paying to ensure that work incentives are improved for all. The specific proposals emerging from the review of the interaction of taxes and benefits, summarised in Box 3 overleaf, are all geared in different ways to improving these incentives.

iii) Setting macroeconomic policy appropriately taking into account the interactions with structural policies

The ultimate economic policy objective of raising living standards on a sustained basis will be supported by macroeconomic policies which provide a stable environment for growth and by structural policies which prevent rigidities and allow resources to move to their most profitable uses. This stable environment can best be achieved through the medium-term targets of price stability and sound public finances which should allow for low real interest rates and thereby encourage investment and the growth of output and employment.

A major achievement of macroeconomic policy in nearly all OECD countries in recent years has been the substantial reduction in inflation, but progress in restoring sound public finances has been insufficient in most countries. Moreover, the growth of output and employment has been rather disappointing and unemployment has remained high in a number of OECD countries.

Addressing these problems involves ensuring mutually reinforcing macroeconomic and structural policy initiatives. Fiscal consolidation will require tight control of outlays as well as ensuring that the quality of taxes and expenditures is improved, given already high tax burdens and the pressures on expenditures that are likely to occur in the future as a result of population ageing. Sound public finances and price stability will, when combined with needed structural reforms, provide the background for sustainably higher growth of output and employment. Higher growth, among other things, would increase the resources for society to deal with the problems of poverty and social exclusion.

Box 3

Making Work Pay; Guidelines for Reforming Tax-Benefit Systems

Out-of-work benefits should ensure there is a reward for working. For most workers, incentives to work are clear and immediate. Nevertheless, if benefits are high relative to in-work incomes after-tax, benefit dependency may be encouraged, so that cuts in benefits may be needed to improve work incentives.

Low-wage work should not be over-taxed. Social security contributions should be restructured to reduce the burden on low earnings or financing could be shifted to a broader tax base.

Employment-conditional benefits should be used to increase in-work incomes of families. Such benefits are usually best limited to families with children because they have high replacement rates.

The cost of hiring low-paid workers should be reduced. Reducing the large gap between the cost to the employer of hiring someone on a low wage rate and the return to the employee is desirable. Even if total labour demand is not increased, it will be shifted in favour of the low-wage, hard-to-employ group.

Job search should be policed more effectively. Benefit recipients must be involved in job search. Integrating job-search requirements with active labour market policies can improve the prospects of finding a job.

Non-employment benefits should not be used as alternative unemployment benefits. Benefits which do not require active job search, such as invalidity and early retirement, should be restricted.

Transitions between unemployment and work should not involve abrupt loss of benefit. Slow processing of benefit claims and withholding disproportionate amounts of tax at source can create additional hurdles for those attempting to enter employment.

The relationship between incomes in work and out of work should be made clearer. Individuals are usually better off in employment than receiving benefits, but they are unlikely to know by how much because tax and benefit systems are very complex. It is important to have simpler rules and better coordination between tax and benefit systems.

The financing of benefits should also be transparent. The link between the level and structure of benefits and how they are financed is incomprehensible to the average voter. Details of the social contributions paid by employers could be itemised on pay-slips. More substantial reforms, such as switching contributions from employers to employees, or risk-rating employers' contributions, could also be considered.

Part-time work for targeted groups should be encouraged through the benefit system. Part-time work which promotes contact with the labour market should be encouraged for a limited period for those for whom full-time work may not be a realistic option.

Means-tested benefits should be designed so that each member of the household has an incentive to work.

The thematic review on the interaction of macroeconomic and structural policies concluded that the latter can have important macroeconomic impacts. Moreover, there are important spillover effects from structural reform in one area to performance in other areas and from reform in one area to reforms in other areas. As a result, the aggregate effects of structural reforms can exceed the effects that might be identified with individual reforms. This raises the question of how macroeconomic policy should be set during the course of structural reform.

Ideally, macroeconomic policy should allow the economic engine to turn as fast as it can without overheating. This would allow the economy to function at the limit of its potential and avoid cyclical unemployment. But there is a question of how effectively macroeconomic policy can, within this medium-term framework, keep the economy close to its potential output and actual unemployment around its structural rate. It is not only that experience shows that “fine-tuning” of economies is extremely difficult but also that economies are easily knocked off track by exogenous forces and by changes in sentiment which are ill-understood.

Shocks of various sorts, as well as the effects of structural reforms themselves, could prevent economies from keeping to a high, stable and sustainable growth path. Such reforms pose a challenge for macroeconomic policy by increasing uncertainty about the size of the economy’s potential output as well as affecting aggregate demand. The increased uncertainty, in turn, makes the setting of macroeconomic policy more difficult. The most appropriate way of managing economic policy in the wake of structural reform may therefore be a cautious one of “feeling the way” by allowing unemployment to fall and keeping a close watch for inflationary pressures. This would also be in line with the fact that, with present knowledge, it is impossible to forecast precisely the unemployment rate at which inflation might begin to accelerate (the NAIRU). While structural unemployment is currently the dominant component of unemployment in most OECD countries, there is nevertheless also a significant cyclical component in some which can in principle be absorbed by the appropriate use of macroeconomic policy instruments consistent with medium-term objectives. The extent to which such unemployment may be susceptible to policy action will in practice depend both on views on the NAIRU and on the specific constraints on policy action which vary from country to country.

iv) Nurturing entrepreneurship

In a world of intensifying competition, entrepreneurship and innovation are key elements in ensuring continued productivity improvement, wealth creation and new jobs. Experience indicates that the enterprise creation process and the development of small and medium-sized enterprises (SMEs) is the key to an adaptive economy. Furthermore, the evidence shows that new firms do not contribute to job creation homogeneously, with well over half of net job creation likely to be contributed by the 5 per cent of high growth SMEs. Having a limited number of firms creating most of the new jobs presents a temptation for policy makers. They may seek to pick winners and focus on them, hoping to realise the largest possible effect on job creation. Yet, identifying winners is an extremely difficult task in a market economy. A better strategy is for governments to pursue broadly-based policies which encourage vigorous enterprise

Box 4

**Entrepreneurship and Job Creation;
Some Preliminary Conclusions**

Support for enterprise creation. The basic mechanisms for enterprise creation – self-employment schemes and local enterprise agencies – have been in place in Member countries for many years. Across the range of policies designed to promote entrepreneurship, there is evidence of a number of local programmes which have proved effective in creating jobs and in reviving local economies hard hit by economic change.

The business environment. A stable economic environment is important for the successful development of entrepreneurship. There is also agreement about the benefits of decreasing the administrative burden and repealing inappropriate regulations, such as product market regulations that restrict entry. Yet recommendations for a simpler regulatory environment have proved difficult to pursue, and experience suggests that the ability to create effective policies in this area requires a better understanding of the dynamics of regulation, an issue being taken up in a new OECD project on regulatory reform.

Taxation. Most Member governments have put in place specific fiscal measures aimed at the small business community. Yet the evidence about the effects of fiscal policy on the encouragement of enterprise is mixed, with doubts about the overall impact for job creation of targeting fiscal assistance at the small business sector compared with other policy approaches.

Small business financing. Evaluations of loan guarantee schemes, which have been used to bridge debt financing gaps, have shown that many of the small businesses which utilised such schemes could probably have raised loan capital anyway. Regionally-based loan schemes appear to be more effective than national schemes, because they often involve local actors who can more expertly assess their clients. Attempts to increase the availability of equity to small businesses have met with mixed results in Europe, but with more success in the United States and Japan.

Human resources. Some countries have introduced programmes of education within the school system, aimed at introducing young people to the concept of self-employment and business creation. Governments also provide skills training programmes for enterprises which are often irrelevant for new and small firms since governments prefer to fund formal training rather than the informal, on-the-job training that characterises many small businesses. Training for small business managers can help in achieving better business management but challenges remain to identify the best routes to such training which are consistent with the demands, needs and opportunities of the entrepreneurial community.

Support services. Government subsidies for support services – such as assistance in adopting new technologies or export support – are common in many OECD countries. However, some programmes appear to have a low take-up rate, suggesting that demand for them is weak, and few have been systematically evaluated.

creation in the private sector, ensuring that the conditions exist in which new firms' formation and expansion may flourish.

The conditions that must be met for the “entrepreneurial engine” to operate efficiently include: a stable macroeconomic environment; a supportive financial system; the efficient functioning of labour and product markets; an adequate regulatory framework for firm creation and closure; the appropriate infrastructural and administrative environment; the development of entrepreneurial training and management competencies; the easy access of SMEs to new technology and information; and also factors such as institutional capacity for change, enterprise culture, civic sense and value systems. Some preliminary conclusions of the thematic review on entrepreneurship and job creation, which suggest that some of the policies to promote entrepreneurship do not seem to work particularly well, are presented in Box 4.

Programmes to foster entrepreneurship and small business should be integral parts of local development strategies because geographically-targeted, area-based policies appear to have been more effective than sectoral measures. A principal finding of the thematic review of entrepreneurship is that the multitude of policy initiatives for new and small businesses are undertaken by many different Ministries and by a large range of public and private organisations. As a result, the co-ordination of policy and of its administration is difficult and leads to a proliferation and duplication of effort. This points to the need for greater co-ordination both among different Ministries and between the national authorities and the local agencies which are ultimately the key to successful enterprise development strategies.

v) Reaping the benefits of technological change

Technology and trade have always been at the root of economic progress, raising output, employment and wealth. The globalisation process has now opened up great opportunities for both producers and consumers, but it has also been regarded by some as a threat to existing jobs and living standards. This is because changing trade and investment patterns, as well as domestic market liberalisation and institutional changes, combine with technology to alter the structure of employment, skills and wages. This process therefore requires economies to be more adaptable and workers more willing and able to change jobs or acquire new skills. Overall there is much evidence that the situation of low-skilled workers has deteriorated in absolute terms in most OECD countries.

These trends are not new, although they may now be more accentuated as developments in information and communications technologies (ICT) are more pervasive, have provided for the more rapid diffusion of knowledge and have fundamentally changed the way in which goods and services are produced. Indeed, the emergence of ICTs represents a fundamental driving force for the globalisation of industry and services and the associated restructuring of OECD economies.

The process of technical change and knowledge accumulation is not smooth; it is best described as one of “creative destruction”. It disturbs the regular functioning of economic activities, and requires the adaptation of economic structures, behaviour and the allocation of resources among sectors, firms and occupations. While the benefits far exceed the costs, they may accrue to different firms or individuals. Overall, the

Box 5

**Technology, Productivity and Job Creation;
Areas for Policy Action**

Enhancing productivity through improved creation, access and diffusion of knowledge:

- ensuring a sufficient level of investment in the knowledge base through support to both basic and especially university research;
- compensating for possible market and other failures which may lead firms to underinvest in R&D and other innovation-related intangible assets;
- creating conditions conducive to knowledge transfers, especially in terms of intellectual property protection and standardisation;
- reinforcing international cooperation in science and technology.

Promoting organisational change to achieve more effective knowledge management:

- developing a suitable tax environment and accounting practices affecting firms' strategies with respect to technological assets and human resources;
- improving the business infrastructure, including extending to organisational, management and workplace practices the kind of policies that have been introduced to facilitate technology diffusion.

Coordinating technological and human resource development:

- ensuring that the labour force has the requisite qualifications for initial employment and an adequate foundation for lifelong learning so as to take advantage of technological changes;
- achieving better balance between technology and human capital investments, for instance through improved valuation of human capital.

Shaping emerging markets for network-based services:

- pursuing regulatory frameworks that ensure fair and non-discriminatory access to these infrastructures by service providers;
- assisting the development of new ICT applications in the public services and diffusing them.

Realising the innovative and job-creating potential of SMEs:

- ensuring that SMEs have access to information on new technology and innovations;
- helping to overcome financial obstacles to the creation and initial development of technology-based firms with high-growth potential, for instance by reducing information imperfections

evidence suggests that high-performance firms and high-technology industries, characterised by more innovative behaviour or use of more advanced technologies, have above-average productivity and employment growth, and employ more highly-skilled workers. In the long run knowledge, especially technological knowledge, is the main source of economic growth and improvement in the quality of life. Firms with more technological knowledge systematically outperform those with less. Individuals with more technological knowledge get better paid jobs. The strategic role of such knowledge underlies increasing investments in research and development, education and training, and other intangible investments. Improving access to such knowledge also poses an important equity challenge for broadening the benefits of technological change.

The thematic review on technology, productivity and job creation, mandated by the Detroit Jobs Conference and by OECD Ministers in 1994, has set out some key conclusions concerning the promotion of job-creating knowledge-based growth. Reaping the benefits of technological change and ensuring that the necessary structural adaptations are achieved relatively quickly and with the least disruption possible requires the right framework conditions that allow market forces to deliver their best results. These include: policies to ensure well-functioning financial and labour markets; competition and trade policies to promote efficiency in product markets, the international diffusion of technology and the development of knowledge-intensive activities; and a sound and stable macroeconomic environment that facilitates firms' investment decisions. In addition to these framework conditions, five specific areas for policy action were suggested in the review and are summarised in Box 5.

vi) Skills and training

The failure of many OECD societies to adapt sufficiently quickly to ongoing structural changes has led to grave social and economic consequences, including high and persistent unemployment and social polarisation. Skill thresholds for jobs are rising, unskilled and low-skilled jobs are becoming scarcer, youth unemployment rates remain unacceptably high in many countries, and earnings differentials by levels of educational attainment are widening in a number of countries. While it is important for people to have the incentives to acquire skills, a particular problem is that many people have not been equipped well with the basic skills and hence lack the ability to learn the new skills required by the technology-induced changes in the nature of work.

These trends have highlighted the increased importance of skills and competences in determining employment and earnings prospects and have led to a new recognition that policies for upgrading labour force skills should feature prominently in a strategy for jobs. For some countries, skills training has resulted in increased employment and improved ability to compete internationally. Data on drop-out and school failure indicate the urgency of the challenge: some 15 to 20 per cent of young people in many OECD countries leave secondary school without the prerequisite knowledge, skills and qualifications needed for jobs. But the problems extend beyond schooling. The first International Adult Literacy Survey showed that up to 20 per cent of the population aged 16-65 in seven advanced economies can perform at only the most basic levels of literacy and numeracy – levels that fall far short of what is needed for employment in today's high-productivity and high-wage sectors.

Box 6

Making Lifelong Learning a Reality for All

Ensuring that the foundations for lifelong learning are sound, so that all learners can obtain and maintain the academic and vocational qualifications they need for work and further learning. This involves:

- improving the quality of and access to early childhood education, in partnership with families as well as with social services, other public agencies and voluntary bodies;
- improving primary and lower secondary schools by replacing fixed and narrow timetables and the emphasis on rote learning by more flexible frameworks with individual and team learning arrangements that engage, motivate and encourage self-directed learning and respond to the variety of needs, aptitudes and backgrounds of students;
- providing a broadly-based upper secondary education that offers a choice of individualised and accredited programmes from which no-one is excluded, catering to youths and adults returning to learn, the disadvantaged and those with disabilities;
- exploiting the new information and learning technologies – especially for open and distance learning – and encouraging teachers and trainers to participate more fully in curriculum development and school management and, through performance incentives and support structures, to develop and make the best use of their skills;
- establishing clear goals and implementing procedures to evaluate the performance of learners, institutions and education systems in meeting these goals.

Improving the pathways between education, learning and work – particularly for young people who complete secondary school without recognised qualifications; the transition from school to work and to higher education; and the nature and extent of learning opportunities for adults. Specific actions include:

- developing a more fluid relationship between learning and work by providing various combinations of work (full- or part-time), training and education available in enterprises, schools and tertiary institutions, after an initial period of full-time education;
- addressing the institutional and financial barriers to the expansion of adult education and informal learning, and urging employers and unions to increase the capacity for training, both on and off the job; – establishing incentive structures that would deliver value for money, mobilise new investment for lifelong learning and share equitably its costs and benefits among individuals, employers and governments;
- creating more effective approaches for assessing and recognising skills, regardless of the settings where these may have been acquired;
- strengthening career guidance and counselling services, especially for adults and workers in jobs where such services are not normally provided.

In order to overcome these deficiencies, OECD Education Ministers at their meeting in January agreed that strategies should focus on system-wide change as part of a programme for realising lifelong learning for all – from education in early childhood to learning much later in life, with learning provided in schools, the workplace and many other settings (see Box 6). The aim is to foster “learning societies”, where every individual is equipped with the necessary foundations of knowledge and skill, and all are encouraged, motivated and enabled to continue learning throughout life. Skills training could play an important role in contributing to equity goals, especially in enabling greater participation by groups that are traditionally underrepresented in employment.

To improve the match between skills and jobs, policies should address failures and gaps in the provision of education and training, while improving quality, efficiency and relevance. Education Ministers agreed that, while the emphases may differ, countries should:

- i)* ensure that the foundations for lifelong learning are sound, so that all learners can obtain and maintain the academic and vocational qualifications they need for work and further learning; and
- ii)* improve the pathways between education, learning and work over the individual’s lifecycle; this requires not only cooperation among a variety of ministries and local authorities, but also partnerships between the public and private sectors.

II. Implementing the Strategy demands vision and resolve

A significant part of the population, fearing the loss of rights acquired in previous decades, is expressing more and more openly its anxiety for the future and is drawing back from adjustments which are considered as immediate sacrifices for uncertain subsequent gains. The 1994 Jobs Study and the follow-up report on Implementing the Strategy in 1995 called attention to the fact that putting in place the necessary policies to improve the jobs situation would be a difficult task. The thematic reviews summarised above and, even more so, the process of elaborating country-specific recommendations for implementing the Jobs Strategy and monitoring policy developments now a part of the annual economic reviews of individual OECD countries have thrown light on the difficulties facing governments in implementing these policies.

Since autumn 1995, country examinations in the Economic and Development Review Committee (EDRC) have included a discussion of country-specific policy priorities and progress in implementing the Jobs Strategy, thus building on most of the nine general Jobs Study recommendations (it has not yet been possible to derive country-specific recommendations under two of the nine general headings: those related to the creation and diffusion of technological know-how and to the nurturing of an entrepreneurial climate). By the end of March 1996, six countries had been covered: Italy, the United Kingdom, Denmark, the Netherlands, New Zealand and Spain. The small sample of countries implies that broad, cross-country conclusions can only be tentative, although these countries actually span a wide range of labour market experiences with widely different institutional backgrounds.

A key finding of these examinations has been that, although governments are committed to lowering structural unemployment, policy action has sometimes been constrained by the pursuit of other objectives. While in many cases the different objectives of policy are complementary, in others governments may be confronted with a policy dilemma. Assisting job seekers to become more competitive in the labour market may increase equity and efficiency simultaneously. But the Jobs Study recommendations to reduce the generosity of unemployment insurance and related benefit systems where there is a need to increase the incentives to work and/or to take policy measures that might result in a wider dispersion of wages in order to enhance employment opportunities, especially for the low skilled, have sometimes been seen to conflict, at least in the short term, with the objective of achieving some degree of horizontal equity. Nevertheless, improving the skills and competences of all workers can enhance, in the longer term, both labour market efficiency and equity.

Although the type and level of measures that will be needed for a particular country will depend on that country's starting point in terms of labour market flexibility, a common challenge for policy makers in all countries will be to find the mix of structural policies that prevents the social costs of labour market reforms falling unduly on some segments of the workforce and not on others. Reflecting the concern with equity, and the perception of an on-going shift in demand away from less-skilled labour, improving labour force skills and competences was stressed as an important policy consideration in all of the countries examined. Likewise, enhancing the effectiveness of active labour market policies and reducing negative incentive effects from transfer and tax systems were identified as important policy orientations for all of these countries with a view to improving labour market efficiency while at the same time reducing risks of exclusion.

The potential trade-off between efficiency and equity objectives was highlighted in several of the country discussions. The issue emerged most 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, 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.

If the political choice is made to maintain a high degree of social protection, possibly at some cost in terms of labour market efficiency, then countries must either accept that higher levels of unemployment may result, or look to other means of getting workers back into jobs. In particular, there would then be a need for especially effective education and training systems and other forms of active labour market policies to ensure that unemployment, especially for the low-skilled, did not become more deeply entrenched. But the thematic review of such policies indicates that establishing effective ALMPs is not an easy task so that governments should be cautious about what they can realistically achieve on this front.

At the same time, it is necessary to see the equity issue in a dynamic perspective. Considerable mobility of individuals both across the earnings and income scale and in and out of employment implies that a focus on static income and earnings distributions gives too stark an impression of a trade-off between equity and efficiency. Evidence shows that many of those who are in the lowest earnings decile (the lowest tenth of earners) in any year move into higher groups in subsequent years, indicating that the

dynamics are very important. The work on job creation and job destruction that was mandated by the Detroit Jobs Conference and by OECD Ministers in 1994, has shown that there is enormous turbulence in labour markets, with a very large turnover in jobs. Even in Europe, the problem is not so much one of inadequate labour turnover generally but one of relatively low inflows into and out of unemployment, which leads to longer spells of unemployment. This phenomenon is linked to, among other issues, overly strict job protection legislation, too generous benefit systems, excessive minimum wages and administrative extension of wage agreements. Also part of the dynamic perspective on equity and efficiency is that income differentials provide important incentives for education and skill acquisition.

The country reviews have illustrated the issue of potential policy conflicts and have shown that implementation of the Jobs Study recommendations has frequently been one of degree. All the six countries reviewed had indeed taken some policy action in pursuit of the Jobs Strategy since the previous EDRC examination, although in some countries (Italy, the United Kingdom, New Zealand and Spain) a slowdown in reform efforts was discernible following important reform activity in earlier years.

Most countries have introduced reforms to transfer and tax systems with a view to improving the incentives for seeking and accepting employment and several countries also took measures to enhance wage flexibility, not least via modifications of non-wage labour costs. Measures to strengthen the impact of active labour market policies were taken in the United Kingdom, Denmark, the Netherlands and New Zealand, and in the latter two countries education systems were reformed. In the Netherlands, competition policy was also reinforced and measures were taken to improve financing for small and medium-sized enterprises. In Denmark, full-time activation of the unemployed has been advanced by two years so as to take effect after two years of unemployment.

Given these various steps, the Committee's message in several cases was that some of the right steps were indeed being taken, but that more would need to be done. This was particularly the case in both Italy and Spain. For the United Kingdom and New Zealand, two of the OECD countries where the most progress has been made in reducing labour market rigidities, there were encouraging signs of a fall in structural unemployment. New Zealand, for instance, has advanced on a broad front in radically changing policies and redesigning institutions since the 1980s; following some painful adjustments, it is now reaping the benefits of those reforms – output growth has recently been much stronger and more sustainable, unemployment has been reduced to about 6 per cent from its peak of over 10 per cent only a few years ago and the budgetary and external situations, which were a major concern, are now more favourable. However, the progress made with reforms in the United Kingdom and New Zealand did not mean that further advances could not be made.

Despite the gains to be had from structural reform, and the importance of such reform to improving employment performance, progress with reform in OECD countries has been very uneven and somewhat disappointing – with most progress being made in financial markets and the trade sector, and least in domestic product and labour markets. Among the reasons for slow progress in implementing structural reform is that the costs of adjustment to reform are often well-known and borne up-front by narrow and frequently well-organised groups whereas the benefits are often of uncertain magnitude and timing and widely but thinly spread. Hence, a vital problem facing policy makers is to reinforce the constituency for reform in areas where it is weak. International cooperation and coordination may be helpful in enhancing structural reform.

With the EDRC examinations, the Jobs Strategy process has moved from the stage of general recommendations to that of multilateral surveillance of individual countries' policies. Among the reasons for making this transition is that implementation of the Jobs Strategy in one country can have positive spillover effects on others. Moreover, 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. It is also hoped that countries can learn lessons for policy – in particular on aspects of implementation and the interaction between different policies – by sharing experiences of what does and does not work. The “horizontal” approach adopted in this work recognises the fact that the unemployment problem is multifaceted, requiring actions on many fronts and hence the co-operation of a variety of Ministries.

III. Conclusions

There are fundamental changes taking place in the world as technology alters the nature of production processes, as more dynamic countries open up and trade expands, and as competition thereby intensifies. This presents a major challenge. It allows the OECD countries to take part in the development of the rest of the world and to profit from having partners who are rich rather than poor. On the other hand, competition forces companies, both in the OECD and in the rest of the world, to immerse themselves in this global competition, to innovate and to change production processes, so as to ensure that they are producing goods and services profitably. Although competition thereby increases efficiency and raises incomes, it means that companies and workers must be able to adapt in order to prosper.

Policies of all sorts must be used to facilitate this profound transformation. But success is not guaranteed if people balk at these changes; and resistance to change is perhaps more likely in societies with ageing populations. An enormous effort of explanation and leadership is needed; but it must not seem to be either ideological or deaf to the concerns of the victims of this process of change. If this is not managed correctly, there is a risk that popular discontent will lead to the wrong policies being adopted with the final outcome being worse than the present. Rather than resisting change, countries should encourage links between countries and take advantage of the challenges provided by globalisation. Furthermore, progress on unemployment in the advanced countries of the OECD will indirectly benefit the less advanced countries where the problems of unemployment and poverty are so much greater.

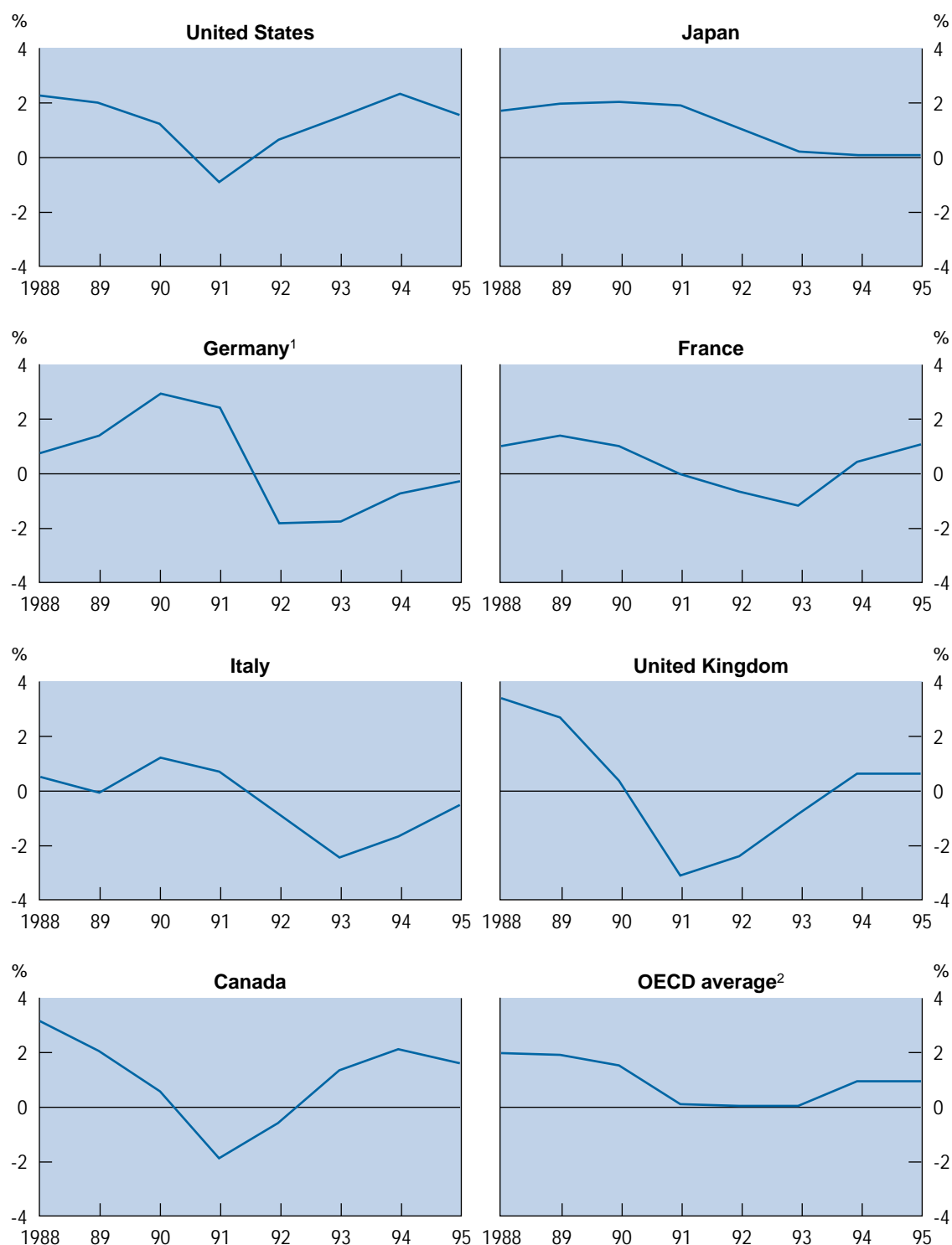
While the monitoring and further analysis of the past two years have indicated that the messages of the Jobs Study were the right ones, the difficulties of implementation, related to the trade-offs at the margin between efficiency and equity, have become much clearer. But it must also be recognised that it is only by managing to adapt that economies can become more efficient and richer, thereby being able to create more jobs. Access to a job is just as much an equity issue as relative income levels and it is important to note that participation in paid employment, even a low-paid job, helps to improve lifetime incomes and consequently reduces income inequality over time. Hence, while a trade-off may exist in the short run, there is potential for reforms that enhance both efficiency and equity goals over time.

There is, nevertheless, nearly always resistance to pushing through structural reforms, even if the economic case for reform is accepted. The country reviews have brought out a number of rigidities, reflecting different historical backgrounds and institutional settings, that contribute to high levels of unemployment in several countries. Reforms in such cases might clash with the status quo but not necessarily with broader equity concerns, although particular vested interest groups may argue that this is the case. Such difficulties, and in some cases the lack of political will, have meant that progress in implementing the strategy has been slow and, in the Secretariat's view, insufficient. But the evidence from the limited number of country reviews to date has shown that the two countries that have done the most to bring their policies into line with the Jobs Strategy recommendations are those where the employment/unemployment performance has improved the most.

The fact that unemployment is again increasing in a number of OECD countries from record levels underlines the importance of pushing ahead more rigorously in all the nine major areas of the Jobs Strategy adopted by Ministers in 1994. Experience has shown the importance of various interactions between policies and has confirmed that governments must advance on a broad front and try out a variety of policies in order to set the right conditions for more and better jobs. This requires structural reforms aimed at increasing the capacity for adjustment, thereby improving the trade-offs involved. But it also requires action by governments to work to improve macroeconomic conditions which have proved disappointing in many countries. Although there may be some difficult trade-offs involved and the opposition of powerful pressure groups to overcome, governments need to push ahead with such measures as rapidly as possible if they want to make progress in dealing with problems that risk becoming explosive. The benefits of more adaptive, innovative and job-creating economies are there to be reaped; the costs of inaction are enormous.

The OECD's work on the Jobs Strategy will be developed further in a variety of ways. The country review process will remain a focal point for adapting general recommendations to country-specific circumstances and for monitoring implementation. The Ministerial Council meeting in 1997 will receive a full report on the implementation of the Jobs Strategy in Member countries, drawing on these country reviews. In addition, work will continue to deepen the analysis in a number of areas, including: extending the work on macroeconomic and structural interactions; exploring further the concept, measurement and policy implications of structural unemployment; developing new work to identify "best practices" in policies for innovation and technology diffusion and to promote investment in human capital; analysing problems of income inequality and job mobility as well as support to the most vulnerable groups; continuing the reviews of labour markets and education and training policies; and completing the work on entrepreneurship and job creation. International cooperation in these areas is important for learning from the experience of others about what does and what does not work in improving employment performance. Such cooperation can lead to the identification of best practices and should help governments with the implementation of the necessary measures which requires both political leadership and public understanding.

Chart 1. **Growth in total employment**
Per cent per annum

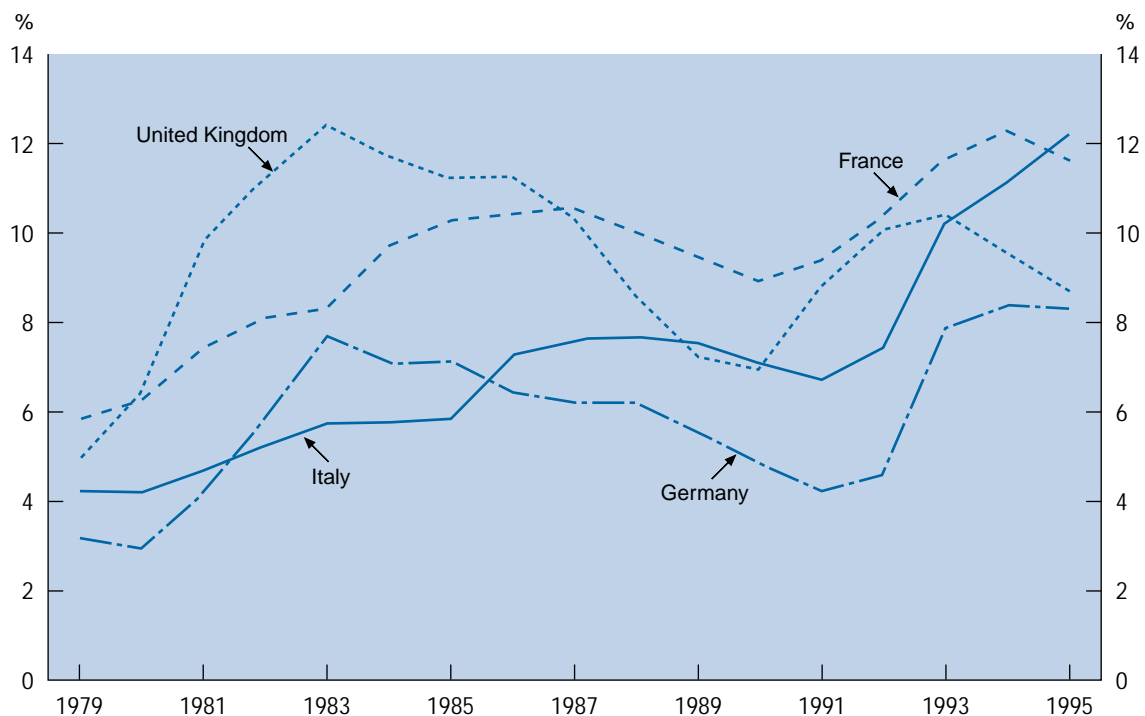
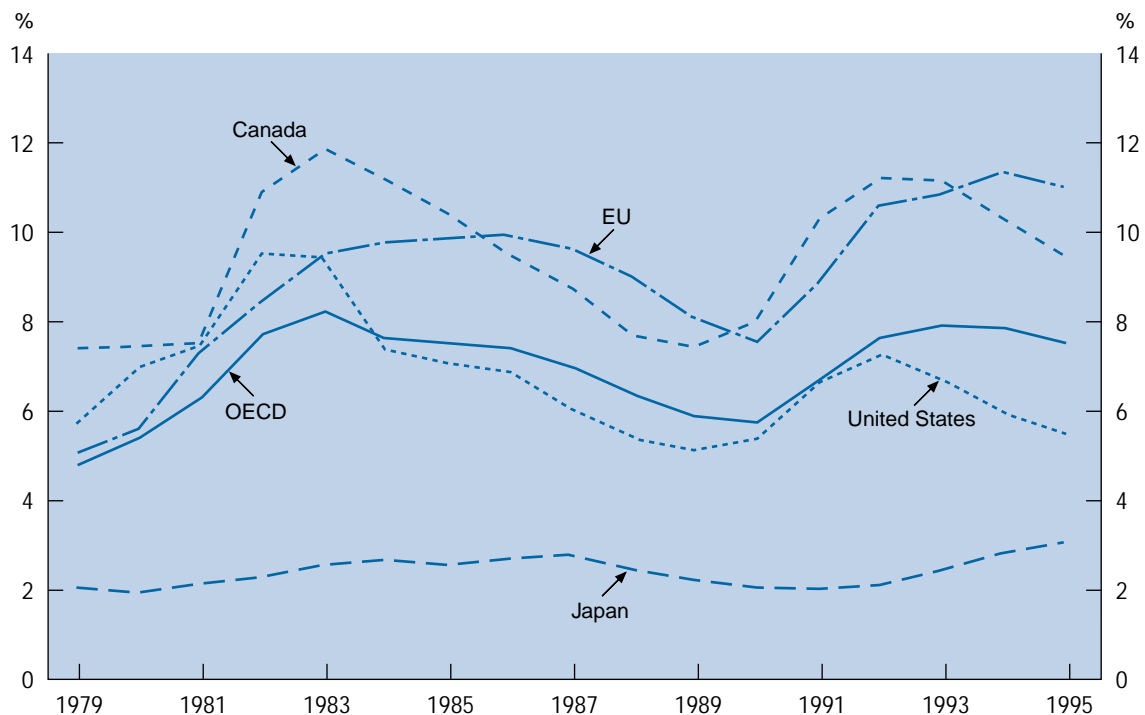


1. Western Germany up to 1991; the whole of Germany from 1992 onwards.

2. Excluding the Czech Republic and Hungary.

Source: OECD Analytical Data Bank.

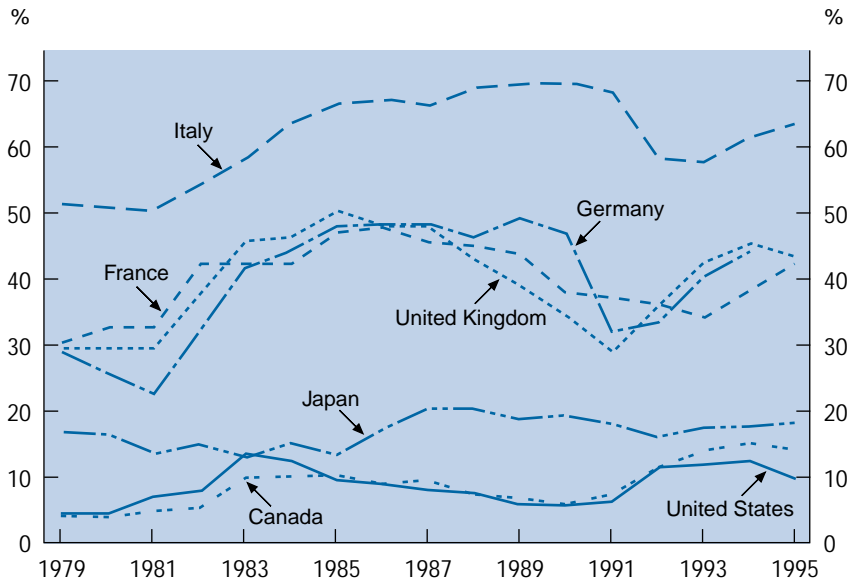
Chart 2. Unemployment¹



1. Standardised unemployment rates. The European Union and OECD averages exclude Austria, Denmark, Greece and Luxembourg. The OECD average also excludes the Czech Republic, Hungary, Iceland, Mexico and Turkey. Data prior to 1991 for Germany refer to western Germany only. Breaks in series between 1992 and 1993 for Italy and between 1993 and 1994 for the United States.

Source: OECD.

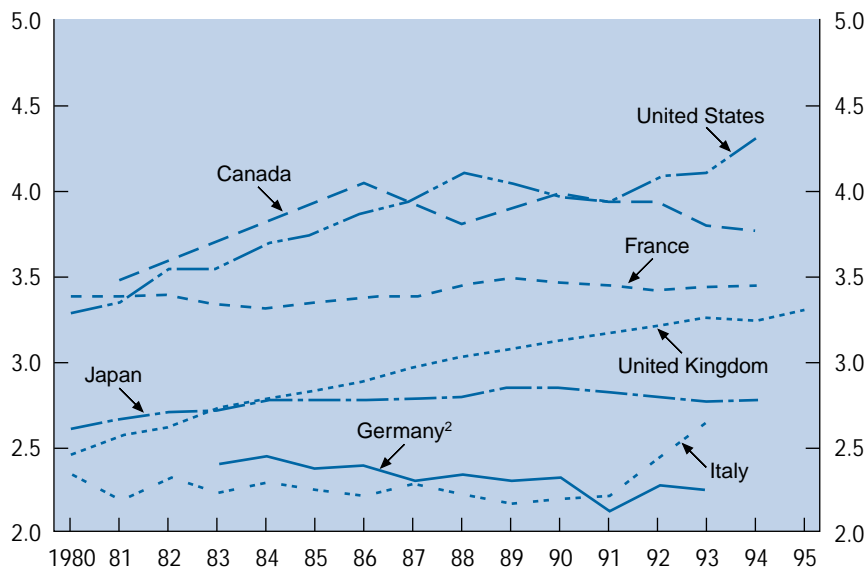
Chart 3. Incidence of long-term unemployment¹



1. Unemployment for one year and over as a per cent of all unemployed. Data prior to 1991 for Germany refer to western Germany only. Data are not available for 1980 and 1982 for Germany, Italy and the United Kingdom.

Source: OECD.

Chart 4. Earnings of high-paid male workers relative to low-paid male workers¹



1. Ratio of upper earnings limit of the 9th decile of male workers to the upper limit of the 1st decile.

2. Western Germany only.

Source: OECD, *Employment Outlook*, 1996.

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