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# Assessing the reassessment of the OECD Jobs Strategy: eppur si muove?

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## Assessing the reassessment of the OECD Jobs Strategy: eppur si muove?

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### Introduction

In 1994 the OECD launched its Jobs Strategy (JS). Against the background of very high unemployment in most OECD countries, the JS set out ten policy guidelines underpinned by just under 70 detailed recommendations. Governments were enjoined to follow the Guidelines, which were based on extensive comparative analysis, as being a blueprint to reduce unemployment, raise employment and increase prosperity. Government reform efforts in the 1990s, particularly in Europe, were heavily influenced by the OECD approach, the core focus of which was on labour market and welfare institutions: benefit entitlements were cut, employment contracts made more ‘flexible’, and product market regulations thinned out. This reflected a view, increasingly accepted also by left-of-centre governments, that welfare systems, labour market institutions, and not least trade unions, were to blame for unemployment.

In 1997 the European Union launched its own European Employment Strategy. This covered substantively rather similar ground, although with somewhat greater attention to social, equity and job quality concerns, presented under four pillars, and with a more formalised reporting and benchmarking procedure (Watt 2004a).

The OECD has now completed a two-year review of more than a decade’s experience with the JS. The key policy messages from this reassessment exercise and a revised set of guidelines have been set out in a short document: *Boosting jobs and incomes – policy lessons from reassessing the OECD Jobs Strategy* (<http://www.oecd.org/dataoecd/47/>

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[53/36889821.pdf](http://www.oecd.org/dataoecd/53/36/36889821.pdf)); hereafter referred to as PL. The underlying analysis is contained in the much longer report, the *OECD Employment Outlook* for 2006, which has just been released; hereafter referred to as EO.

The reader will find the ten 1994 recommendations<sup>2</sup> and the restated JS in the annex.

The overall conclusion drawn by the OECD from this reassessment exercise is that the JS has been successful – employment outcomes have improved in countries that have implemented JS-inspired reforms – and that its recommendations remain fundamentally valid. Yet some changes of emphasis (‘facelift’) are needed in order to account for both changed needs and accumulated evidence and experience.

However, as this Policy Brief will show, analysis of the policy recommendations and the underlying evidence presented in the Employment Outlook suggests that since 1994 the OECD has moved a considerable way on a number of key policy issues: hence the use of Galileo Galilei’s famous phrase – in English: ‘and yet it moves’ – in the title, at least with a question-mark.

This *Policy Brief* does not attempt a full ‘assessment of the reassessment’, involving a detailed analysis and critique of the OECD’s analytical work published in the Employment Outlook. It has a more modest aim: it summarises the key policy recommendations – focussing on what is new about the ‘restated Jobs Strategy’; it then cross checks these requirements with the OECD’s own analysis, without engaging in a detailed critique of the analysis itself, to see whether the recommendations are in fact ‘justified’ in the light of the OECD’s own analytical work; it also considers where the OECD has failed to take due account of important developments, evidence and arguments.

<sup>2</sup> The more detailed labour market recommendations, some seventy altogether, can be found in, for instance, OECD, 1999: Table B.4, p. 178f.

The analysis is centred on the five main across-the-board institutional areas which were held in the original JS – and at least since then also by most European policymakers – to be mainly responsible for high unemployment in Europe: minimum wages, employment protection legislation, unemployment benefits, the tax wedge, and wage-setting institutions. In addition it describes the change in the OECD position in an area usually considered not to have a great role in explaining unemployment: macroeconomic policy. It then considers the role accorded in the new JS to targeted measures for specific labour market groups, and concludes with the important issue of policy ‘packages’ and the idea of ‘one best way’, arguably the scene of the most important shift in position at the ideological or political level.

## I. Five key labour market/welfare institutions

### *Minimum wages*

The 1994 strategy argued, albeit implicitly, for the abolition of minimum wages, calling on governments to ‘remov(e) restrictions that prevent wages from reflecting local conditions and individual skill levels’. ‘Modify minimum wages’ was one of the specific labour market recommendations made to many OECD countries (see box). The new formulation does explicitly mention minimum wages, but does not call them into question *per se*, merely insisting they should be ‘set at levels that do not harm job creation significantly’: determining that level then, clearly becomes a technical issue, and arguably the phrase is little more than basic common policymaking sense. The PL (p.13) explicitly accept that a moderate legal minimum wages does not undermine employment, although recommending a lower level for young people. A minimum wage is also seen as an important adjunct for in-work benefits, preventing these being ‘captured’ by employers who use them to depress wages.

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The new position marks a significant shift in OECD thinking on this important issue, away from the ‘simple economic reasoning’ (EO: 86) that a minimum wage freezes low productivity workers out of the labour market, and showing that the organisation is not insensitive to the considerable amount of external and internal research that has been done in this area (this is reviewed in the EO: 86f.). The notable success of the minimum wage in the (liberal) United Kingdom, introduced in 1999, may have been helpful in this regard. One critical remark is that the role of a minimum wage in helping to ‘make work pay’ is not recognised in the relevant guideline (B7) which focuses on limiting out-of-work benefits and paying in-work benefits; this is despite the fact that this is discussed in some detail in the EO (p. 86). It is precisely by raising effective labour supply that a minimum wage can have a positive overall effect on the employment level, a mechanism identified in many of the cited studies conducted during the 1990s, and this is why the traditional OECD view that argued merely in terms of labour costs (labour demand), neglecting the (labour) supply side, is inadequate.

#### **Just how ‘liberal’ was the original JS?**

There is a difficulty in evaluating and comparing the old- and new-look Jobs Strategies in that the ten general recommendations of the 1994 JS are often formulated in a rather general and neutral-sounding fashion (see annex). How is this to be squared with the perception, among policymakers and particularly among critical economists and trade unions, that the policy measures foisted on governments and citizens by the JS are entirely inspired by a liberal, deregulatory agenda? A first answer lies in the specific policy recommendations that were developed in the implementation process (these are clearly summarised in OECD, 1999: Table B.4, p. 178f.) These are very much clearer in calling for a ‘deregulation’ agenda, and these are the criteria that underpin the OECD country evaluations (Economic Development Review Committee, ERDC process), which have considerable influence on national policy discourses. A second is the relative weight given to the ten policy areas. In practice the role of macroeconomic policy in promoting growth, for example, was never examined very fully: in practice attention was focussed very much on the five ‘usual suspects’ discussed in this section.

**Employment protection legislation (EPL)**

Continuing a process that started some time ago (see notably the 2004 Employment Outlook) the OECD position on EPL has softened further during the JS reassessment. It is now accepted that EPL need not lead to higher unemployment unless it is 'too strict', and provided the administrative procedures are predictable and efficient. The OECD notes and criticises a tendency to reduce EPL on temporary and other atypical contracts, while leaving them intact for permanent jobs, arguing that this deepens labour market segmentation. A trade off of less EPL but more support for job-seekers (flexicurity, Danish model) is proposed as a way forward. The policy recommendations (C7 and C8) are commensurate with this analysis, and come under the injunction that EPL should 'help labour-market dynamism and provide security for workers',

*Assessment*

The mention of the goal of 'providing security to workers' indicates recognition of the fact that, after all, EPL was introduced with a view to a concrete and desirable policy goal, a fact that had been downplayed or indeed ignored in previous analyses; EPL was portrayed as a result of insider power over governments. The OECD critique of EPL has now largely been reduced to areas (such as bureaucratic and costly legal procedures) with which it is difficult to disagree. Over an extended period the OECD has moved a considerable way on this issue, as EPL was once held to be a major source of (especially youth) unemployment. With regard to the flexicurity approach, it must be said that, in many countries, reductions of EPL have not been packaged with greater support for jobseekers, but rather with cutbacks in unemployment benefits (notably the Hartz reforms in Germany). It is therefore welcome that the OECD emphasises both sides of the social bargain. The EO analysis (95ff.) is useful in emphasising that EPL can be an important part of institutional packages, and that it makes little sense to consider its effects in isolation.

**Unemployment benefit**

In the 1994 formulation, unemployment and related benefit systems were seen as impinging substantially on the 'efficient functioning of labour markets'. They did this by reducing the incentives to look for a job and accept offers, and also by pushing up the 'reservation wage' and thus reducing labour demand (EO: 56) The reassessment process has unearthed 'new evidence' that 'active labour market programmes can help offset these work disincentive effects'. The OECD has also drawn the policy lesson that if cuts in benefit levels and duration go beyond certain thresholds, this may compromise social objectives' (PL: 10)

The OECD also expresses concern about the growth of 'related' benefits, especially sickness and disability benefits. It criticises their use (as with early retirement) as a supposedly socially more acceptable 'functional equivalent' for unemployment benefit. So-called 'gate-keeping' measures are explicitly called for (B2) to address this issue.

*Assessment*

Here the shift in position is more nuanced. Generous welfare systems, especially unemployment and other benefits, are still looked upon with some suspicion, but here too an avenue is opened for a more 'technical' discussion about appropriate institutional measures, notably activation and ALMP policies, that counteract these negative effects. Similarly the reference to social objectives opens up a normative or political space for discussing possible efficiency/equity trade-offs.

On a critical note it is regrettable that the *Policy Lessons* did not also report the economic/efficiency arguments for decent levels of unemployment benefit that are well known in the literature; particularly that they promote efficient job match because skilled workers are not forced to take 'any job', but have a cushion that enables them to take a job more closely matching their skills (and in which they are therefore more productive).

The EO repeats assertions regarding the strong positive correlation between the level and duration of benefits and the level of unemployment. To the extent that this is the case, however, it seems likely that at least part of this reflects reverse causation (higher unemployment in the past leading to pressure to lengthen duration periods and generosity (e.g. Baker et al.). Moreover, the analysis in the EO (especially table 3.1) shows a substantial amount of reform in this area, with some (modest) cuts in replacement rates, more widespread reduction in duration and, in particular, an almost universal tightening of work availability and other eligibility conditions. This poses the question whether further ‘reform’ in many cases would indeed push benefit systems below ‘efficient’ levels.

The assessment of the call to focus on disability schemes is difficult. One can easily agree that disability schemes should not be misused as a functional equivalent (and thus also a smoke-screen) for unemployment. Clearly though, there is a huge normative component in any decision about how much pressure workers with less than full working capacities should be placed under. At the very least, equal attention should be paid to a ‘positive’ agenda of ensuring adequate technical provisions at the workplace, efforts to change employer attitudes, etc. While it is correct to look at non-participation alongside actual unemployment, with 37 million unemployed people in the OECD countries, and large numbers of so-called ‘inactive’ persons actually performing useful social activities and many others genuinely unable to work, attempts to present unemployment as now being the tip of the iceberg of a larger social problem are dangerously misleading.

### *The tax wedge*

Previous OECD and related work emphasised the role that the ‘tax wedge’ – the gap between employers’ labour cost and employees’ take-home pay – could have in depressing (formal) employment (e.g. OECD 1999: 55). On the demand side this wedge could price – particularly low-skill – labour

out of work, while on the supply side it could mean that take-home pay was low compared to benefit entitlements, encouraging non-participation in the labour market. Several studies claimed to have found an empirical correlation between the tax wedge and employment outcomes (cf. the studies discussed in Baker et al. 2004). Governments were advised to cut payroll and other labour taxes, particularly for low-wage labour.

The specific issue of a tax wedge raising labour costs has been downplayed in the new JS. In the PL is not discussed separately but instead is seen as part of the more general problem of ‘making work pay’ via the interaction with benefit regimes. A specific guideline (C2) similar to previous formulations (‘reduce payroll taxes’) was retained, however.

### *Assessment*

Given that earlier studies claimed to find significant correlations between tax wedges and low employment and/or higher unemployment – although as with unemployment benefit there is an important argument about the direction of any causality – it is somewhat surprising that neither the EO (p. 63ff.) nor the PL seem to regard this issue as any longer important in its own right. It is certainly valid to consider the dangers of possible benefit and poverty traps, and in this sense the proposal that policymakers examine the tax incidence in the context of the benefit regime, rather than merely something that has simply to be reduced is, in principle, sensible. Once again, it suggests that the OECD focus has broadened, away from a simplistic focus on the cost of labour towards employers as the primary determinant of (un)employment.

### *Wage setting institutions*

Greater wage flexibility was a key element of the 1994 strategy, which insisted that wages needed to reflect ‘local conditions and individual skill levels’. The policy agenda was therefore clearly one of a decentralisation of collective bargaining, a process that could take different forms (single-employer bargaining,

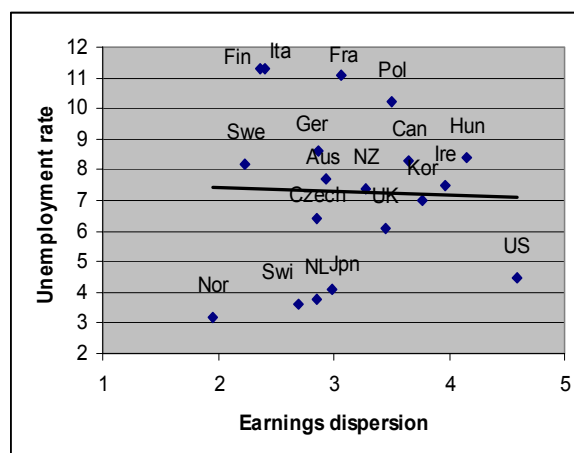
greater use of performance-related pay, etc.; cf. EO: 84). The ‘more flexible the better’ was the central message, which seemed to imply that the ultimate goal was some sort of a ‘spot market’ for each individual’s labour, even if the precise meaning of ‘flexibility’ in the context of wages (nominal or real, macro or micro level) was never made clear.

The PL (p.13) reiterate the need for wage flexibility but, importantly, acknowledge that it can be achieved in different ways. The OECD now recognises that, while decentralisation can offer greater relative wage flexibility (i.e. across space), centralised systems can produce greater aggregate wage flexibility (i.e. across time). The latter is one important element in the alternative successful ‘policy packages’, see below. However, the specific policy recommendation on wage-setting (C3) merely refers to the need to permit firms to opt out of sectoral agreements or, alternatively, to reduce the extent to which sectoral agreements are extended by law.

#### Assessment

In this area, too, the OECD has clearly adjusted its position – to be precise: its analytical position – substantially. It has taken on board the evidence and theoretical insights, some of it already available in 1994, to the effect that centralised and/or coordinated wage-setting institutions can be at least as effective in ensuring wages are set at an appropriate level as decentralised systems. Indeed the EO is very explicit here, noting that the majority of econometric studies it has reviewed conclude that ‘a high degree of corporatism is associated with lower unemployment’, while own work by OECD economists suggests the effect is substantial: unemployment is 1.4 percentage points lower in highly coordinated compared with intermediate or low coordination systems (85). Meanwhile centralised/coordinated bargaining also compresses wage structures – a consistent finding in the literature – and thus promotes social equity objectives, apparently at no cost in terms of

higher unemployment (EO: 86). There is no correlation of earnings dispersion and unemployment rates (graph).



Note: Earnings dispersion data are taken from Employment Outlook 2004 (Table 3.2) and refer to the second half of the 1990s, the last period for which data were available for most OECD countries. Unemployment data (OECD standardised figures) for the middle of this period (1998) are used.

On the basis of this analysis it would seem clear that the OECD ought to recommend to member states – at least those without decentralised systems and successful labour markets – that greater collective bargaining coordination/centralisation would enable them to reduce unemployment, while at the same time promoting social/equity objectives. There is no ‘efficiency-equity trade-off’. On the contrary equity and employment performance go hand in hand (cf. Watt 2004)

As indicated, the policy recommendation, however, says nothing of the sort. Instead those countries with problematic intermediate (sectoral) bargaining systems are recommended to change their systems *in the direction of decentralisation*. Yet there is nothing in the empirical evidence presented by the OECD itself to justify such a recommendation; this appears to mark a ‘relapse’ into old-style thinking.

There are a number of other problematic aspects to this part of the reassessment. Firstly, the discussion about the macro-economic performance of different wage-setting institutions is normally conducted in

terms of the link – or even the explicit coordination – with macroeconomic policy (see the articles in Franzese et al. 2004). However, this key aspect is not taken up in the EO or the PL texts (although it will have been included as a variable in some of the reviewed econometric studies.) This is of particular importance in the case of the euro area, where countries have very largely lost the link between (national) bargaining institutions and national monetary and, to a lesser extent, fiscal policy. A related point is that a coordinated wage policy that is oriented towards medium-run variables (productivity, inflation) can help to avoid following (and thus possibly exacerbating) short-run cyclical trends and price and demand shocks, thus exerting a stabilising effect on both real and nominal variables.

Secondly, the theoretical justification for the recommended policy of enabling (low productivity) firms to opt out of sectoral agreements is at best unclear. It is a rather odd prescription given the usual emphasis placed on ‘market’ solutions which, as one learns in first year economics, tends to establish one price for a good – in this case labour – of similar quality across the market. Collective bargaining can be seen as replicating (functional equivalent) a market outcome (law of one price) while reducing the high transaction costs of individual bargaining, uncertainty, etc.

Moreover, from an economic policy point of view, it is far from clear that keeping low productivity firms in business by ‘subsidising’ their wage bill, in the form of bargaining concessions, is to be recommended. Apart from the fact that it amounts to a form of protectionism in international trade terms, it will tend to slow productivity growth and prevent structural change. Here again the link to macro policy becomes evident: keeping inefficient firms in business does not make sense if the macro policy levers are available to create sufficient demand to facilitate the shift of labour to higher value-added forms of production. (Recall that the title of the EO and

PL refers to boosting jobs *and incomes*.) They may, however, make sense when these levers are not available to national policymakers, who may thus be tempted to indulge in a form of beggar-thy-neighbour policies (real depreciation within a currency area). It hardly needs to be pointed out that this rational strategy at local/national level is counter-productive at the level of the currency area as a whole.

## II. Other key areas in which the OECD view has been modified

### *Policies targeted at specific groups of the labour force*

The 1994 JS focussed very much on economy-wide measures and institutions to explain unemployment, and thus reform of the same to reduce it. As part of the more general change of focus away from unemployment and towards raising employment rates, attention has shifted towards promoting the employment of specific target groups. These include, in particular, women, older workers, youth, and immigrants/minorities. The new JS proposes a two-track approach here. On the one hand incentives to stay out of, or withdraw from, the labour market for specific groups should be removed. On the other, targeted policies should be implemented to facilitate the employment of target groups. Examples of the first type include early retirement schemes and tax systems that penalise second family incomes. The second type encompasses measures such as greater availability of childcare facilities, ‘family-friendly’ working hours and government interventions to facilitate the transition from school to work.

### *Assessment*

The greater recognition by the OECD of the specific needs of different labour market groups is to be welcomed. This was one area in which the European Employment Strategy had a rather better approach than the Job Strategy, partly reflecting the fact that, particularly in comparison with the US, it was clearly not with respect to prime-age men that

(western) Europe was performing badly in employment terms, but precisely with respect to the employment rates of women, the old and the young. Indeed such obvious facts should have made European governments and policymakers more sceptical of the impact of across the board regulations and institutions (unless they could be shown to have a discriminatory effect). The PL sidestep the issue that many forms of positive support measure – childcare is a good example – will tend to have fiscal implications: childcare provision (and female labour market participation) is highest in the high-tax Scandinavian countries (see also below), implying a possible conflict with recommendations for lower taxes and ‘sound’ fiscal policy with a preference for spending cuts<sup>3</sup>. Lastly the – welcome – call for working-time arrangements that enable workers better to reconcile work and family life – begs the question of employers’ interests in so doing, and the instruments available to national governments to induce them to do so.

### *Macroeconomic policy*

The policy lessons (A1 and A2) derived from the reassessment are that macroeconomic policies should be oriented towards price stability – in a symmetrical way – and sound budget balances (PL: 9). Subject to that, macro policy should seek to cushion shocks to the real economy. Fiscal policy should stabilise economic development (especially in EMU, where countries lack monetary policy autonomy) but only when the budgetary situation is sound (PL: 17). It is cautiously suggested that monetary policy can speed up the positive impact of reforms by cutting interest rates ‘if there are clear signs of downward pressure on inflation’ (PL: 17).

<sup>3</sup> This echoes a contradiction also within EU policymaking where the Lisbon and European Employment Strategies call for increased government investment in areas such as childcare, but also R&D, education, etc., while the Stability and Growth Pact hampers governments’ ability to finance such public investment.

### *Assessment*

The wording of the macroeconomic policy guideline marks a retreat from the previous – on paper at least – more ‘Keynesian’ formulation of 1994, under which macro policy should ‘encourage growth and ... make it sustainable, i.e. non-inflationary’<sup>4</sup>. The necessary condition – price stability – becomes a sufficient condition in the new JS. The new formulation reflects, of course, the increasing strength of the orthodoxy on macro policy during the 1990s. Consequently it suffers from the associated problems of that view: in particular it relies on (headline) inflation being a good indicator of demand pressures in the economy, and the neutrality of money for the real economy in the longer run (see Watt/Janssen 2005). The real economic impact of macro policy is limited in the facelifted version of the JS to mere stabilisation around a trend, whereas the 1994 formulation implicitly allowed for macro policy stimulating a longer-term shift to a higher growth trajectory. Having said that, the insistence on a symmetrical response to inflation and disinflation is important and, in Europe, can be interpreted as a hint that, despite improvements in the monetary policy framework in 2003, the ECB operates under a skewed mandate (Watt/Janssen 2003).

However, at the analytical level, almost the reverse is true. The EO analysis (49ff.) explicitly acknowledges that monetary policy can ‘stimulate aggregate demand’, a concept about which little has been heard in Europe since the 1990s. It also mentions hysteresis effects (by which cyclical unemployment

<sup>4</sup> Macro policy was arguably the 1994 guideline where the gap between the wording of the guideline and the actual practice of specific policy recommendations (see Box page 2) was greatest. For instance restrictive fiscal policies that, in Europe, depressed growth in the 1990s were welcomed as ‘reducing pressure on real interest rates and stimulating investment and job creation’ (OECD 1999: 41). The importance of lower real interest rates is recognised, but this is not discussed in terms of the central bank policies, and the role of monetary policy is very much downplayed.



becomes structural) and, conversely, positive interlinkages between structural reforms and fiscal policy, leading to cumulatively better growth and employment performance. In fact these are precisely two of the reasons why macroeconomic policy is key to improving also potential – i.e. long-run – growth and why it can do more than merely stabilise output around a trend supposedly given uniquely by supply-side conditions.

The EO (54f.) shows simulations suggesting that the positive impacts of a given package of structural reforms are greater in the short run if accompanied by more expansionary monetary policies. (In the long run the impacts converge, but this reflects the fundamentally neo-classical properties of the model.) Making plausible assumptions about the positive effect of short-run successes on confidence and expectations and also acceptance of reforms, it seems likely that, in fact, the positive outcomes of a more expansionary policy would be durable.

While the change in this guideline does mark a step backwards in terms of the language used, it is probably more accurate to interpret it as a change to reflect the actual tenor of OECD recommendations over the decade in this area. It can be assumed that the 1994 language was seen in more orthodox quarters of the OECD governments (and by central banks) as a remnant of an earlier philosophy or a sop that had at the time been given to the more Keynesian-oriented national governments and the trade unions. At the same time the underpinning analysis in the EO can be seen as justifying a more explicitly growth and employment oriented stance to macro policy, both to promote acceptance of reforms and increase their effectiveness (see also Horn 2005).

All in all, the OECD analysis shows clearly that macropolicy is not neutral for the real economy and employment in the short and medium run and mentions important reasons why this is probably also true in the longer run. Against this background, the old guideline formulation would seem much more

appropriate (stimulate growth subject to an inflation constraint) than the new one: ensure price stability, and growth will follow.

### *Policy interactions and a diversity of models*

Arguably the most important shift in the tenor of the ‘new’ JS in political terms is the dropping of a one-size fits all approach to reforms and a recognition that different institutions interact in different ways in different contexts. It is recognised that institutional features that can generate bad outcomes in certain contexts need not do so if other institutional mechanisms are in place. The PL explicitly state that ‘there is no single combination of policies and institutions to achieve good labour market performance.’ (p. 18). The OECD now accepts that, while a market-oriented approach is successful, a combination of coordinated collective bargaining, and social dialogue, generous welfare benefits combined with activation and active labour market policies and higher employment protection may be equally successful. Indeed it is even forced to acknowledge that these countries – the Nordic European countries, plus Austria, the Netherlands and Ireland – achieve just as good employment performance as liberal economies, and have better outcomes in terms of equality ( see graph, cf. also Sapir 2005).

### *Assessment*

This shift is an important step in freeing policymakers from the Washington-Paris consensus from the need to claim superiority of liberalisation policies in all fields. The substantial efforts made by the countries concerned and actors such as trade unions (through TUAC, the trade union Advisory Committee to the OECD) to emphasise the importance of the ‘Nordic model’ and the success of other European countries that have not adopted a deregulation agenda, and that have criticised the lack of reflection on them in previous OECD thinking and recommendations, have borne fruit.

Still, a number of serious critical reflections are in order.

### Four different regimes of labour market functioning<sup>a</sup>

	OECD unweighted average	High employment outcomes		Low employment outcomes	
		English-speaking countries, mainly <sup>b</sup>	North European countries, mainly <sup>c</sup>	Countries of continental and southern Europe, mainly <sup>d</sup>	Countries of eastern Europe <sup>e</sup>
Employment protection legislation	2.01	1.38	2.13	2.71	1.83
Generosity of unemployment benefit system <sup>f</sup>	27.81	18.23	39.86	36.17	9.69
Active labour market programmes <sup>g</sup>	29.25	15.76	64.14	25.84	3.46
Tax wedge <sup>h</sup>	27.10	18.54	27.42	34.33	32.43
Union coverage	59.96	30.75	83.33	82.57	38.33
Union co-ordination	2.88	1.88	3.92	3.79	1.33
Product market regulation	1.42	1.20	1.28	1.55	1.97
Employment rate	67.11	70.92	71.91	62.54	58.00
Unemployment rate	7.47	5.30	4.79	8.97	15.12
Total LMP expenditures <sup>i</sup>	1.86	0.98	2.68	2.60	0.82
of which: ALMP expenditures <sup>j</sup>	0.76	0.39	1.31	0.94	0.25
Income inequalities (Gini index) <sup>k</sup>	29.35	31.50	25.58	29.85	31.35
Relative poverty rate <sup>l</sup>	9.64	11.78	7.77	9.86	7.05

- a) This country classification is derived from a Principal Component Analysis (see Annex 6.A1), a simple statistical technique which helps to identify existing combinations of policy settings and to highlight similarities and differences across countries. However, some countries are barely representative of the group of countries to which they belong, being close to the frontier between two regimes of labour market functioning. This is for instance the case for Austria, Finland, Germany, Ireland, Japan, Korea, Portugal, Sweden and Switzerland, as shown in the Annex 6.A1.
- b) This group of countries includes Australia, Canada, Japan, Korea, New Zealand, Switzerland, the United Kingdom and the United States.
- c) This group of countries includes Austria, Denmark, Ireland, the Netherlands, Norway and Sweden.
- d) This group of countries includes Belgium, Finland, France, Germany, Italy, Portugal and Spain.
- e) This group of countries includes the Czech Republic, Poland and the Slovak Republic.
- f) Average unemployment benefit replacement rate across two income situations (100% and 67% of APW earnings), three family situations (single, with dependent spouse, with spouse in work), over a five-year period of unemployment.
- g) ALMP expenditures per unemployed workers as a percentage of GDP per capita.
- h) Tax wedge between the labour cost to the employer and the corresponding net take-home pay of the employee for a couple with a dependent spouse and two children earning 100% of APW earnings.
- i) Total expenditures on active and passive measures as a percentage of GDP.
- j) ALMP expenditures as a percentage of GDP.
- k) Gini index for total population. Not available for Korea and the Slovak Republic.
- l) Calculated as the proportion of the population with income below 50 % of the current median income. Not available for Korea and the Slovak Republic.

Source: See Bassanini and Duval (2006).

Source: OECD Employment Outlook 2006, p. 191

First, although the OECD's head now says that there are at least two successful models/packages, its heart remains attached to its first love, the liberal model. It needs to be emphasised that the Nordic model performs somewhat better on employment than the liberal model, AND hugely better in terms of inequality (and, I would add, a whole range of other 'social' indicators). In a very real sense, the discussion is over at that point – unless one argues that more inequality is a good thing in itself, rather

than a necessary evil. A valid objection might be doubts about the 'transferability' of the Nordic model to other countries. Here it is to be noted that the OECD never considered transferability issues when promoting the liberal model. Possibly to avoid the seemingly inevitable conclusion, given the facts, that policy recommendations should be oriented towards the Nordic or corporatist, rather than the liberal model, the OECD adds the *ad hoc* argument that the good employment and social outcomes are

achieved ‘but at a high budgetary cost’ (PL: 19). It is not entirely clear what this means. Such countries certainly do not run bigger fiscal deficits. Presumably the reference is to the higher tax ‘burden’, or, simply, the greater role of government and the public sector in determining the pattern of final demand. The OECD makes neither an economic nor a normative case for this being a ‘but’ to be set against the more positive employment and social outcomes achieved in than the other countries.

Second, the discussion of different successful packages does not encompass different macroeconomic policy settings, beyond a ritual reference to stability-oriented policy. Yet, as we have seen, macro policy settings and the linkages with reform packages are crucial, and should therefore be explicitly incorporated into an analysis of successful packages. Indeed, I would claim that all of the countries that have achieved successes during the 1990s have made use of (or have been fortunate in benefiting from) an expansionary macroeconomic impulse<sup>5</sup>. Conversely, the poor performance of the large euro-area countries must be ascribed, at least partially, to their inability to use the levers of monetary or fiscal policy to stimulate domestic demand.

Third, and on a more technical note, the EO (p. 191 and 202ff.) notes the well-known problem of how to classify countries by identifying similarities and differences. For instance the Netherlands and Austria are classified with the ‘northern European’ countries – presumably largely on the basis

<sup>5</sup> Some examples: it is a little-known fact that Denmark’s famous labour market reforms in the mid-1990s were accompanied by a major demand boost from both monetary and fiscal policy that pushed growth up from 0% to 5% in a single year; Sweden and the UK experienced major currency devaluations in the early 1990s that helped set off a growth dynamic; more recently the sudden improvement in Spain’s economic and employment performance since 1999 has clearly been driven by the effect of the euro dramatically reducing real interest rates.

of their good employment performance – whereas institutionally they have greater similarity with Germany. Indeed the OECD says that nine (out of 24) countries are ‘close to the frontier’ between two models (191). Further work would be necessary to see what the implications of moving some of these countries into another group would be.

Finally, given that the OECD is rarely slow to blame trade unions explicitly for blocking needed reforms, rather than or in addition to referring technically to ‘coordinated collective bargaining’ as a key positive element in Nordic or corporatist countries, the OECD ‘missed an opportunity’ to explicitly recognise that a strong and inclusive trade union movement can be a key element in a successful reform package and/or institutional structure.

## Conclusion

Forced by the Inquisition to recant his view that the earth was not the immovable centre of the universe, Galileo Galilei is supposed to have mumbled under his breath *eppur si muove* – and yet it (the earth) moves. In presenting its restated Jobs Strategy the OECD has been at pains to emphasise continuity, if not actual immobility: the JS has proved its worth; it has been somewhat reformulated in the light of evidence and modified priorities. On the basis of the preceding analysis can it be said that, in fact, the position of the OECD has moved? If so, while not quite changing our view of the world and man’s place in history, an important pillar of the orthodoxy that has dominated economic, employment and social policy discussions in the world’s leading economies, and especially in Europe, would crumble away. The analysis on the preceding pages has shown that this is not an easy question to answer, largely because of conflicting messages at different levels of analysis and due to the difficulty of grasping analytically just how the recommendations have been implemented in the OECD’s country review procedures.

However, three key points should be made.

First, a number of substantial changes in tone, emphasis and in policy recommendation have been made in the new versus the old JS. It is more than old wine in new bottles<sup>6</sup>. In particular, the existence of an alternative to the liberal model has been recognised; the centrality of the five key labour market institutions in explaining unemployment has been called into question. There are more carrots and fewer sticks on show.

Second, the OECD's own analysis would justify an even more substantial departure from the original JS. That analysis calls some guidelines (especially in the areas of macroeconomic policy and wage bargaining) into question and justifies an explicit endorsement of the alternative 'corporatist' model.

Third, in some areas the analysis itself still remains too limited. Equality and job quality issues continue to be downplayed, and a visceral preference for 'liberal' solutions based on orthodox (micro)economic thinking emerges at certain points.

It is to be hoped that the more obviously evidence-based approach and the less strident tone of the new JS, which mark a continuation of a trend evident from recent OECD analyses, will have a beneficial impact on the policy discourse in Europe. A knee-jerk belief that only 'painful' reforms can ever be expected to do any good may give way to a nuanced approach that considers policymaking in the round. On the other hand, actors, including trade unions, critical of past OECD positions may be encouraged to engage in a debate on at least some reform areas (early retirement, product market

regulations) where solutions may be found that promote economic efficiency while at least not further harming – and possibly even promoting – equity and social cohesion.

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<sup>6</sup> This phrase applied more appropriately to the review of the EES in 2002/3 (Watt 2004a). I note in passing that the JS has changed its presentational form from 'ten commandments' to a pillar structure, whereas in the EES exactly the opposite change was made.

### The 1994 Jobs Strategy: the ten broad recommendations

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 the 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 restated OECD jobs strategy, 2006

#### Pillar A: Set appropriate macroeconomic policy

- A1. Macroeconomic policy should aim at price stability and sustainable public finances so as to keep interest rates low and encourage investment and labour productivity, thus strengthening economic growth with potential beneficial effects on employment; where the state of government finances permits, improvements in public finances may be used to reduce taxes or increase spending in areas that have the most beneficial impact on growth and employment.
- A2. Macroeconomic policy should be used to help stabilise the economy in order to reduce the risk that transitory increases in unemployment due to adverse shocks become persistent and to ensure that the benefits of structural reforms are brought forward. This calls for:
  - Monetary policy should pursue medium-term price stability by reacting to both inflationary and dis-inflationary shocks, and, within the scope given by that objective, aim to stabilise economic activity.
  - Fiscal policy should aim to restore and maintain sound public finances so that automatic stabilisers can be allowed to operate, supplemented as required and feasible by discretionary policy. This is particularly important in countries that cannot employ monetary policy for that purpose.

#### Pillar B: Remove impediments to labour market participation as well as job-search

##### *Implement well-designed unemployment benefit systems and active labour market policies*

- B1. Unemployment benefit replacement rates and duration, as well as social assistance benefits provided to individuals who can work, should be set at levels that do not discourage job search excessively and, especially where they are relatively generous, be made conditional on strictly enforced work-availability criteria as part of well-designed "activation" measures; moderate benefit sanctions should be part of such an activation strategy.
- B2. Employment services should offer unemployed workers in-depth interviews and job-search assistance; participation in effective active labour market programmes should be compulsory after a certain length of joblessness that may differ across groups (e.g. immigrants facing integration difficulties, disadvantaged youth and older jobseekers); employment services should have adequate resources to perform these tasks and their functions should be well integrated.
- B3. Performance of employment services should be assessed on the basis of their long-term impact on employment and benefit caseloads; active labour market programmes should be regularly assessed in a rigorous way to ensure that inefficient programmes are terminated, and that the mix of programmes is adjusted to suit the needs of jobseekers and the labour market.

##### *Make other non-employment benefits more work-oriented*

- B4. Gate-keeping measures should be strengthened to avoid individuals with substantial work capacity leaving the labour market via sickness and disability systems, while at the same time protecting adequately the needy; the degree of work capacity of people receiving such benefits should be reviewed periodically; rehabilitation with a labour market orientation should be available to those who have some work capacity; job-search support and financial incentives to go back to work should be provided for those with sufficient work capacity.
- B5. Public early retirement schemes should be gradually phased out, and public and private pensions as well as other welfare systems reformed so as to remove incentives for early labour market exit. Facilitate family-friendly arrangements
- B6. Family-friendly policies, including childcare support, as well as working-time arrangements which help reconcile work and family life, should be implemented so as to remove barriers to employment for those with family commitments.

**Adjust taxes and other transfer programmes to make work pay**

- B7. Employment should be made financially attractive vis-à-vis benefit receipt, notably through tax-benefit reform and the provision of targeted in-work benefits to make work pay, without creating excessive tax distortions or compromising public finances.

**Pillar C: Tackle labour- and product-market obstacles to labour demand****Ensure that wages and labour costs respond to labour market developments**

- C1. Ensure that minimum wages are set at levels that do not harm job creation significantly for low-productivity workers.  
 C2. Payroll taxes on labour should be reduced, especially on low-wage earners, where these are high and the budget situation allows, and health and pension contributions should be kept under control.  
 C3. In countries where uncoordinated sectoral collective agreements predominate and have adverse effects on employment, individual firms, through collective agreement, should be allowed to opt-out from sectoral agreements or the administrative extension of sectoral agreements should be reformed.

**Enhance competition in product markets**

- C4. Legal impediments to entry of new firms should be removed in all areas where competition is feasible, and administrative burdens on business start-ups should be reduced; start-up costs should be lowered and administrative procedures for the creation of new businesses simplified so as to nurture an entrepreneurial climate; move towards open international trade and investment in goods and services.  
 C5. Competition-restraining state control of business operations should be reduced.

**Facilitate the adoption of flexible working-time arrangements**

- C6. Obstacles in labour legislation which impede the emergence, through employer-employees agreements, of flexible working-time arrangements should be removed; tax and social security provisions should not discriminate against part-time work or other flexible arrangements which help reconcile work and family life and promote gradual work-to-retirement transitions.

**Make sure that employment protection legislation helps labour-market dynamism and provides security to workers**

- C7. Employment protection legislation should be reformed in countries where it is overly strict, by sanctioning unfair dismissal (for example by prohibiting dismissal on the basis of discrimination with respect to gender, age and ethnicity), but reducing constraints on dismissals for economic reasons; severance costs and administrative procedures should be made more predictable so as to reduce judicial uncertainty; reasonable dismissal notice periods should be provided so as to help laid-off workers find new jobs.  
 C8. Regulations on fixed-term and temporary contracts may need to be relaxed in some countries; in order not to aggravate labour market duality and thus undermine labour market performance in the long term, a more balanced treatment between temporary and permanent contracts should be pursued, with one option being that dismissal protection rights grow in line with seniority.

**Promote transitions to formal employment**

- C9. Transitions to formal employment should be promoted through: lower taxes on low-paid employment going hand-in-hand with better compliance of other taxes (notably on small businesses); reforms of labour regulations and business registration requirements, to make firms more prone to create formal jobs; and closer ties between social protection entitlements and work to encourage workers to declare their job.

**Pillar D: Facilitate the development of labour force skills and competencies**

- D1. In view of the key role of human capital accumulation for the achievement of economic growth and social objectives, governments should promote high-quality initial education and, in coordination with social partners where this is consistent with national practice, they should set conditions likely to improve labour force skills by:
  - establishing a system of recognition of new competencies gained by adults through training and work experience, including foreign credential recognition of new immigrants;
  - ensuring that training is more demand-driven and responds effectively to firms' changing skill requirements, and encouraging greater quality of training provision, including through performance monitoring of providers;
  - supporting training programmes – e.g. training vouchers, training leave or schemes that help workers alternate between work and training – which include co-financing from private agents and address existing training inequalities by providing effective learning opportunities for disadvantaged groups, notably the low-educated;
  - expanding the scope of apprenticeship contracts by easing age limits and allowing flexible compensation arrangements; and
  - ensuring that some employment programmes are targeted to the specific needs of disadvantaged people, including through second-chance schools.
 D2. In order to facilitate school-to-work transition, it is essential to:
  - reduce early exits from education and ensure that young people acquire skills relevant to labour-market requirements, including by broadening vocational programmes, strengthening links between general and vocational education and improving career guidance; and
  - help combine education with work, notably through improved apprenticeship systems or more informal channels.