Reassessing the Jobs Strategy

A new road map against unemployment

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The employment situation across the OECD is deteriorating rapidly, requiring urgent action. The time is ripe to reassess the OECD Jobs Strategy, not just in light of the last 10 years, but also of what we now know about the sources of growth.

"Remove your labour market rigidities" is a constant refrain governments are well familiar with in OECD countries, particularly (but not exclusively) those facing high unemployment. It is certainly the underlying message in the OECD's Jobs Strategy issued in the mid-1990s, with its set of policy prescriptions as noteworthy for their market bias as their lack of social content: reform of overly generous unemployment benefits, removal of strict employment protection legislation, restrictions on trade union activities and elimination or sharp reduction of minimum wages. Reading down the list makes one wonder which direction the OECD would like labour markets to go: forwards on a high road towards a more enlightened, inclusive framework for the 21st century, or backwards, to a Dickensian-like world reminiscent of 19th century Britain. But this matters little; unemployment is down, we acknowledge that, though whether the OECD's strategy is to thank for it, and not just the wave of liberalisation from the 1980s and the boom in services, or the new economy, is another question.

Is it really true that structural reforms implemented over the course of the last decade can account for the better employment performance of several OECD countries? A look at those countries which enacted the Jobs Strategy or took similar steps should provide some clues. The answer is less clear-cut than some will accept.

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Labour office

No winning structure

In fact, the assertion that looser labour market institutions and deregulated labour markets will allow the economy to operate at a higher level of activity is unconvincing. The OECD's growth study found that efforts to implement the prescriptions for labour market deregulation did not necessarily lead to an impressive performance regarding employment and growth. Moreover, the recent good growth and employment performance in the Nordic area in particular (often misleadingly discussed alongside Anglo-Saxon examples) has been achieved without dismantling the welfare state. Why? Quite simply, because high employment rates can be forged out of policies that privilege linking social dialogue, macroeconomic policy and labour market policy.

A recent study, conducted at the Center for Economic Policy Analysis (CEPA) at the New School University in New York, found very little evidence to support labour market deregulation as the best route to increasing employment. Using OECD data and constructing an index of the extent of labour market deregulation, the study failed to establish a meaningful relationship between labour market deregulation and shifts in the "Non-Accelerating Inflation Rate of Unemployment", or NAIRU, which is the unemployment rate consistent with maintaining stable inflation. Similar evidence has been provided by a recent World Bank study, which argues that economies perform better when they have co-ordinated, not balkanised, labour markets.

To challenge the prescriptions of the Jobs Strategy, just take a look at New Zealand, which embarked on a wide range of labour market reforms, in some ways as substantial if not greater than in any other country over the same period. However, in light of a rather tight macroeconomic policy, those reforms failed to increase employment substantially.

Ireland is another small country which, in contrast, experienced a sharp fall in unemployment during the 1990s as well as higher employment. However, it did so not by implementing the reforms to the benefit system or other labour market institutions advocated in the Jobs Study, but by leaning on those very institutions to co-ordinate economic and social policy. In fact, Ireland's wage bargaining system was recentralised and the entire Irish boom was underpinned by a succession of social pacts that demanded worker participation, trust and, yes, restraint, rather than major sacrifices in jobs or social welfare.

Staying with small countries, Denmark is another that has achieved astonishing cuts in unemployment. Has any labour market outstripped the Danish performance in the OECD area between 1990 and 2002? No, not even the US or the UK. Unemployment was brought down without reducing high income replacement rates (which are close to 90% of previous earnings). Instead, Denmark's active labour market policy used an approach known as "flexicurity", combining generous social security with flexibility, backed up by an appropriate macroeconomic framework.

In fact, other European countries with so-called rigid labour markets, like Austria, the Netherlands and Sweden, have all had lower unemployment rates than the US. The Jobs Strategy should explain why, for it seems, at the very least, that good social welfare does not condemn countries to lasting unemployment.

Lessons for reassessment

All this begs the question: is the Jobs Strategy an exercise in trying to prove free market theory or a genuine attempt to provide a set of practical tools that policymakers can use to solve tough labour problems? Labour markets and employment systems cannot simply be shoe-horned into a standardised market model. True, markets must guide business decisions, but regulation often enables, rather than hinders, those decisions.

Nor does economic welfare translate automatically into sufficient social welfare. And despite all the changes affecting the world of employment, work remains a social activity (career, progression, status, security, etc.), and is embedded in social structures (workplace, family, cities, democracy, and so on). Thus, labour markets must be judged on their abilities to strike a balance between economic and social goals.

Recent growth and employment performance in Nordic countries has been achieved without dismantling the welfare state. Why?

The Jobs Strategy is an impressive undertaking, but to be useful in the real, multidimensional world, it really must try convincingly to explain why employment and labour market policies in countries that have not closely followed its policy prescriptions have been successful. It must also try to explain why many reform efforts failed to tackle important issues like employment promotion, social security and inclusion, as well as cohesion. The Jobs Strategy must surely evolve with experience, not the other way round. That means its suitability and performance must be tested in bad times, as well as good. So, any reassessment of the Jobs Strategy must also examine how to strike a balance between labour market reform and social protection. It should explain the impact of redesigning benefit systems to become instruments of employment promotion rather than social equity. It should highlight any new poverty traps that may have arisen from these changes, too.

What we all badly need is a comparative, in-depth and dispassionate analysis of policies pursued by OECD countries to combat unemployment, to improve job quality and to enable an ageing labour force to stay longer in employment. We do not need to hear OECD experts hailing labour market reforms as the panacea of our ills. The diagnosis "the patient must fit the medicine" is not on. Unemployed and excluded persons from New Zealand to Ireland, whether via California or Kobe, deserve more. And so do their governments. ■

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