

The OECD Jobs Study

The following article summarises the OECD Jobs Study and associated follow-up work which sought to address the issue of high and persistent unemployment amongst member countries.

INTRODUCTION

In response to persistent high and increasing unemployment amongst member countries, the OECD commissioned in 1992 a major study to examine the issue and make reform recommendations. The OECD concluded in 1994 in a report entitled *The OECD Jobs Study: Facts, Analysis, Strategies*, that labour and product market rigidities have hampered member countries' ability to adapt to change, leading to increases in structural unemployment.¹ A broad programme of macroeconomic and structural policy reform was recommended. In follow-up work, the OECD concluded that those countries that have embraced the reform recommendations most comprehensively have seen the most significant falls in their unemployment rates.

CONCLUSIONS AND RECOMMENDATIONS OF THE JOBS STUDY

The *Jobs Study* concluded that the main factor underlying persistent high unemployment has been the inability of the product and labour markets in many OECD economies to adapt to change (including technological change, globalisation and associated increased competition). This inability has been reflected in increased structural unemployment. While the potential for gains from these forces were identified, the *Jobs Study* stressed that many OECD economies are inadequately equipped to reap them.

The recommendations of the *Jobs Study*, which represent the *OECD Jobs Strategy*, are set out in Box 1. The *Jobs Study* recommended a broad programme of macroeconomic and structural policy reform designed to reduce unemployment sustainably. It stressed that broad and deep structural reforms across a range of markets, including specifically the labour market, are needed to increase the 'speed limits' of sustainable economic growth and reduce persistently high

¹ Unemployment can, in principle, be divided into its cyclical and structural components. While high rates of output growth will reduce the cyclical component of unemployment, inflationary pressures caused by demand exceeding supply in various markets generally emerge below a certain level of unemployment — this level is often referred to as the structural level of unemployment. The structural component of unemployment will be higher the greater are wage, skill or location mismatches in the labour market.

structural unemployment. The OECD argued that broad-based reforms are likely to be more effective than reforms focussed on a particular area because there are synergies between structural reforms in different fields and reforms in one area often complement reforms in other areas.

Box 1: The OECD Jobs Study Recommendations

1. Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, ie non-inflationary.
2. Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
3. Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
4. Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
5. Make wage and labour costs more flexible by removing restrictions that prevent wages from reflecting local conditions and individual skill levels, in particular of younger workers.
6. Reform employment security provisions that inhibit the expansion of employment in the private sector.
7. Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
8. Improve labour force skills and competences through wide-ranging changes in education and training systems.
9. Reform unemployment and related benefit systems — and their interaction with the tax system — such that societies' fundamental equity goals are achieved in ways that impinge far less on the efficient functioning of 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 *Jobs Study* also argued that any attempt to soften or thwart the pace of change through protectionism or other measures to restrict competition would not deal with the underlying causes of unemployment and would reduce living standards.

IMPLEMENTING THE JOBS STRATEGY

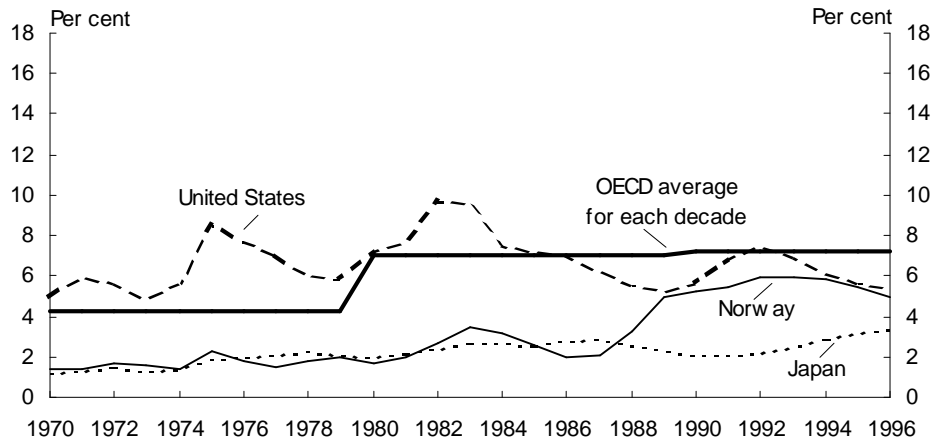
The Economic and Development Review Committee (EDRC) of the OECD examined the implementation of the *Jobs Strategy* as part of its regular reviews of individual member countries, summarising and synthesising the important lessons from the country review process in a 1997 report *Implementing the OECD Jobs Strategy: Member Countries' Experience*. The report provides a comprehensive update on labour market policies and conditions in member countries and concludes that unemployment can be reduced substantially by implementing the *Jobs Strategy*.

For example, the OECD report suggests that the United States, Japan and Norway have been successful in maintaining low unemployment because their policies are consistent with the main thrust of the *OECD Jobs Strategy* (Chart 1, Panel A). In the United States, flexible labour and product markets, supported by a stable macroeconomic environment, have kept structural unemployment low. Japan's wage and working time flexibility, geographical mobility and functional versatility of labour within enterprises are the primary factors in keeping unemployment low in that country. Norway has focused on macroeconomic stability and human capital formation to maintain low unemployment. The report suggests that the experience of these countries may be a useful guide for other countries aiming to improve labour market performance.

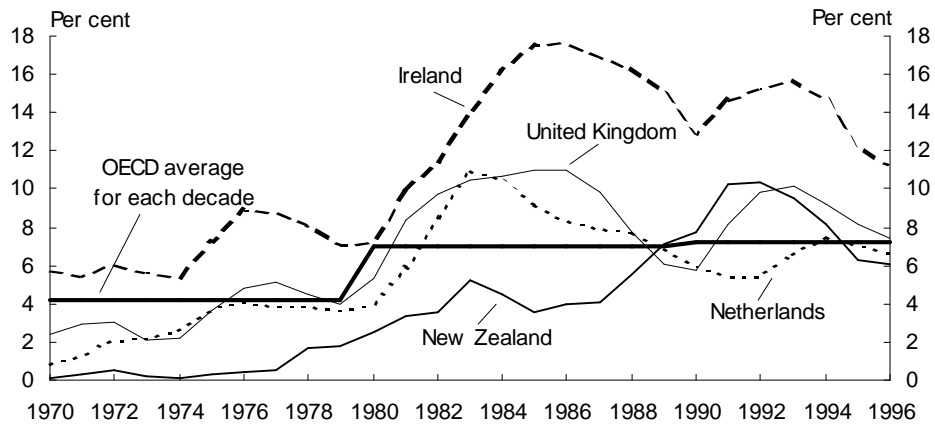
Another group of countries to receive favourable assessments were the United Kingdom, New Zealand, the Netherlands and Ireland, which all succeeded in reducing considerably both total and structural rates of unemployment over the 1990s (Chart 1, Panel B). The OECD argues that this reflects primarily the progress they made in implementing policies consistent with the *Jobs Strategy* in the 1980s and early 1990s.

The reform process in these four countries focused on a range of different issues, reflecting the need to deal with the most significant structural rigidities in each country. The United Kingdom gave priority to product market and industrial relations reform; New Zealand embarked on a path of trade liberalisation, industrial relations reform and reduced government intervention; the Netherlands concentrated on aggregate wage moderation and wage flexibility through a mix of tax reductions and centralised bargaining; and Ireland focused on reducing the generosity of unemployment benefits, reducing marginal effective tax rates and improving labour skills.

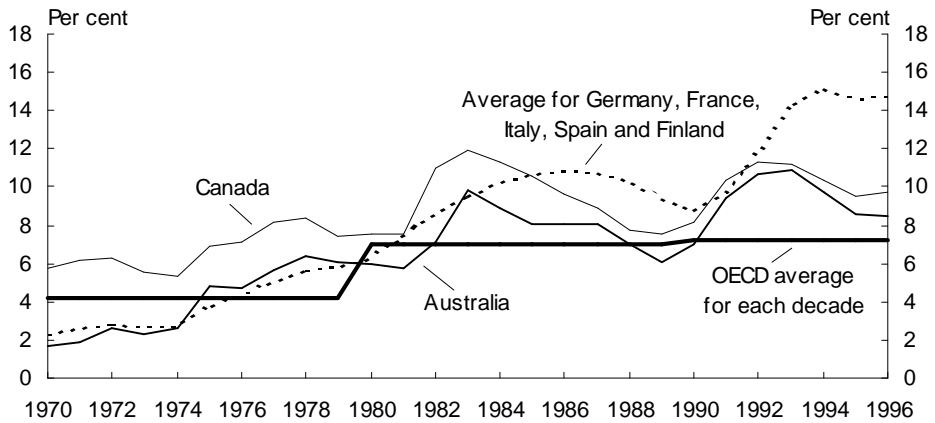
Chart 1: Comparative OECD Unemployment Rates
Panel A: United States, Norway and Japan



Panel B: United Kingdom, New Zealand, Ireland and the Netherlands



Panel C: Australia, Canada and Major European Countries



While each of these countries gave priority to its most pressing structural problems, their reforms were part of broad-ranging reform agendas — a feature which the *Member Countries' Experience* paper considers crucial to their success. The setting of policy to maintain a stable macroeconomic environment with a strong focus on sound public finances and the control of inflation is another common feature of successful structural reform in the four countries. By 1996, New Zealand had moved its budget balance into surplus and achieved an inflation rate of below 2 per cent, while the Netherlands, Ireland and the United Kingdom had reduced their budget deficits substantially.

The *Member Countries' Experience* paper identifies Australia and Canada as countries which have recently introduced significant and wide-ranging reforms, but the results in terms of the impact on unemployment are yet to fully emerge. While both countries succeeded in reducing the rate of unemployment in the mid-1990s, no significant improvement has been recorded since then, despite a high rate of output and employment growth (Chart 1, Panel C).

The successful countries' experiences contrast with those of many European countries — including Germany, France, Italy, Spain and Finland — which introduced only partial reforms and experienced a persistent increase in total and structural rates of unemployment. In 1996, unemployment was at or near record levels in most of these countries, ranging from around 10 to 12 per cent in Germany, France and Italy to around 22 per cent in Spain (see also Chart 1, Panel C).

CONCLUSION

The OECD concludes the experience of the successful countries holds out promise that other OECD countries can reduce structural unemployment by implementing the *OECD Jobs Strategy*. The OECD also argues that a concerted and sustained effort is required both on the part of governments and communities to move forward with the necessary changes. Governments need to hold out against pressure to resist change, while business, trade unions and workers need to be innovative and flexible to create new jobs for the future. The OECD concludes that such efforts are required to enable countries to reap the benefits of change in the form of reduced unemployment and increased living standards.