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OECD Employment Outlook
Boosting Jobs and Incomes

Chapter 1

Short-term Labour Market Prospects and Introduction to the OECD Jobs Strategy Reassessment

Is the employment situation improving in OECD countries? Despite geopolitical tensions, large current account imbalances and soaring oil prices, economic growth is showing resilience in the OECD area and sustained moderate employment growth is projected to continue through 2007. As a result, unemployment rates should continue to ease, gradually reversing the rise in unemployment that accompanied the world economic slowdown earlier this decade. Despite improving business cycle conditions, approximately one-third of the working-age population is still either unemployed or inactive, on average, in the OECD area. This highlights the importance of a comprehensive employment strategy, such as that proposed in the 1994 OECD Jobs Strategy. Why does this strategy need to be updated in light of subsequent policy successes and failures and upcoming challenges?

Introduction

Although the world economic outlook is subject to many uncertainties, economic conditions are projected to continue to improve in the OECD area during the next two years and unemployment rates to continue to fall in most OECD countries. Nonetheless, it is projected that more than 34 million persons will still be unemployed in 2007. Section 1 of this chapter surveys recent economic developments and prospects, with particular emphasis on labour markets. Section 2 of the chapter then explains the rationale for re-assessing the 1994 OECD Jobs Strategy, as well as how this issue of the *OECD Employment Outlook* contributes to that reassessment.

1. Recent labour market developments and prospects

Economic growth in the OECD area is showing considerable resilience in an environment characterised by geopolitical tensions, large current account imbalances and high and volatile energy prices. Growth rates slowed modestly in 2005 in the majority of OECD countries, but OECD projections foresee some improvement during 2006-07, particularly in OECD Europe, where growth has been more sluggish on average than in other member countries. OECD employment growth is projected to remain modest during 2006-07, averaging just over one per cent per annum, while unemployment is projected to continue to recede gradually, due in part to relatively slow labour force growth. The growth in average real compensation per employee accelerated slightly in 2005 to about 1½% – still below the growth in labour productivity – and is projected to remain broadly stable through 2007.

The following sections present a summary of the assessment of the economic situation and short-term outlook in OECD countries contained in the May 2006 edition of the *OECD Economic Outlook*. The implications for employment, unemployment and labour compensation receive particular attention.

Economic outlook to the year 2007

In 2005, real GDP growth averaged 2.8% in the OECD area as a whole, down from 3.3% in 2004 (Table 1.1). In most countries, growth slowed only moderately against the backdrop of natural disasters, current account imbalances that have reached unprecedented heights and surging prices of oil and other raw materials. Despite the inflationary impulse from rising raw material prices, overall price stability was maintained without compromising activity. In sum, the current upswing appears to be well established, thanks in part to the impetus provided by the United States and large and strongly growing Asian economies, notably China.

Among the largest OECD economies, economic growth was fastest in 2005 in the United States, where economic growth continued to benefit from strong domestic demand growth led by household consumption and business investment. The strong expansion in the United States and non-OECD Asia helped sustain solid economic growth in Australia,

Table 1.1. **Growth of real GDP in OECD countries**[a, b]

Percentage change from previous period

	Share in total OECD GDP 2000	Average 1993-2003	2004	2005	Projections	
					2006	2007
North America						
Canada	3.2	3.5	2.9	2.9	3.1	3.3
Mexico	3.3	2.7	4.2	3.0	4.1	3.7
United States	36.0	3.2	4.2	3.5	3.6	3.1
Asia						
Japan	11.9	1.0	2.3	2.7	2.8	2.2
Korea	2.8	5.3	4.7	4.0	5.2	5.3
Europe						
Austria	0.8	2.3	2.6	2.0	2.5	2.2
Belgium	1.0	2.2	2.4	1.5	2.5	2.4
Czech Republic	0.5	2.3	4.7	6.0	5.7	4.7
Denmark	0.6	2.5	1.9	3.1	3.0	2.4
Finland	0.5	3.6	3.5	2.2	3.4	2.8
France	5.8	2.2	2.1	1.4	2.1	2.2
Germany	7.7	1.6	1.1	1.1	1.8	1.8
Greece	0.7	3.4	4.7	3.7	3.7	3.6
Hungary	0.5	3.6	4.5	4.3	4.6	4.4
Iceland	0.0	3.5	8.2	5.6	4.1	1.4
Ireland	0.4	8.0	4.5	4.6	5.0	5.0
Italy	5.4	1.7	0.9	0.1	1.4	1.3
Luxembourg	0.1	4.7	4.2	4.0	4.5	4.5
Netherlands	1.7	2.6	1.7	1.1	2.4	2.8
Norway	0.6	3.3	3.1	2.3	2.6	2.7
Poland	1.5	4.5	5.3	3.3	4.4	4.6
Portugal	0.7	2.7	1.1	0.3	0.7	1.6
Slovak Republic	0.2	4.5	5.5	6.0	6.3	6.3
Spain	3.1	3.5	3.1	3.4	3.3	3.0
Sweden	0.9	2.9	3.2	2.7	3.9	3.3
Switzerland	0.8	1.3	2.1	1.9	2.4	1.8
Turkey	1.7	2.7	8.9	7.4	6.1	6.4
United Kingdom	5.5	3.0	3.1	1.8	2.4	2.9
Oceania						
Australia	1.9	3.9	3.2	2.6	2.9	3.9
New Zealand	0.3	3.7	4.3	1.9	1.3	1.9
OECD Europe	**40.6**	**2.5**	**2.5**	**2.0**	**2.6**	**2.6**
EU-15	**34.8**	**2.3**	**2.0**	**1.5**	**2.2**	**2.2**
EU-19	**37.5**	**2.7**	**2.3**	**1.7**	**2.4**	**2.4**
Total OECD	**100.0**	**2.7**	**3.3**	**2.8**	**3.1**	**2.9**

a) The OECD Secretariat's projection methods and underlying statistical concepts and sources are described in detail in "Sources and Methods: OECD Economic Outlook" which can be downloaded from the OECD Internet site (*www.oecd.org/dataoecd/47/9/36462096.pdf*).

b) Aggregates are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities.

Source: OECD (2006), *OECD Economic Outlook*, No. 79, May. Statlink: *http://dx.doi.org/10.1787/467806521426*

Canada Japan, Korea and Mexico. Growth in OECD Europe in 2005 was supported by low long-term interest rates, euro depreciation and buoyant export markets, whereas domestic demand is still growing below trend. However, growth performance was quite uneven within Europe, with Belgium, France, Germany, Italy, the Netherlands and Portugal registering real GDP growth of 1.5% or less, while other European countries recorded stronger growth. Turkey continued to record strong growth in 2005, at 7.4%. Growth was also quite robust in new members of the European Union – the Czech Republic, Hungary, Poland and the Slovak Republic.

OECD projections for 2006 and 2007 indicate little change in the average growth rate in the OECD area, but some tendency for the economic expansion to broaden as growth gains momentum in Europe, where it has been overall somewhat sluggish. The economic expansion is projected to remain vigorous in the United States, at 3.6% in 2006, despite some recent tightening of monetary policy. The recovery in Japan should strengthen further, as household demand becomes more dynamic, with 2.8% growth projected for 2006. As an oil exporting country, Mexico benefits from high oil prices and is projected to grow at a nearly 4% rate in 2006 and 2007. Australia, Canada and Korea should continue to benefit from the strong expansion in China and in Asia overall and their economies are expected to grow by 3% or more in 2006. The average growth rate in OECD Europe will increase to 2.6% in 2006, narrowing but not fully closing the growth-rate gap with the United States. Growth rates will remain uneven across European countries. Ireland, Spain, the United Kingdom, most eastern European countries and Nordic countries will continue to record relatively strong growth, albeit slowing in 2007 in some of these countries. In contrast, growth is projected to be less vigorous in Germany, Italy and Portugal, where domestic demand growth remains weak.

These projections are associated with considerable downside uncertainties, such as the risks of further increases in energy prices, worsening current account imbalances and falling housing prices amid higher long-term interest rates. Indeed, a cooling down of housing prices contributed to slower growth in Australia and the United Kingdom in 2005. More positively, high levels of corporate profitability across the OECD area may entail favourable surprises for capital formation, employment and growth.

Employment and unemployment

In 2005, employment continued to grow at a moderate 1.1% rate in the OECD as a whole (Table 1.2). Employment growth tended to be moderate even in a number of countries recording strong economic growth, due to rising labour productivity. Nonetheless, employment growth is outpacing labour force growth in the majority of OECD countries and unemployment rates are receding, even though they are still higher than their levels prior to the global downturn of 2000-01 in many countries. In the United States, employment growth accelerated in 2005 to 1.8%, even as GDP growth slowed, signalling at least a pause in what had been very rapid labour productivity growth. Employment growth was above 3% in Australia, Iceland, Ireland, and Spain in 2005. Despite the rebound in economic growth in Japan, employment growth was very modest at 0.4%, yet still outpaced labour force growth. Employment fell in Mexico in 2005, despite 3% output growth, and in Germany and the Netherlands, where real GDP growth was only about 1%. Employment was virtually unchanged in 2005 in Hungary (despite vigorous economic growth), Portugal and Switzerland. Weak economic growth in Belgium, France and Italy also translated into a low rate of employment growth in these countries.

On average for the OECD area, employment growth is projected to increase modestly to 1.3% in 2006, and then to fall back to 1.1% in the following year. The average rate of employment growth is also projected to remain little changed in OECD Europe, but to become somewhat more even across the 23 countries in this region. Employment growth is

Table 1.2. **Employment and labour force growth in OECD countries**[a]

Percentage change from previous period

	Employment						Labour force					
	Level 2004 (000s)	Average 1993-2003	2004	2005	Projections 2006	Projections 2007	Level 2004 (000s)	Average 1993-2003	2004	2005	Projections 2006	Projections 2007
North America												
Canada	15 949	2.0	1.8	1.4	1.7	1.6	17 183	1.6	1.3	0.9	1.3	1.4
Mexico	41 272	2.4	3.9	–0.7	2.3	2.5	42 566	2.3	4.5	–0.2	2.1	2.5
United States	139 244	1.4	1.1	1.8	1.6	1.0	147 386	1.3	0.6	1.3	1.2	1.0
Asia												
Japan	63 290	–0.2	0.2	0.4	0.4	0.3	66 425	0.1	–0.4	0.1	0.0	–0.3
Korea	22 557	1.4	1.9	1.3	1.3	1.0	23 417	1.5	2.0	1.4	1.2	0.9
Europe												
Austria	4 112	0.5	–0.3	0.3	0.6	0.6	4 360	0.5	–0.2	0.5	0.6	0.7
Belgium	4 216	0.7	0.6	0.9	0.9	0.9	4 601	0.7	0.8	0.6	0.2	0.6
Czech Republic	4 684	–0.2	–0.3	1.4	0.7	0.3	5 110	0.1	0.3	1.0	0.4	0.1
Denmark	2 751	0.7	0.0	0.6	0.7	0.5	2 910	0.3	0.2	0.0	0.0	0.2
Finland	2 356	1.3	0.0	1.5	1.5	0.5	2 584	0.5	–0.2	1.1	0.9	0.3
France	24 687	1.2	0.0	0.4	0.4	0.5	27 420	0.9	0.2	0.2	0.0	0.2
Germany	38 868	0.3	0.4	–0.2	0.2	0.7	42 799	0.5	0.9	–0.3	–0.5	0.3
Greece	4 093	0.7	2.9	1.3	1.3	1.3	4 599	0.8	3.7	0.6	0.8	0.9
Hungary	3 856	0.3	–0.6	0.0	0.9	0.7	4 109	–0.4	–0.3	1.2	0.8	0.6
Iceland	156	1.4	–0.5	3.3	2.6	0.7	161	1.2	–0.8	2.8	2.1	0.7
Ireland	1 865	4.2	3.0	4.7	2.9	2.4	1 952	2.8	2.8	4.6	2.9	2.5
Italy	22 147	0.7	1.5	0.7	0.6	0.4	24 102	0.6	1.0	0.4	0.6	0.2
Luxembourg	198	1.8	1.3	1.8	2.0	2.2	207	2.0	1.8	2.3	2.4	1.7
Netherlands	8 140	1.8	–1.0	–0.6	1.5	1.3	8 562	1.6	–0.5	–0.3	0.5	0.5
Norway	2 275	1.2	0.3	0.6	1.6	1.0	2 382	1.1	0.3	0.7	1.0	0.8
Poland	13 795	–0.9	1.3	2.3	2.3	2.4	17 025	–0.2	0.5	0.8	1.1	1.1
Portugal	5 087	1.0	0.1	0.1	0.5	0.9	5 452	1.1	0.5	1.2	0.8	0.7
Slovak Republic	2 170	. .	0.3	2.1	1.9	1.3	2 651	. .	1.0	–0.3	1.0	0.5
Spain	18 100	3.5	3.9	4.8	4.1	3.1	20 234	2.7	3.3	3.2	3.6	3.0
Sweden	4 213	0.7	–0.4	1.0	1.6	1.1	4 460	0.3	0.2	1.3	0.5	0.5
Switzerland	4 178	0.5	0.3	0.1	0.9	1.0	4 362	0.5	0.5	0.2	0.6	0.5
Turkey	22 291	1.3	3.0	1.1	1.8	1.9	24 790	1.5	2.7	1.1	1.9	2.1
United Kingdom	28 465	1.1	1.0	1.0	0.3	0.8	29 884	0.5	0.7	1.0	0.8	0.7
Oceania												
Australia	9 694	2.1	1.9	3.5	2.0	1.2	10 265	1.6	1.4	2.9	1.6	1.2
New Zealand	2 017	2.3	3.4	2.8	0.6	0.0	2 099	1.8	2.6	2.6	1.2	0.7
OECD Europe[b]	222 703	**0.9**	**1.1**	**1.0**	**1.1**	**1.2**	244 717	**0.8**	**1.0**	**0.7**	**0.8**	**0.9**
EU-15	169 298	**1.1**	**0.9**	**0.9**	**0.9**	**1.1**	184 126	**0.9**	**1.0**	**0.7**	**0.6**	**0.8**
EU-19[b]	193 803	**0.9**	**0.9**	**1.0**	**1.0**	**1.1**	213 021	**0.7**	**0.9**	**0.7**	**0.7**	**0.8**
Total OECD[b]	516 726	**1.1**	**1.3**	**1.1**	**1.3**	**1.1**	554 058	**1.0**	**1.1**	**0.8**	**1.0**	**0.9**

. .: Data not available.

a) See note *a)* to Table 1.1.

b) Aggregates for 1993-2003 exclude the Slovak Republic.

Source: OECD (2006), *OECD Economic Outlook*, No. 79, May.

Statlink: *http://dx.doi.org/10.1787/322526415438*

projected to exceed 2% in only four of these countries in 2006 (Iceland, Ireland, Poland and Spain), while employment growth is projected to fall to 0.3% in the United Kingdom, despite a modest acceleration of real GDP growth. Employment growth in the United States is projected to gradually decelerate to 1% in 2007, and more sharply in New Zealand. Among non-European OECD countries, employment growth rates are projected to exceed 1% per year during 2006-07 in Australia, Canada and Mexico.

The number of unemployed persons in the OECD area declined by one million between 2004 and 2005 (Table 1.3). That left 6.5% of the labour force, representing more than 36 million persons, without a job. Unemployment rates evolved quite differently last year in different OECD countries. Unemployment rates declined in 17 countries, including Australia, Canada, Denmark, Finland, Greece, Iceland, Japan, Spain and the United States, and, from higher levels, Poland and the Slovak Republic. By contrast, the unemployment rate rose in ten countries, including Hungary, Luxembourg, Mexico, Portugal and Sweden.

Unemployment is projected to continue declining during 2006 and 2007 for the OECD area as a whole, producing a cumulative decline of two million persons and bringing the unemployment rate down to 6% at the end of the projection period. The unemployment rate in OECD Europe is also projected to decline by one-half of a percentage point between 2005 and 2007, while still remaining more than two percentage points above the average for all OECD countries. Unemployment rates are projected to rise between 2005 and 2006 in only five countries (Luxembourg, New Zealand, Portugal, Turkey and the United Kingdom) and to decline or remain constant in the remaining 25 member countries. After significant declines in 2005, the unemployment rate is projected to drop further in Australia, Canada, Japan, Spain and the United States, and from higher levels in Poland and the Slovak Republic. Unemployment rates are also projected to decline a little in Korea and Mexico.

Real compensation

The growth rate of average real compensation per employee in the business sector has picked up somewhat in the OECD area, rising from an average of 1.1% in 2004 to 1.6% in 2005 (Table 1.4). This is higher than the 1.1% average rate over the period from 1993 to 2003, a decade of wage moderation, but still a little below average growth in labour productivity. OECD projections indicate that the pace of real compensation growth will stabilise in 2006 and then rise to 1.9% in 2007, as labour markets tighten. Average real compensation growth in OECD Europe was just 0.7% in 2005 and is expected to remain below 1% during 2006-07. However, the picture is quite varied across European countries, with Belgium, Germany and Spain displaying negative real compensation growth in 2005, while growth rates of 2% or higher were recorded in eight countries (the Czech Republic, Finland, Iceland, Ireland, Norway, the Slovak Republic, Sweden and the United Kingdom). Real compensation growth should slow during 2006-07 in these latter countries, whereas it will quicken in most other European countries, particularly in Belgium, Denmark, Greece, Hungary and Spain. By contrast, real compensation is projected to decline in Germany and the Netherlands during the next two years. Real compensation growth accelerated in Canada, Japan, Korea, Mexico and the United States in 2005, reaching or exceeding 1.5%. These increases are projected to slow during 2006-07 in Mexico, but to continue largely unchanged or a little higher in the other three countries. In New Zealand, real compensation growth is projected to slow progressively, from 2.9% in 2005 to 1% in 2007, as unemployment rises.

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Table 1.3. **Unemployment in OECD countries**[a]

	Percentage of labour force					Millions				
				Projections					Projections	
	Average 1993-2003	2004	2005	2006	2007	Average 1993-2003	2004	2005	2006	2007
North America										
Canada	8.7	7.2	6.8	6.4	6.2	1.3	1.2	1.2	1.1	1.1
Mexico	3.1	3.0	3.5	3.3	3.3	1.1	1.3	1.5	1.4	1.5
United States	5.3	5.5	5.1	4.7	4.7	7.3	8.1	7.6	7.1	7.2
Asia										
Japan	4.0	4.7	4.4	4.0	3.5	2.7	3.1	2.9	2.7	2.3
Korea	3.7	3.7	3.7	3.6	3.5	0.8	0.9	0.9	0.9	0.8
Europe										
Austria	5.3	5.7	5.9	5.8	5.9	0.2	0.2	0.3	0.3	0.3
Belgium	8.5	8.4	8.4	8.0	7.7	0.4	0.4	0.4	0.4	0.4
Czech Republic	6.3	8.3	8.0	7.7	7.5	0.3	0.4	0.4	0.4	0.4
Denmark	5.8	5.5	4.8	4.2	3.9	0.2	0.2	0.1	0.1	0.1
Finland	12.2	8.9	8.4	7.9	7.7	0.3	0.2	0.2	0.2	0.2
France	10.8	10.0	9.9	9.5	9.2	2.8	2.7	2.7	2.6	2.5
Germany	7.6	9.2	9.1	8.5	8.1	3.1	3.9	3.9	3.6	3.5
Greece	10.5	11.0	10.4	10.0	9.7	0.5	0.5	0.5	0.5	0.5
Hungary	8.3	6.2	7.3	7.2	7.1	0.3	0.3	0.3	0.3	0.3
Iceland	3.5	3.1	2.6	2.1	2.2	0.0	0.0	0.0	0.0	0.0
Ireland	8.8	4.4	4.4	4.4	4.4	0.1	0.1	0.1	0.1	0.1
Italy	10.4	8.1	7.8	7.7	7.6	2.4	2.0	1.9	1.9	1.9
Luxembourg	2.9	4.2	4.6	5.1	5.2	0.0	0.0	0.0	0.0	0.0
Netherlands	4.8	4.9	5.0	4.1	3.4	0.4	0.4	0.4	0.4	0.4
Norway	4.3	4.5	4.6	4.0	3.8	0.1	0.1	0.1	0.1	0.1
Poland	14.9	19.0	17.7	16.8	15.7	2.6	3.0	3.1	2.9	2.8
Portugal	5.7	6.7	7.7	7.9	7.7	0.3	0.4	0.4	0.4	0.4
Slovak Republic	15.5	18.1	16.2	15.4	14.7	0.4	0.5	0.4	0.4	0.4
Spain	14.4	10.5	9.2	8.7	8.6	2.4	2.1	1.9	1.9	1.9
Sweden	6.3	5.5	5.8	4.8	4.2	0.3	0.2	0.3	0.2	0.2
Switzerland	3.4	4.2	4.3	3.9	3.5	0.1	0.2	0.2	0.2	0.2
Turkey	7.9	10.1	10.0	10.2	10.4	1.8	2.5	2.5	2.6	2.7
United Kingdom	7.0	4.7	4.8	5.3	5.2	2.0	1.4	1.5	1.6	1.6
Oceania										
Australia	7.7	5.6	5.0	4.7	4.7	0.7	0.6	0.5	0.5	0.5
New Zealand	6.5	3.9	3.7	4.3	4.9	0.1	0.1	0.1	0.1	0.1
OECD Europe[b]	**9.0**	**9.0**	**8.7**	**8.5**	**8.2**	**20.6**	**22.0**	**21.6**	**21.0**	**20.6**
EU-15	**8.8**	**8.1**	**7.9**	**7.6**	**7.3**	**15.3**	**14.8**	**14.6**	**14.1**	**13.8**
EU-19[b]	**9.3**	**9.0**	**8.7**	**8.4**	**8.1**	**18.5**	**19.2**	**18.7**	**18.1**	**17.6**
Total OECD[b]	**6.8**	**6.7**	**6.5**	**6.2**	**6.0**	**34.7**	**37.3**	**36.3**	**34.8**	**34.1**

a) See note *a)* to Table 1.1.
b) Aggregates for 1993-2003 exclude the Slovak Republic.
Source: OECD (2006), *OECD Economic Outlook*, No. 79, May.

Statlink: *http://dx.doi.org/10.1787/265384570353*

Table 1.4. **Real compensation per employee in the business sector in OECD countries**[a, b]

Percentage change from previous period

	Average 1993-2003	2004	2005	Projections 2006	Projections 2007
North America					
Canada	1.2	1.2	2.8	3.5	3.3
Mexico	. .	–1.7	1.5	0.9	0.9
United States	1.8	2.0	2.3	2.0	2.9
Asia					
Japan	0.2	–0.6	1.6	1.8	1.6
Korea	1.6	1.0	1.9	2.7	2.3
Europe					
Austria	0.5	1.0	0.4	0.4	0.8
Belgium	0.8	–0.4	–0.1	0.9	1.1
Czech Republic	. .	4.4	3.6	3.6	3.1
Denmark	1.1	0.9	0.0	1.3	1.7
Finland	1.5	4.0	3.2	1.3	1.3
France	0.7	1.7	1.8	1.9	2.0
Germany	0.4	–1.1	–1.1	–0.8	–1.5
Greece	2.5	0.9	1.3	2.6	2.8
Hungary	. .	6.8	0.2	2.7	3.5
Iceland	3.3	5.7	7.4	4.8	3.3
Ireland	1.1	2.4	2.4	2.5	2.1
Italy	–0.4	0.1	0.6	0.5	1.0
Luxembourg	0.8	0.1	0.5	0.6	0.9
Netherlands	0.5	2.0	0.4	–0.3	0.0
Norway	2.1	3.5	2.1	1.8	1.8
Poland	. .	–0.8	1.2	2.1	1.8
Portugal	2.0	0.4	0.4	0.4	0.5
Slovak Republic	. .	2.7	5.3	3.0	3.8
Spain	0.0	–0.1	–1.0	0.0	0.5
Sweden	2.4	2.9	3.1	1.8	1.6
Switzerland	1.1	1.2	0.6	0.7	0.9
Turkey	. .	. .	. .	. .	. .
United Kingdom	2.0	2.2	2.0	1.9	1.9
Oceania					
Australia	1.3	4.3	2.1	2.5	2.4
New Zealand	0.7	2.6	2.9	1.5	1.0
OECD Europe[c]	**0.8**	**0.8**	**0.7**	**0.9**	**0.9**
EU-15	**0.7**	**0.7**	**0.6**	**0.7**	**0.7**
EU-19[c]	**0.8**	**0.8**	**0.7**	**0.9**	**0.9**
Total OECD less high-inflation countries[c, d]	**1.0**	**1.2**	**1.5**	**1.5**	**1.8**
Total OECD[c]	**1.1**	**1.1**	**1.6**	**1.5**	**1.9**

. .: Data not available.

a) See note *a)* to Table 1.1.

b) Compensation per employee in the business sector is deflated by a price deflator for private final consumption expenditures and aggregates are computed on the basis of 2000 GDP weights expressed in 2000 purchasing power parities.

c) Countries shown.

d) High inflation countries are defined as counties which had 10 per cent or more inflation in terms of GDP deflator on average between 1993 and 2003 on the basis of historical data. Consequently, Hungary, Mexico and Poland are excluded from the aggregate.

Source: OECD (2006), *OECD Economic Outlook*, No. 79, May. Statlink: *http://dx.doi.org/10.1787/407478814888*

2. Reassessing the OECD Jobs Strategy

Purpose and scope of the reassessment

In 2003, a meeting of OECD Labour and Employment Ministers concluded that, nearly ten years after its formulation, it was timely to reassess the OECD Jobs Strategy (Box 1.1). In order to judge how well it had performed in practice and whether it was in need of any modification, ministers requested that the OECD Secretariat review the 1994 Jobs Strategy policy framework in the light of new knowledge, which has accumulated in the interim, as to what works well and what does not. Ministers also requested that emerging policy concerns which were not at the centre of the Jobs Strategy priorities in 1994 be taken into account, particularly the challenges raised by population ageing. In this latter context, the fact that approximately one-third of the working-age population is either unemployed or (in even larger numbers) inactive in OECD countries on average was emphasised as a particular challenge. Ministers also emphasised the importance of promoting career prospects and job quality for disadvantaged groups. More fundamentally, the question was raised as to why countries with apparently different institutions and policy settings could achieve similarly high employment rates.

This issue of the *OECD Employment Outlook* provides a broad reassessment of the OECD Jobs Strategy. However, its scope is limited to policy areas which have the strongest bearing on labour market performance, namely, macroeconomic policy, structural reforms in the labour market and policies to strengthen product-market competition. Other policy areas that were covered in the 1994 Jobs Strategy and are central in growth-oriented policies, such as innovation policy, initial education and entrepreneurship, will not be examined in detail here since they were addressed extensively as part of the OECD Growth Project, which was completed in 2003 and published under the title *The Sources of Economic Growth in OECD Countries*. Growth-enhancing policies continue to receive sustained attention in follow-up work being conducted by the OECD Secretariat. Box 1.2 provides a brief overview of this work.

International trade and investment patterns are evolving rapidly and having a considerable impact on OECD national labour markets. In particular, the rapid integration of China and other major emerging economies into world markets is having a large impact on the international division of labour, while increasing structural adjustment pressures in OECD countries. Despite the importance of these developments, this report does not attempt to analyse how "globalisation" is reshaping employment patterns and policy choices. However, the implications of international economic integration for economic policy making are the focus of other OECD studies (see Box 1.3 for an overview). This work suggests that globalisation reinforces the importance of enacting structural reforms that enhance the adaptive capacity of labour markets, consistent with the orientation of the Jobs Strategy (OECD, 1994a).

The impacts of the policies and labour market institutions analysed in this publication are multiple by nature and their assessment would require, in principle, to take all aspects – social, growth, fiscal – into account. Here again, the scope of the analysis is limited in that it focuses primarily on the impact of policies on labour market performance – including unemployment, employment, participation and some aspects of job quality –, household income distribution and relative poverty. The influence of policy setting and regulations on the growth of real wages and living standards is an important component of labour market performance, but is largely outside of the scope of this report. However, productivity growth at the industry level – a key underlying determinant of real wage growth in the long run – was analysed in detail in the OECD Growth Study (Box 1.2).

Box 1.1. **The 1994 OECD Jobs Strategy**

In response to high and persistent unemployment in many OECD countries in the late 1980s and early 1990s, the OECD undertook a major study of the factors underlying the deterioration of labour market performance. The resulting diagnosis – together with a wide-ranging set of policy recommendations to reduce unemployment, raise employment and increase prosperity – was published in 1994 as the *OECD Jobs Study* (OECD, 1994a, b, c). The general policy recommendations presented in this study provided an overall framework for reform which has come to be known as the "OECD Jobs Strategy". These policy recommendations can be grouped under ten 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 interactions 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.
10. 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.

The general Jobs Strategy framework was subsequently used to derive country-specific policy recommendations – tailored to the institutional, social and cultural characteristics of each member country – in the regular country reviews conducted by the Economic and Development Review Committee (EDRC). Reviews of the progress made in implementing the EDRC recommendations were published in 1997 and 1999 (OECD, 1997a and 1999b). The Employment, Labour and Social Affairs Committee (ELSAC) followed-up on some of the key Jobs Strategy recommendations (see in particular OECD, 1996, 1997c, 2000a).

* These ten broad policy guidelines are backed up by almost 70 detailed policy recommendations (OECD, 1994a).

Box 1.2. OECD Growth Study: the role of education, innovation and entrepreneurship

The OECD recently carried out a multi-year study on the determinants of the level and growth of GDP per capita, motivated in part by the need to better understand the divergence in economic growth performance across member countries during the 1990s. The final report issued in 2003 (OECD, 2003b) confirmed the central role of labour- and product-market policies in the growth process, while also demonstrating the importance of education, innovation and entrepreneurship in determining productivity and economic growth.

The Growth Study found that an increase in the average length of initial education by one year resulted in a gain in the level of GDP per capita of 4%. This evidence from a macroeconometric analysis is in line with the results of microeconomic studies that consistently find that wage levels are linked to educational attainment. The determinants of educational outcomes, both in terms of quantity and quality, are the subject of on-going studies in the OECD.

Innovation is a key determinant of economic growth over the longer term. Proxying innovation activity by spending on research and development (R&D), the Growth Study found powerful effects on the level and growth rate of GDP per capita. Subsequent studies exploring the determinants of R&D spending have pointed to the importance of framework conditions, such as good educational and training systems that provide people with skills that allow them to take advantage of new technology, the availability of risk capital that stimulates entrepreneurship, product market regulations that do not unduly restrict competition in product markets and policies in labour markets that facilitate rather than retard changes. In addition, innovation can be affected by targeted policies, such as those that strengthen industry-science linkages, financial support for R&D spending and tax concessions.

Entrepreneurship, as reflected in business start-ups and firm growth dynamics, influences productivity growth as new, more efficient entrants replace less efficient incumbents. This effect is found to be particularly important in information and communications technology (ICT) sectors where technological opportunities are changing at a rapid pace. In particular, according to the Growth Study, entrepreneurship can be significantly impeded by product market regulations that inhibit entry and overly strict employment protection that makes it costly for small and medium sized firms to experiment with new products. Entrepreneurship is also strongly shaped by the efficiency of the credit and tax systems, the quality of corporate governance, as well as by broader socio-cultural factors.

As a follow up to the Growth Study, the OECD has inaugurated a process for monitoring progress achieved by OECD governments in implementing structural reforms that would raise GDP per capita and long-run growth performance. For this purpose, an annual publication, *Economic Policy Reforms: Going for Growth*, was introduced in 2005, which provides a comparative assessment of structural policy settings and identifies reform priorities for each member country (OECD, 2005g). Subsequent issues will monitor progress in implementing these policy priorities and report on new Secretariat analysis of the determinants of good growth performance (OECD, 2006d). Overall, the evidence from the OECD Growth Study and its follow up has given additional support to the Jobs Strategy's emphasis on initial education, innovation and entrepreneurship as drivers of long-run improvements in productivity and living standards.

Box 1.3. **OECD Study of Trade and Structural Adjustment and its follow up**

The main results from a multi-year OECD study of the policy requirements for successful trade-related structural adjustment are summarised in *Trade and Structural Adjustment: Embracing Globalisation* (OECD, 2005c). It is argued there that freer trade and investment result in firm closures and job losses in some sectors, while creating new opportunities in others. The adjustment costs resulting from job displacement reduce the short-term efficiency gains from structural changes and place the burden on a narrow segment of the populations, raising equity concerns and potentially eroding political support for trade liberalisation and, more generally, efficiency-enhancing structural change.

The overriding need is thus for policies that facilitate the reallocation of labour and capital to more efficient uses in response to the emergence of new sources of competition and new opportunities, while limiting adjustment costs for individuals, communities and society as a whole. Labour market policies can contribute to meeting this challenge by helping develop human skills and adaptability and facilitating labour mobility across occupations, firms, industries and regions, while providing adequate assistance to those who experience adjustment costs as a result of structural change. However, policies to enhance the adaptive capacities of labour markets are only one component of the broader policy framework needed to meet the structural adjustment challenge. Other components include: macroeconomic policies that promote stability and growth; an efficient framework of product market regulation; a strong institutional and governance framework that favours structural reform; and liberal trade and investment policies.

The implications of recent trends in international trade and foreign direct investment for labour market policy in OECD countries was analysed in greater detail in Chapter 1 of the 2005 *OECD Employment Outlook* and Kongsrud and Wanner (2005). Two main lessons emerge. First, the structural reform agenda laid-out in the 1994 Jobs Strategy can enhance the overall adaptability of labour markets to structural economic change. Indeed, the recent evolution of the global economy – particularly the rapid integration of China and other emerging market economies into the world trading system – probably implies that the cost of *not* implementing employment-friendly reforms is increasing. Second, the best measures for helping workers who are displaced from their jobs by imports or "delocalisation" are a well designed and effectively integrated system of unemployment benefits and active labour market programmes, two key policies that are analysed in detail in this report.*

As a follow up to this work, the 2005 Ministerial Council Meeting of the OECD endorsed a two-year study of Globalisation and Structural Adjustment to be completed in the Spring of 2007. One goal of this new study is to obtain a clearer picture of how new patterns in international trade and investment – including the internationalisation of production through the offshoring of intermediate stages of production – are affecting OECD labour markets. Among the questions being investigated are whether structural adjustment pressures in the labour market are increasing, either overall (*e.g.* due to the scale of import competition from China and other large emerging economies) or for specific work force groups (*e.g.* skilled white collar workers who may be affected by the offshoring of ICT-enabled business services to India and other low wage countries). A second issue to be investigated is whether these developments require changes to be made to employment and social protection schemes in OECD countries.

* In certain cases, there may also be a role for special programmes targeted on trade-displaced workers or sectors and localities that are especially hard hit. However, such measures have often performed poorly in the past and when used should be time-bound, decoupled from production, compatible with general safety net arrangements, cost effective and transparent.

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How this issue of the **OECD Employment Outlook** *contributes to the reassessment of the 1994 Jobs Strategy*

Chapters 2 to 7 of this publication summarise the evidence and analysis that were assembled in the course of reassessing the 1994 Jobs Strategy and which under gird the reformulation of that strategy as presented in the Policy Report (OECD, 2006b). Chapter 2 sets the stage for the reassessment by briefly reviewing recent trends in labour market performance and social and working conditions. Chapter 3 then revisits many of the policy recommendations in the Jobs Strategy to improve overall labour market performance. Policies to improve labour market outcomes for particular groups in the working-age population, who are under-represented in employment in most OECD countries, are analysed in Chapter 4. This chapter also discusses policy strategies to tackle problems related to lagging regional labour markets and informal employment. Chapter 5 analyses the possible social consequences of reforms recommended by the Jobs Strategy, including possible impacts on the distribution of income and several aspects of job quality. Interactions between macroeconomic policies and labour- and product-market policies and institutions, as well as interactions between shocks and institutions are explored in Chapter 6. This chapter closes with a discussion of the political economy of reforms. Finally, Chapter 7 provides some of the technical underpinnings for new regression-based evidence concerning the impacts of labour market policies and institutions on unemployment and employment. This evidence is frequently cited in Chapters 3 to 6 and is presented in full in Bassanini and Duval (2006).

Supplementary tables and figures, which are referred to the following pages, can be downloaded from the OECD Internet site (OECD, 2006a). The following chapters also draw extensively on evidence presented in four OECD working papers covering: *i)* an econometric analysis of the determinants of labour market performance (Bassanini and Duval, 2006); *ii)* trends in income inequality and their relation to changes in unemployment and structural labour market policies (Burniaux and Padrini, 2006); *iii)* policies to activate the inactive (Carcillo and Grubb, 2006); and *iv)* policies to improve the labour market situation of youth (Quintini, 2006).