Forum on OECD Jobs Strategy reassessment – Asian/Pacific perspectives
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Asia/Pacific labour markets: common challenges, different answers?
(preliminary and incomplete draft, please do not quote)

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1 The views expressed in this draft do not necessarily reflect those of OECD countries.
In 1994, the OECD adopted the so-called Jobs Strategy, i.e. a set of policy guidelines to help reduce unemployment in its member countries. The guidelines covered ten policy areas, including stability-oriented macroeconomic policies, innovation, entrepreneurship, as well as policies to improve the functioning of labour and product markets. Since the adoption of the Jobs Strategy, the unemployment rate has been brought down from 7.7% in 1994 to 6.9% in 2004 in the OECD area as a whole. There is considerable cross-country variation in performance, however. In particular, the unemployment rate in Asia/Pacific OECD countries as a whole has been significantly lower than in OECD-Europe. The unemployment rate is below 4% in Korea, Mexico and New Zealand, below 5½ % in Australia, Japan and the United States and slightly above 7% in Canada. By comparison, the unemployment rate in EU-15 countries was 8% in 2004. At a time when OECD is reassessing its Jobs Strategy, there is therefore considerable interest in the experience of Asia/Pacific countries.

It could be argued that the labour market situation of Asia/Pacific countries reflects higher economic growth, or a better position vis-à-vis two major challenges shaping OECD economies, namely population ageing and globalisation. The first section looks at how Asia/Pacific countries compare vis-à-vis these challenges. It shows that, although the growth record of Asia/Pacific countries has been relatively favourable by OECD standards, these countries are facing similar demographic and globalisation challenges than in the rest of OECD. Another possible interpretation of observed performance is that Asia/Pacific countries would have carried out similar, employment-oriented reforms. The second section of this paper examines how Asia/Pacific countries have implemented reform in three key areas: promoting labour market participation, improving the functioning of labour markets and enhancing workers’ skills. What comes out is a diverse policy response. The concluding section draws lessons for the Jobs Strategy reassessment.

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2 Though there is also considerable variation in performance within OECD-Europe, the sources of these country differences will not be explored in detail in this paper.
### A. Forces shaping labour markets: growth, ageing populations and globalisation

**Economic growth** “explains” a part of the employment record of Asia/Pacific countries vis-à-vis other OECD countries. In Canada, the United States, Oceania and Korea, economic growth between 1992 and 2002 averaged more than 3% per year, compared with 2.3% in the EU. Needless to say, this has had a significant impact on net employment gains: the employment content of economic growth (crudely proxied by the difference between economic growth and employment growth) was the same in the EU as in the other OECD countries taken as a whole. In other words, the employment performance of Asia/Pacific countries is generally due to faster economic growth, rather than the fact that these countries would create more jobs at a any given rate of economic growth. There are however two exceptions to this general pattern, namely Japan and Mexico – two countries where the employment content of growth has been relatively good.3

However, it is important to stress that economic growth can be strongly shaped by the increase in available labour resources as well as the extent to which workers are equipped with better skills.4 At any rate, projections are for a modest pick-up in economic growth.

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3 In Japan, economic growth was very weak until recently. And yet employment declined only marginally. In Mexico, during the same period, relatively limited economic growth was matched by an near equivalent increase in employment.

4 See OECD Growth Project.
### Table 1. Growth makes a difference

<table>
<thead>
<tr>
<th></th>
<th>Panel A. GDP growth</th>
<th>Panel B. Employment growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>3.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.7</td>
<td>1.4</td>
</tr>
<tr>
<td>United States</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Korea</td>
<td>5.6</td>
<td>3.1</td>
</tr>
<tr>
<td>Australia</td>
<td>3.9</td>
<td>3.6</td>
</tr>
<tr>
<td>New Zealand</td>
<td>3.7</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>EU-19</strong></td>
<td>2.3</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>OECD</strong></td>
<td>2.7</td>
<td>2.1</td>
</tr>
</tbody>
</table>

*Panel A. GDP growth*  
*Panel B. Employment growth*

*a) Weighted estimates.*  
*Source: OECD Economic Outlook, No77, May 2005.*

Longer-term trends will depend crucially on the extent to which countries will respond to the challenges of **population ageing**. On current trends, labour force growth will slow down significantly over the next three decades in practically all OECD countries. In the OECD area as a whole, the labour force could grow by a mere 0.4% per year between 2000 and 2020, and it might even fall in absolute terms thereafter—compared with an average annual growth of over 1% over the past three decades (Chart, Panel A). The result is that, while there are today about 4 active persons for each person of age 65 and over, the figure could fall to 3 in 2030 and slightly over 2 in 2050.
Population ageing will be less intense in Australia, Canada, Mexico, New Zealand and the United States than in Japan and Korea –where the size of the labour force is expected to fall in coming decades. But even in the former countries population ageing will exert downward pressure on available labour resources.

Chart. Population ageing will impact on available labour resources

A. Labour force growth will slow dramatically …

Annualised percentage changes

B. … while the workforce becomes older

Annual percentage-point change in share of persons age 50 or older in the total labour force

Notes:
- a) The demographics-driven scenario assumes that age and gender-specific unemployment and participation rates remain unchanged at their 2000 values during 2000-2030, except that participation rates are adjusted for cross-cohort differences in participation rates (see text).

Increased international trade and investment, and more generally globalisation, is another major factor shaping OECD labour markets. The size of trade flows as a percentage of GDP has doubled since 1970 in all Asia/Pacific countries, and it has more than trebled in Korea and Mexico. Foreign direct investment has intensified even more spectacularly than trade flows. This is suggestive of more intense international competition in services sectors –and not just in goods-producing sectors as was the case in earlier periods of trade liberalisation.

Recently, there has been heated debate about the effects of a “new” facet of globalisation, namely the international outsourcing by firms of parts of their activities –typically business services. For example, Goldman and Sachs assert that one-half million jobs may have been offshored in the US economy during 2001-2003. The truth is that there are no official statistics on this phenomenon. Moreover it is likely that outsourcing represents a small fraction of jobs lost in OECD countries –though potentially larger in the future. More fundamentally, outsourcing also generates welfare gains and job creation, which would also need to be measured.

However, despite the overall positive effects of trade and investment liberalisation, it is a fact that there are some adjustment costs involved. And that these costs are neither automatic nor painless. Employment policies therefore have a role to play, by creating conditions to promote adjustment and compensate the “losers” through employment-oriented support. Given that adjustment costs tend to be greater for low-skilled workers than for their high-skilled counterparts, it will also be essential to ensure adequate investments in workers’ human capital.

In sum, ageing populations and globalisation pose major challenges to employment policies. First, it will be essential to ensure greater mobilisation of existing labour resources. Second, the need for higher mobility, and change in general, entailed by globalisation should be addressed. This highlights the importance of moving ahead with a strategy which i) promotes labour market participation, notably with respect to under-represented groups, ii) ensures that employment regulations and wage-setting systems are consistent with a dynamic labour market, and iii) promotes investments in human capital.

B. Policy responses

B.1 Promoting opportunities for labour market participation

At their meeting of 2003, OECD Ministers agreed to target not only those who are seeking work – the unemployed – but also the larger group of the non-employed of working age. One rationale behind the broader
approach is that the social return to fostering greater participation of under-represented groups in the labour market, such as women, older workers, disadvantaged youth and people with disabilities, is very high. Now it is the case that some of the non-employed prefer to stay out of the labour market e.g. to pursue studies, care for children or elderly relatives or because they are sick or disabled. But it should be stressed that up to two-thirds of those outside the labour market would like to work, should the right conditions be in place. And there is evidence to suggest that a wide range of work disincentives combined with unfavourable labour market conditions and attitudes conspire to keep many of them outside the labour market.

Embracing a broader goal of reducing non-employment is also good for the economy. Unless employment rates are increased substantially, population ageing will adversely affect economic growth and future living standards.

As in the case of open unemployment, Asia/Pacific countries tend to do relatively well in terms of non-employment, i.e. the proportion of persons of working age who do not have a job is lower than OECD average (with the exceptions of Korea and Mexico). However, several European Nordic countries perform better than Asia/Pacific countries:

Proportion of persons of working age (15-64) who don't have a job

Sustaining employment of older workers will be a particularly challenging task. The share of workers aged 50 and older in total labour force is also projected to grow from 23% in 2000 to 31% in 2030. At present, less than half of the individuals aged 55 to 64 are working on average in OECD. In countries like Austria, Belgium, Italy and Central and Eastern European countries, the employment rate for this group is less than 30%. But in most Nordic countries, as well as New Zealand and Japan, the figure exceeds 60%.

There is also much room to promoting participation rates of women. In Canada, the United States, Australia and New Zealand, over 60% of women of working-age have a job. This is higher than OECD average of 55%, but much lower than in the best performing Nordic countries. In Japan female participation is somewhat above the OECD average, and in Korea and especially Mexico female participation is below that average.

The employment situation with respect to youth—another important under-represented group—is more mixed. Australia, Canada and New Zealand have employment rates for youth of 56-58%, i.e. above OECD average but much lower than in Denmark and the Netherlands. The United States and Mexico have somewhat lower youth employment rates, though still above OECD average. Japan and Korea have below average youth employment rates. Since youth are (and should be) engaged in education, these figures should be interpreted with caution. However finer analysis suggests that the proportion of youth neither in education nor in work confirm the above findings. In general, a remarkable feature of OECD labour markets, and one which is poorly understood, is that youth find it increasingly difficult to enter employment.

Ensuring that welfare systems do not act as a disincentive to labour market participation is of paramount importance to help mobilise under-represented groups. It is necessary to reform public pension systems in order to increase work incentives for older workers. In some cases, this will necessitate raising the legal age of entitlement to a public pension. It is also necessary to phase out early retirement schemes and to tighten up access to other schemes such as long-term sickness and disability benefits which serve as alternative pathways to early retirement. Such practices are counter-productive. They increase social spending, adding upward pressure on labour costs and inhibiting job creation.
But this will not be enough. Under-represented groups also need adequate re-employment services through a “mutual obligations” approach. In many OECD countries, the majority of non-employed individuals receive a welfare benefit and the benefit recipiency rate – the proportion of people of working age who receive an income-replacement benefit -- has risen over the past two decades. But benefit recipients who can work should be given the opportunity to find a job. This means that governments have a duty to provide them with effective re-employment services, counselling, training and financial incentives to enable them to find work –the “rights” side of the strategy. Beneficiaries, in turn, should take active steps to find work or improve their employability –the “obligations” side of the strategy. If they do not fulfil their obligations, they could be subject to benefit sanctions.

Employment services lie at the core of such a mutual obligations strategy. The public employment service or related agency should maintain effective contact with people on benefits in order to deliver adequate support services to them and monitor their job-search behaviour so as to ensure constant efforts to return to work. The experiences of Australia and New Zealand, which are trying to make employment services available not just to the unemployed, but also to all under-represented groups, is interesting in this regard.

It is also important to note that effective employment services are not the exclusive preserve of the public employment service. In some countries, e.g. Japan, complementarities between the public employment service and private agencies are being developed. Others like Australia (and, outside the Asia/Pacific countries, the Netherlands) have practically abolished the public employment service and replaced it with a new market of for-profit and not-for-profit providers of employment services to job-seekers under contracts which are negotiated with the government. There is much innovation going on in this area and the OECD is monitoring it closely in order to assess what works and what does not, for which groups and in what circumstances.

In general, indicators suggest that there is considerable diversity in this area among Asia/Pacific countries.
Expenditure on active labour market programmes
Percentage of GDP

The OECD summary measure of benefit entitlements

The OECD summary measure is defined as the average of the gross unemployment benefit replacement rates for two earnings levels, three family situations and three durations of unemployment.

In addition to improving work incentives, **part-time work and other flexible working arrangements** may help promote participating of under-represented groups. As shown in the OECD reviews *Ageing and Employment Policies*, many older workers could stay longer in employment if flexible work arrangements and second careers could be available to them. In countries like Sweden, there is considerable flexibility in combining part-time work with receipt of an old-age pension but with no implicit subsidy for part-time work. Likewise, part-time work is essential for the labour market integration of young parents and youth who want to carry on studying while gaining practical experience.

Work must in fact be accessible and strike a **better balance with family life**. Such considerations are especially relevant to women and young parents who want to participate in the labour market. For instance, the opportunity to take paid maternity leave may increase women’s attachment to the labour market—though it should be stressed that extended leave is likely to make more difficult and uncertain the return to employment, especially for women with insecure employment status. For parents with young children, evidence suggests that the availability of quality child-care services plays a crucial role in the decision to return to work. Finally, there are cases where taxation on second earners is too heavy—which represents a powerful disincentive to participate in the labour market. It is urgent to reform such anomalies.

More generally, as the OECD publication entitled *Babies and Bosses* shows, the right balance between work and family responsibilities needs to be found. Workplace practices, e.g. the culture of long hours, put families under strain, while also acting as a barrier to employment for certain parents. There can be a business case for employers to introduce family-friendly workplace measures as they may help increase flexibility, productivity and attachments of employees. However, limited awareness of the benefits of family-friendly policies, and a lack of strong commitment to their introduction among senior management, has so far precluded their wider application. Governments need to engage in a dialogue with social partners on these issues and diffuse good practices.

**B. 2 Improving the functioning of labour markets**

Less strict rules about hiring and firing may make it easier for employers to hire workers, thus improving the job prospects of new entrants to the work force such as young people, or women returning after
time off to raise a family. At the same time, easing restrictions can also make people who already have jobs worry more about the risk of losing them.

The overall strictness of employment protection legislation varies widely among OECD countries, and also among Asia/Pacific ones –with Mexico having high EPL, Japan and Korea average and the other Asia/Pacific countries below average EPL.

**How does EPL compare across OECD countries?**

Evidence presented in *Employment Outlook* 2004 shows that EPL tends to reduce both dismissals and hirings. Higher employment protection tends to reduce firings during economic downturns and thus increases job stability. This is likely to promote workers’ effort and willingness to be trained, which may have positive implications for aggregate employment and economic efficiency. However, higher employment protection may also diminish firms’ ability to cope with a rapidly changing environment driven by globalisation, new technology and organisational change. In addition, the strictness of employment protection legislation affects hiring decisions in periods of rising demand; indeed, when deciding whether to hire new workers on permanent contracts, firms take into account the likely costs of laying people off in the future. This may make it more difficult for jobseekers to find a job, thus exerting upward pressure on long-term unemployment.
Strict employment protection rules may also be a factor behind the rise in the use of temporary contracts observed in many OECD countries in recent years, including Japan. The high cost of dismissing people on permanent contracts may constitute an incentive for employers to use a series of temporary contracts rather than converting them to permanent contracts. Certain workers may thus be trapped in situations where they move between temporary work and unemployment, with little chance of getting a permanent job and building a career.

Since employment protection legislation tends to reduce both dismissals and hiring, its overall impact on aggregate unemployment is unclear, both in economic theory and in the empirical evidence. This notwithstanding, the effects of employment protection legislation are different across groups. For instance, first-time entrants (mainly young people), and re-entrants (mainly women who are more likely than men to move between employment and inactivity, in particular when seeking to balance the competing demands of work and family life) are more likely to be affected by reduced hiring opportunities while being less in a position to benefit from fewer dismissals. And indeed, empirical evidence suggests that strict employment protection legislation may reduce the employment rate of both youth and prime-age women.

This does not mean that employment protection has no role to play. Dismissals have a cost for society, not just the individual, and from the point of view of economic efficiency and welfare, it is important that each of the concerned parties, particularly employers, takes this cost into account. One way of doing this is by Experience-Rating, as in the United States. This implicates employers’ social responsibility more directly in the system by linking employers’ social security contributions to the firm’s dismissal history and using the funds collected to cover, at least in part, the cost of unemployment payments for the displaced workers. Since its introduction, experience rating in the United States has been shown to have the positive effect of shifting workers from high-turnover firms to employers who offer more stable jobs, thus reducing the number of people temporarily unemployed because they are moving from one job to another.

The Austrian government has recently tried a different way of spreading the cost burden of job losses. Since 2003, employers have had to contribute 1.54% of the payroll to an account calculated individually for each employee, from the first day of employment until contract termination. If the employee changes job, the balance of his/her severance account is carried over to the next employer. In the case of dismissal, an employee can choose to withdraw funds from the account or to save the entitlements built up during the employment
period towards a future pension. From the employer’s standpoint, this new system suppresses the specific monetary cost of a dismissal, although it may increase labour costs in general. From the employee’s standpoint, it reduces the cost of job mobility because workers do not lose the balance of their severance account when taking a new job.

Another way to foster labour market security while maintaining a sufficiently mobile labour force is to use active labour market policies to make it easier for people out of work to return to employment. Denmark is a good example of a country that has chosen to combine a high level of expenditure on active labour market policies, particularly on policies to get the unemployed back into work, with generous unemployment insurance benefits and moderate employment protection legislation, the so-called “Flexicurity” approach. The Danish system is the result of several reforms, started in 1994, and its main feature is the obligation for all unemployed people to take part in programmes to help them get back to work, including private and public job training, training in job search, and targeted education with support from the public employment services. Initially these “active” options were only available after a period during which workers simply received unemployment benefits. This “passive” period has been progressively shortened and now the active options start on the first day of unemployment. The system has been very effective in guaranteeing employment security and maintaining high employment rates, while ensuring sufficient labour market dynamism. However, it is extremely costly, with the active and passive measures overall absorbing almost 5% of Danish GDP. And while activation and support during a spell of unemployment may enhance labour market security, the latter might also require a preventive approach, that is acting before jobs are actually lost.

Overall, employment protection legislation can be seen as one component of a comprehensive strategy to insure workers against labour market risks, which would also rely on well-designed unemployment insurance benefits, effective activation policies, make work pay policies, and support to investment in human capital throughout the working life. Such a policy mix may help guarantee sufficient dynamism in the labour market, while ensuring adequate employment security among workers. The precise balance between the different policy planks depends on country circumstances and institutions.

**B3. Ensuring good careers and better skills**

Finally, the career progression of those who get into work should receive more policy attention. Many workers get trapped in low-paid jobs and face considerable employment instability. As OECD
Employment Outlook shows, a person holding a low-paid job in a given year will spend 4 out of the following 5 years in either low-paid employment or out of work altogether. This suggests that policies that help workers move up career ladders, such as vocational education and on-the-job training, should become important elements in any medium-term employment strategy.

More generally, lifelong learning is of paramount importance in the context of an ageing populations and globalisation. Due to the progressive obsolescence of skills throughout the working life, early formal education cannot suffice on its own to meet the challenges posed by technological change and globalisation.

Evidence suggests that on-the-job training does indeed matter for labour market performance. Workers who receive training enjoy significantly better employment prospects than their non-trained counterparts (Chart). It also seems that better outcomes of trained workers do not come at the expenses of other workers within the same demographic group.


Though the benefits from training are significant –which in principle creates incentives for employers and workers to invest in training— there are reasons why policies should support on-the-job training. First and foremost, training outcomes are very unequal (Chart). This is an important finding: raising the basic skills of all
individuals can have a larger impact on economic growth than investing on improving the skills of a selected group of high-skilled individuals. Second, funding problems may lead to less investment in training than is socially desirable. The worker tends to prefer training in generic or transferable skills that can be used in different firms. But then the employer will be reluctant to fund such training, whose benefits can be grasped by other employers. In principle this barrier can be circumvented if the worker funds its own training, but in practice this is difficult. Firms pay in full for over 70% of all vocational training courses.

**Training inequalities are significant**

Average hours of education and training for selected groups as a percentage of the average for all groups

<table>
<thead>
<tr>
<th>Group</th>
<th>Percentage Difference</th>
</tr>
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<tbody>
<tr>
<td>Men</td>
<td>-60</td>
</tr>
<tr>
<td>Immigrants</td>
<td>-50</td>
</tr>
<tr>
<td>Women</td>
<td>-40</td>
</tr>
<tr>
<td>Low-educated</td>
<td>-30</td>
</tr>
<tr>
<td>Elderly (56-65)</td>
<td>-20</td>
</tr>
</tbody>
</table>

*a* Persons aged 26 to 65, excluding those in full-time education or retired.

*b* Weighted average of Australia, Belgium (Flanders only), Canada, Czech Republic, Denmark, Finland, Hungary, Ireland, Italy, the Netherlands, New Zealand, Norway, Poland, Switzerland, the United Kingdom, and the United States.

*Source: IALS.*

To improve training outcomes, governments and social partners can play a useful role, in various ways. First, they can establish systems of accreditation and recognition that facilitate investment in adult skills. Recognition of prior learning is a prime example. This means that non-formal learning is either accredited as a formal qualification, or recognised for the purposes of acquiring a new formal qualification. While recognition of prior learning can prove a useful stepping stone into further learning, it is essential to ensure that certification systems are credible and transparent to employers, while also reflecting changing skill requirements. Otherwise, certified skills might lose value in the labour market.
Second, governments and social partners should promote well-designed co-financing arrangements. Given the benefits for firms and workers generated by training, it would be a waste for the public purse to fund training activities that would have been undertaken even in the absence of the public subsidy. As a general principle, public support is more efficient when it is matched with a contribution from the recipient individual or firm. In other words, there should be an element of co-financing. This can be done by using schemes that focus directly on individual workers, like individual learning accounts or training vouchers. Alternatively, co-financing of firms’ investments is possible, for example through tax deductions, or government support to training activities carried out jointly by large and small firms.

Third, an efficient organisation of the market for adult learning is needed. Concern is sometimes expressed with the lack of information and guidance with respect to available training courses. And the quality of certain learning activities leaves much to be desired, thereby leading to uncertainty about the returns to training. This is why it is so important to speed up efforts to ensure quality of training provision, which can be achieved by promoting competition among providers and creating quality certification standards. More generally, policy evaluations are scare in this area and need to be developed.

Finally, OECD is looking at the possibility of launching an international assessment of adult skills. This would be intended to measure the level of generic and job-related skills, for both employed and non-employed adults.

**Concluding remarks**

Despite some similarities in unemployment performance, however, the policy settings of Asia/Pacific countries are *prima facie* quite different. This could suggests that the Jobs Strategy recommendations can be implemented in a manner which takes into account country specificities, i.e. while the basic principles would be the same, implementation would differ across countries. It could also be that policies work as a “package”, in that the coherence between the different policies may be more important than the precise nature of each policy in isolation. [Conclusions to be developed based on Forum papers and discussions]