

Reassessment of the 1994 OECD Jobs Strategy

TUAC comments on the draft policy conclusions

“Boosting Jobs and Incomes: Policy Lessons >From ReAssessing the OECD Jobs Strategy”

23 March 2006

Summary of the main points

- It is welcome that the draft policy lessons acknowledge that good labour market performance can be achieved and maintained by different policy packages. Regrettably however, that is not appropriately reflected in the key policy recommendations. They are biased in favour of so-called “liberal regimes”, characterized by strong product-market competition, low levels of welfare benefits and limited taxation to fund these benefits, light employment protection legislation and a limited role of collective agreements.
- Despite a recent acceleration of both structural reforms and economic activity, there are no signs that they sufficiently translate into more jobs. Job losses during the recent recession are followed by a “job less” recovery. Thus, high unemployment across the OECD remains a challenge, as does the integration of young people into labour markets. A further cause of concern is the ongoing deterioration of the quality of jobs as reflected in high.
- A decline in unemployment rates and more jobs do not necessarily mean better jobs. A restatement for a *Jobs Strategy* must aim to reduce precariousness and insecurity. A positive policy initiative is required, introducing labour market and workplace reforms meeting worker demands and aspirations instead of simply weakening existing protections and giving in to employers’ demands.
- There is an urgent need to reform conventional social security systems in order to enable them to respond appropriately to new forms of systemic risk and uncertainty that are brought about by economic changes within the emerging new global economy.
- Labour market institutions, in particular unemployment benefits and wage-setting institutions are not the culprits of high and persistent unemployment. The evidence that generous unemployment benefits are associated with high levels of unemployment is far weaker than the reassessment of the *Jobs Strategy* implies.

There is little reason to believe that reducing benefit replacement rates as advocated will lead to substantive reductions in unemployment rates.

- There seems to be an increasing acceptance to reduce the tax wedge. Possible employment effects, if any, will depend on what element of the tax wedge is being reduced. Decreasing the non-wage contribution of employers may simply lead to wage slides and few new jobs will emerge. Decreasing the tax share of the wage-earner may require a long time until the cut translates into new employment. In any case, cuts of the tax wedge or reductions in the payroll tax are difficult to target and to administer. Moreover, they are costly without boosting sufficiently income and demand.
- In discussing *activation strategies* the draft focuses exclusively on the supply side of the labour market. The fact that jobs must be available in order to make *activation strategies* work by bringing unemployed workers and benefit recipients back into work, is not taken into account. The underlying “mutual obligations” approach appears to be to some extent one-sided. A reassessed *Jobs Strategy*, claiming to be a restatement for the future, needs to call for a better balance of rights and obligations.
- A restated *Jobs Strategy* must go beyond calling for the conduct of regular assessments of active labour market policies. Instead calling for a termination of inefficient programmes it must call for an ongoing redesign of labour market programmes. A future oriented *Jobs Strategy* must also call upon governments to ensure appropriate financing of active labour market policies.
- It is welcome that the draft policy lessons are giving particular attention to the need to strengthen lifelong learning and to ensure that workers are being trained. TUAC welcomes in particular the call upon governments to facilitate the development of skills jointly with the social partners. The language used in this respect (recommendation D.1) needs to be revised. Moreover, the recommendations need also to address more specifically major barriers preventing many workers from going on training (lack of time, lack of access, the ongoing discrimination of women and older workers as well as the fact that continuing training tends to reinforce existing skill differences resulting from unequal access to and participation in education in all countries).
- The policy lessons suggested in order to raise the level of enterprise-based training are limited in scope; they are primarily concerned with the creation of a regime ensuring a functioning training market. It is very unfortunate that the policies suggested don’t aim to strengthen the role of employers in the provision of training.
- The macroeconomic strategy advocated by the restated *Jobs Strategy* remains within the same lines as advocated in 1994. However, she is at odds with evidence provided by case studies strongly suggesting that macroeconomic policy, in

particular institutional coordination and the political environment are of key importance for strategies successfully reducing unemployment and promoting employment. Moreover, case studies also highlight that maintaining strong aggregate demand can be particularly effective if financial and monetary policies are closely coordinated with collective bargaining, based on social dialogue and consensus.

- Because quality of working life and work-life balance issues are of primary importance for workers and their families, trade unions are increasingly advocating for the introduction of new and innovative working time arrangements. However, in order to benefit both employees and employers, the implementation of flexible working time arrangements can not be left simply to agreements between the individual employee and the employer as advocated by the policy recommendations. The implementation of new working time arrangements must be based upon joint negotiations and agreements between workers' representatives and employers.
- In a striking contrast to concerns voiced by the draft policy lessons, neither sectoral wage bargaining nor minimum wages are impediments to good labour market performance. The call to move away from sectoral wage bargaining and phase out extension mechanisms is based on a set of strong priors, but not supported by compelling evidence. A look at the outcome of sectoral wage bargaining and its determinants without any blinders would have shown that economic survival and competitiveness of firms is a key precondition for the security of jobs, regardless of the level of negotiations. It's exactly for that reason that sectoral wage bargaining hardly ever tapped the full potential available for wage increases. This is also reflected in the wage drift, which allows most firms to set off constraints imposed by collective bargaining. To put it differently: sectoral wage bargaining goes along with a wide scope of action for wage setting policies by individual firms.
- Moreover, sectoral wage bargaining is favorable to small companies; subsequent to a shift towards enterprise based bargaining they will face the risk of paying higher wages. Sectoral wage bargaining systems implies also a "peace-keeping" function by transferring wage conflicts between management and the workforce to a level above the firm. There are good reasons for leaving institutional changes in national bargaining systems primarily to their key actors, trade unions and employers. Often unobserved by economists, in many countries they have started already a process of institutional transformation.

I. Introduction:

1. Subsequent to the submission of the draft main report on “*OECD Jobs Strategy: Lessons from a decade’s experience*” in late December 2005, a first draft on the policy lessons from the re-assessment of the 1994 *Jobs Strategy* has been made available in March. The draft policy lessons, which will be discussed in a joint meeting of the EPC and ELSA Committee on 3 April 2006, bear a promising and ambitious title: “*Boosting Jobs and Incomes: Policy Lessons from Re-Assessing the OECD Jobs Strategy*”. They are based on four pillars:

- on appropriately set macroeconomic policies;
- on the removal of alleged impediments to labour market participation and job search;
- on policies tackling labour- and product-market obstacles to labour demand and
- on policies facilitating the development of labour force skills and competencies.

2. In a nutshell, the draft policy lessons convey four key messages:

- the trend increase in unemployment has been arrested or reversed in many OECD countries (Figure 1);
- labour and product market reforms in line with the recommendations of the 1994 *Jobs Strategy* have been rewarded by an improved labor market and employment performance. According to the draft policy lessons, “reforming countries have in general done better in reducing unemployment” (§ 12, p. 6);
- there is no single combination of policies and institutions to achieve and maintain good labour market performance.
- reducing unemployment requires the removal of disincentives to work, less stringent protection of workers, increased flexibility of wages and working time arrangements and more obligations shouldered by the unemployed.

3. Whereas the 1994 *Jobs Strategy* primarily aimed at reducing high and persistent unemployment, the proposed restated strategy goes along with a broadened focus on the supply side of the labour market. It’s that orientation which places strong emphasis upon the labour market with regard to reduce unemployment. This approach also concentrates upon strong incentives to work by calling for less generous unemployment benefits and time-constrained benefit entitlements. Moreover, it is assumed that the number of employable workers in the economy determines the number of jobs available. Hence, the approach suggested ignores the important contributions of both aggregate demand and productive capacity to employment. Consequently, by giving substantially more weight to the objective of promoting labour-market participation and employment, the draft policy recommendations have been made more specific with regard to areas of policy action. Thus, their number has gone up from previously ten to now twenty major recommendations. Almost two thirds of them, namely 13 out of 20, are focusing on the alleged need to further reform labour market institutions.

Table 1:

Recommendations to "reform" labour market institutions and to promote employment

I.) Proposed actions to reform labour market institutions

- Make work pay by reducing payroll taxes on labour and improved work-incentives: B7, C2, C9
- Relaxation of EPL and regulations on fixed-term and temporary contracts: C7, C8
- Provision of sub minimum wages for low productivity workers C1
- Set unemployment benefit replacement rates to encourage job search B1
- enforcement of work availability, job search and compulsion B1, B2, B4
- implementation of opt-out clauses in order to limit the scope of sectoral collective bargaining coverage C3
- reducing administrative extension of collective bargaining agreements C3
- remove all alleged incentives for early labour market exit B5
- Further flexibilisation of working-time arrangements B6, C6

II.) Actions to improve the framework for labour-market participation and employment

- Enhance competition in product markets C4, C5
- Improve labour force skills and facilitate school-to-work-transition D1, D2
- Improve the performance of employment services B3
- Appropriately set macroeconomic policies A1, A2

II. Unemployment and deteriorating quality of jobs - remaining challenges

4. At a first glance it appears – as asserted by the draft policy lessons - that the trend increase in unemployment has been brought to a halt. Across the OECD, unemployment has decreased slightly from 6.7 % in the first Quarter of 2005 to 6.3 % in January 2006. However, only few countries have managed to reduce unemployment substantially over the course of the years from 2003 to 2005, in particular Spain, the US, Denmark, Canada, and New Zealand. In a larger number of countries unemployment continued or started to increase as in the UK, Switzerland, Portugal, the Netherlands, Korea, Luxemburg, Hungary, Greece, Belgium and Austria. At the same time, youth unemployment has continued to increase in almost all OECD countries (the exceptions are Australia, Denmark and Italy). In 2004, youth unemployment rates exceeded more than 15 percent in 13 OECD countries.

5. Despite a recent reacceleration of economic activity, there are no signs that the recovery sufficiently translates into more jobs. Large losses of jobs during the recent recession are followed by a “job less” recovery. According to a new international survey, conducted to measure employers’ intentions to increase or decrease the number of employees in their workforces, this is not going to change. Only employers in Canada, Spain, Norway, Sweden, Ireland and Japan, reported optimistic hiring plans.¹ Thus, it is

¹ Manpower Global Employment Outlook Survey Q2/2006, Milwaukee

disappointing but not surprising that unemployment in the OECD is predicted to remain at 6.3 % in 2006 and to fall only slightly in 2007.

6. High unemployment across the OECD remains a challenge, as does the integration of young people into labour markets. A further cause of concern is also fact that, with regard to both the quantity and quality of available jobs, the trends of employment and wages are lagging behind economic growth and productivity increases. This is reflected in cross-country-studies, which do show rising inequality in wages and earnings since the late 1980s not only between workers of different skills but also among workers with similar skills within and across countries. At the same time, they show an increase in poverty. In this respect it is particularly striking that the number of working poor across the OECD has increased. In seven out of 18 countries for which data are available, the portion of working poor has gone up, in some of them quite substantially. The increase of working poor was particularly high in the US, Ireland and the Netherlands – all countries with an impressive employment performance. There is a simple but compelling lesson to be drawn here: Employment success is not a sufficient guarantee for social success. Moreover, it must be emphasised that great pay inequalities do not give rise to higher employment rates.

7. A decline in unemployment rates and more jobs do not necessarily mean better jobs. On the contrary, there is evidence that the quality of jobs has deteriorated over the last decade. This is reflected in long working hours of low-wage earners (which work most often more hours than other employees) and an increasing number of workers involved in job-juggling and thus becoming multiple job holders. In order to make ends meet, they hold beside a primary full-time job often a second, sometimes even a third part-time job. This is particularly the case in the US; however it is by no means an exclusive American symptom.

III. A restatement for a *Jobs Strategy* must aim to reduce precariousness and insecurity

8. Multiple job holding is part of a trend towards casual employment and non-standard work. It is closely linked to the increase of part-time employment, which is not always chosen voluntarily. On the contrary, across the OECD about one out of six workers in part-time employment considers the employment as involuntary. Likewise, a large part of temporary employment must be considered as involuntary. It doesn't come as surprise when most of temporary workers are indicating that they would prefer permanent jobs because their current jobs tend to provide less favorable conditions than permanent ones, in particular with regard to wages and to non-wage benefits. Moreover, it is a fact that the prospects for transitions from temporary into permanent employment are limited. That also explains why workers in temporary employment are often trapped in temporary employment /non-employment cycles; the number of those workers, depending on the country, varies over a range of 5 up to more than 10 % of total employment.

9. The draft policy lessons report that the incidence of in-work poverty has tended to increase over the past decade and that a significant share of low-paid workers finds it difficult to climb the job ladder and/or experiences frequent spells out of work. Thus, it is obvious that for many workers and their families the riskiness and uncertainty of modern forms of work and employment is unsettling. They are unsure what standard they are expected to meet, unclear about where they stand, uncertain of success, never knowing whether what looks like career progress is actually a stall. Regrettably, and in a striking contrast to the mandate to consider during the reassessment of the *Jobs Strategy* also recommendations aiming to improve the quality of jobs and to promote career developments, the downsides of in-work poverty, precarious employment and insecurity are not subject of any direct policy recommendation aiming to reduce related risks and to improve the well being of workers affected. Instead, the draft policy lessons call for a further relaxation of regulations on fixed-term and temporary contracts in some countries.

10. Today it is assumed that everyone has to accept risk, and it is often sold as exciting and rejuvenating. Many observers welcome the fast-changing nature of work because it allegedly emphasizes employee freedom, flexibility and empowerment. However, workplace changes, brought about by corporate downsizing, restructuring and globalization, don't simply lead towards freedom, flexibility and empowerment; they are also leading towards a live with increased risk and insecurity. That means living with vulnerability, with a kind of ongoing worry which undermines social relationships and trust, the main constituents of social capital. The consequences of unregulated, borderless labour markets and fully flexible work have been outlined in a study by Richard Sennett. "No long-term", he argues, is "a principal which corrodes trust, loyalty, and mutual commitment How can long-term purposes be pursued in a short-term society? How can durable social relations be sustained? How can a human being develop a narrative of identity and life history in a society composed of episodes and fragments?"²

11. The downside of flexibility and insecurity illustrates why workers are concerned about policies aimed to weaken employment protection legislation without putting anything in their place. They are also aware of the fact that the costs of reform, which tend to be concentrated on particular groups of employed workers, will be apparent early in the process, while the benefits will only materialise after a longer period of time - if at all. Hence, their inclination to accept reforms designed to distribute costs and benefits unequally is limited. What is needed in this respect is a positive initiative, introducing labour market and workplace reform, meeting also worker demands and aspirations instead of simply weakening existing protections and giving in into employers' demands. Moreover, there is an urgent need to reform conventional social security systems in order to enable them to respond appropriately to new forms of systemic risk and uncertainty that are characterising economic changes within the emerging new global economy.

IV. Do supply-side problems and lack of structural reforms holding back growth and employment?

² The Corrosion of Character, *Richard Sennett, 1998, pp 24 & 6.*

12. Like the recommendations of the 1994 *Jobs Strategy*, the draft policy lessons continue to claim that labour market rigidities and a lack of structural reform, particularly in Europe, are the root causes of persisting high unemployment and insufficient labour market participation. That is a bold assertion; however, it is not backed by compelling evidence. On the contrary; the first draft of the upcoming Employment Outlook 2006, presented under the title “*OECD Jobs Strategy: Lessons from a decade’s experience*”, emphasised that recent cross-country panel regression studies generally have not found robust evidence for a significant direct effect of EPL on unemployment. The same was noted with regard to minimum wages; referring to *Background Report Nr 1*, the draft stated that “no significant impact of the minimum wage on the aggregate unemployment rate is found.”

13. Contrary to the conviction of many observers, there does not seem to be a lack of reform. According to a study on lessons from two decades of reforming labour and product markets in Europe, published by the IMF, over the period of 1985 to 2003, there were about 414 reforms - that is more than 1.6 per year and country. Almost sixty per cent of them (241) reduced either employment protection legislation or the generosity of non-employment benefits. Moreover, the study found also an acceleration of reforms over the years 1998 - 2003, in particular of reforms oriented towards increasing rewards from labour market participation.³ However, neither the IMF study nor the draft of the upcoming Employment Outlook 2006 could provide compelling evidence suggesting that “reforming countries have in general done better in reducing unemployment” as asserted in the draft policy lessons. In this respect it is very unfortunate that neither the design and implementation of reforms nor their successes and failures have been subject of an in-depth study during the reassessment of the 1994 *Jobs Strategy*. The same must be said with regard to individual policies, the extent to which they need to be complemented with additional measures and how different policies interact.

Table 2: Different regimes of labour market functioning

	Strong interventionist regimes (Nordic countries)	Liberal regimes (AUS, CN, NZ, UK, USA)	OECD unweighted average
Union coverage	83.33	30.75	59.96
Employment rate	71.91	70.92	67.11
Unemployment rate	4.79	5.30	7.47
Income inequalities (Gini index)	25.58	31.50	29.35
Poverty rate	7.77	11.78	9.64

Source: Annex 1; draft report *OECD Jobs Strategy: Lessons from a decade’s experience*, p. 44

14 It is striking to note that with regard to employment performance some of the Nordic countries of Europe have clearly outperformed countries with liberal regimes sticking close to the policy prescriptions of the 1994 *Jobs Strategy*. Despite all the alleged ills brought about by labour market institutions, like a high union density, higher than average employment protection legislation, rather generous unemployment benefits,

³ Boeri, T., *Reforming Labour and Product Markets: Some Lessons from Two Decades of Experiments in Europe*; IMF Working Paper 97/05, Washington, 2005

a high tax wedge and with clearly more interventionist policy settings, the Nordic countries have achieved lower unemployment and higher employment rates as well as lower poverty rates. By contrast, the liberal regimes are facing income inequalities and poverty rates far beyond the OECD average. Whilst the related social costs caused by that have not been taken into consideration in the reassessment process, the labour market and employment performance of the Nordic countries is looked at through the wrong end of the telescope: The draft policy lessons emphasize that these countries have achieved high employment and low-working poverty at a high budgetary cost.

V. Labour market institutions – not the culprits of unemployment

15. Like the 1994 *Jobs Strategy* and contrary to the lessons to be drawn from the Nordic countries, the draft policy lessons blame unemployment in particular on high and long lasting unemployment benefits, a high tax wedge, wage setting institutions, high wage floors and non-responsive wages. However, the argument that high benefits increase unemployment either by prompting the unemployed to delay their search for a new job or causing them to insist on high "reservation wages" (i. e. to insist on getting a high wage if reemployed, and if they aren't offered that wage, they stay on unemployment insurance as long as possible), fails to take into account the fact that involuntary unemployment exists. Moreover, the argument fails to acknowledge that unemployment in any case goes along with a substantial loss of income. This applies not only to the unemployed in those countries providing the most generous unemployment protection systems of all OECD member countries, like Denmark, Sweden or Finland. This applies even more so to the unemployed in countries where net replacement rates mostly remain below the 50 per cent threshold.

16. And last but not least, it must be said that blaming unemployment on allegedly generous unemployment benefits also fails to take into account the consequences of adverse social, psychological and health effects caused by unemployment. According to research findings, unemployment has various cumulative, adverse effects on physical health, people's subjective perceptions of their health status, their mental health and self-esteem as well as upon the social life of both the unemployed individual and his or her family. These effects are an important driver of effort and energy that the unemployed generally put into finding a new job. Regrettably however, labour market analysis most often neglects or underestimates these facts. A case in point in this respect is provided by the draft policy lessons. The call to lower unemployment benefits in order to remove an alleged impediment to labour market participation and job-search does not take into account the fact that replacement rates have been reduced in a large number of countries as a consequence of high unemployment.

17. The evidence that high unemployment benefits are associated with high levels of unemployment is far weaker than the reassessment of the *Jobs Strategy* implies. There is little reason to believe that reducing unemployment benefit replacement rates as advocated in the draft policy lessons will lead to substantive reductions in unemployment rates. The rather weak relationship between levels of unemployment and levels of unemployment benefits can hardly constitute a base for enacting significant cuts in the

generosity of unemployment benefits. Such cuts would have a substantial direct impact on the well-being of currently unemployed workers and an indirect negative impact on all existing workers (by lowering the value of the insurance they receive through the unemployment-insurance system). Moreover, such cuts would also negatively impact upon the functioning of automatic stabilizers.

VI. Active Labour market policy must be maintained, the “mutual obligations” approach must be rebalanced

18. Unemployment tends to damage one's work ability. This, in turn, weakens the individual's chances of re-employment and undermines his or her ability to cope at work later on. Hence, it is important that the duty assumed by governments, to provide unemployed jobseekers with effective re-employment services, counseling, training as well as financial incentives to improve their work ability and to enable them to find work, is being maintained and strengthened. Regrettably, however, the renewed interest in labour market policies based upon a “mutual obligations” approach has caused a shift towards a more imbalanced situation. The “obligations” side of the approach has been strengthened, whilst the “rights” side of the approach has been restricted. The obligations on the side of the unemployed have been extended by using compulsion instead of conviction; in particular a higher degree of work-availability and a readiness to accept a loss of income in a new job have been enforced. At the same time in many countries the share of total labour market policy expenditure spent on active measures has been decreased, in particular in European countries. Thus, the “mutual obligations” approach appears to be to some extent one-sided. A reassessed *Jobs Strategy*, claiming to be a restatement for the future, needs to call for a better balance of rights and obligations. Moreover, a restated *Jobs Strategy* must go beyond calling for the conduct of regular assessments of active labour market policies. Instead calling for a termination of inefficient programmes it should call for an ongoing redesign of labour market programmes. And last but not least, a future oriented *Jobs Strategy* must call upon governments to ensure appropriate financing of active labour market policies.

19. In discussing *activation strategies* the draft focuses exclusively on the supply side of the labour market. The fact that jobs must be available in order to make *activation strategies* work by bringing unemployed workers and benefit recipients back into work, is not taken into account. Obviously the reasoning assumes that an increased supply of labour is going to create its own demand. However, there is evidence that opportunities for the reemployment of unemployed as well as of former welfare benefit recipients depend significantly upon strong aggregate demand and related job offers.

20. It is welcome that the draft policy lessons are giving particular attention to the need to strengthen lifelong learning and to ensure that workers are being trained. TUAC welcomes in particular the call upon governments to facilitate the development of skills jointly with the social partners. However, the language used in this respect (recommendation D.1) needs to be revised.

VII. Lifelong learning policies cannot be limited to the creation of a well functioning training market

21. It has always been a central objective of trade unions to assert the right to education and training for working people and their families. That objective has also included the creation of opportunities for education and training. In recent years, trade unions, realising the problems caused for their members by lack of skills and competencies, have worked to develop broader access to learning for employees. They have put learning and the development skills high at their agendas. They negotiate training agreements with employers, raise members' awareness of learning, advise learner members and help to broker the provision of education and training with colleges and universities. Union representatives are also being trained and accredited as “learning representatives”.

22. The draft acknowledges that there are barriers preventing workers from taking training, like the complexity of the training market and financial constraints to investments in workers' skills. Regrettably however, other major barriers preventing workers from going on training, like a lack of time, a busy schedule, lack of access and the ongoing discrimination of women and older workers as well as the fact that continuing training tends to reinforce existing skill differences resulting from unequal access to and participation in education in all countries, are not addressed. Policies necessary to tackle these barriers are not reflected on. Also the fact that workers are already investing heavily in education and training lacks any appropriate consideration.

23. The policy lessons suggested by the draft in order to raise the level of enterprise-based training are limited in scope; they are primarily concerned with the creation of a regime ensuring a functioning training market. In this respect it is very unfortunate that the policies suggested don't aim to emphasize and to strengthen the role of employers in the provision of training. Instead, employers are given a nice excuse not to invest into training facilitating. This is in a striking contrast to available evidence, suggesting that “employers gain when workers train”. Most of the existing literature has underestimated the full effects of training for two reasons. First, it has tended to treat training as exogenous whereas in reality firms may choose to re-allocate workers to training when demand (and therefore productivity) is low. Secondly, the pay-off firms take in higher profits from training have often been neglected or underestimated. These effects are economically quite large.

VIII. Macroeconomic strategy –a visible hand of demand management is need

24. The economic strategy advocated by the restated *Jobs Strategy* doesn't come out of the blue. It remains within the same lines advocated by the 1994 *Jobs Strategy*. It can be described best as a strong commitment to macroeconomic stability and financial prudence. Accordingly, economic policies are not committed to pursue the objective of maintaining full employment of resources available. The approach called for, to “set appropriate macroeconomic policy” by aiming at price stability and sound public finances, seeks primarily the creation of a stable macroeconomic framework conducive to

business activity. It also implies a rather passive fiscal policy stance and a decoupling of monetary policy from a coordinated macroeconomic policy stance. The replacement of former objective of full employment by the aim of low inflation is seen as a means to prevent pressure on wages from increase without decreasing aggregate demand. Consequently, there is no need for any management of aggregate demand respectively any counter-cyclical policy.

25. Although the advocated economic strategy is in line with recent conventional wisdom in macroeconomic theory, she is at odds with evidence provided by case studies. The latter clearly suggest that macroeconomic policy, in particular institutional coordination and the political environment are of key importance for strategies successfully reducing unemployment and promoting employment. Moreover, the findings of the case studies also highlight that maintaining strong aggregate demand can be particularly effective if financial and monetary policies are closely coordinated with collective bargaining, based on social dialogue and consensus. Many countries with an outstanding employment performance, among them Ireland, Austria, Denmark and the Netherlands, have based their strategies on coordination and dialogue.⁴ Moreover, the importance of counter-cyclical macroeconomic policy triggering growth and employment success is also confirmed for countries like the UK, the US.

IX Lower tax wedges do not inevitably translate into higher employment

26. According to the draft upcoming Employment Outlook 2006 there is evidence suggesting that a high tax wedge - the difference between workers' take-home pay and what it costs to employ them - on labour earnings is likely to significantly reduce employment, while confirming the potential of tax concessions targeted on low-wage workers to shift demand to this group. However, not without reason, the draft policy lessons are more cautious in this respect. The alleged evidence indicating that the functioning of labour markets is hampered by a high tax wedge is less clear-cut than assumed. As a matter of fact, average direct tax wedges on the income of the stylised average production worker (APW) have fallen in most OECD member countries; notable exceptions are Austria, the Czech Republic, Japan, Korea and Norway where the tax wedges rose substantially. In Canada, France and Sweden tax wedges remained stable or increased slightly. The decrease of tax wedges however did not translate into noticeable and definite employment effects.

27. Despite a series of multivariate regressions and a production of a wide range of estimates for a possible impact of various types of labor-market institutions on unemployment the size, no robust relationship between labor-market institutions and unemployment was found. That includes also the relationship between the tax wedge and unemployment. Neither has a rather high tax wedge prevented countries like Sweden, Finland, Austria or Italy from reducing unemployment and achieving a good employment performance, nor has a tax wedge below average countries like Canada, Portugal and Switzerland protected against the risk of unemployment. Thus, it cannot be asserted that

⁴ For details see Auer, P. (2000). Employment Revival in Europe. Labour market success in Austria, Denmark, Ireland and the Netherlands. Geneva.

reducing the tax wedge does kill two birds with one stone, increasing both employment and incentives to work. A decrease of the tax wedge does not automatically increase workers' take-home pay.

28. Nevertheless, there seems to be an increasing acceptance to reduce the tax wedge. Possible employment effects, if any, will depend on what element of the tax wedge is being reduced. Decreasing the non-wage contribution of employers may simply lead to wage slides and few new jobs will emerge. Decreasing the tax share of the wage-earner may require a long time until the cut translates into new employment. Adverse impacts may be avoided if the tax wedge cuts are targeted on those jobs which are close to the effective minimum wage. In any case, cuts of the tax wedge or reductions in the payroll tax are difficult to target and to administer. Moreover, they are going to be costly without having appreciable effects on work incentives and employment.

X. New working time arrangements must be based on joint agreements between workers' representatives and employers

29. The general trend of reducing working time across the OECD has been accompanied by a trend growing towards a diversity of working time arrangements. They do reflect the introduction of new technologies, changing preferences of individual worker and the increasing need for a flexible organization of production in order to remain competitive and cater for changing demand patterns. Flexi-time, shift work, compressed work weeks, staggered hours, time-autonomous work groups and increasingly working time accounts are supplementing the standard work-week. At the same time new arrangements provide scope for more flexibility and a better work-life balance.

30. Because quality of working life and work-life balance issues are of primary importance for workers and their families, unions increasingly are advocating for the introduction of flexible working hours to help establish a culture that recognises workers' responsibilities outside of the workplace and to support quality of family life. In this respect it is not surprising that employers subsequent to the implementation of joint agreements on new working time regimes have reported higher motivated and more productive staff, greater staff retention, and improved morale. However, in order to benefit employees and employers alike, the implementation of flexible working time arrangements can not be left simply to agreements between the individual employee and the employer as advocated by the policy recommendations. The implementation of new and innovative working time arrangements must be based upon joint negotiations and agreements between workers' representatives and employers.

XI. Wage setting institutions - sectoral wage bargaining and minimum wages no impediments to employment success

31. The draft policy lessons claim that the 1994 *Jobs Strategy* recommendations for reforming wage-setting institutions remain largely valid. Moreover, they are complaining

about a limited progress in this area since bargaining arrangements tend to be deeply embedded in countries' social fabric. Unfortunately, however, the complaint is completely at odds with the notion that the "revised strategy will need to be implemented in a manner that is consistent with national institutions and practices." Nevertheless, the recommendations call for a far reaching reform of the wage setting process: *"In countries where sectoral collective agreements prevail, clauses which allow individual firms, through employer-employee agreement, to opt-out from higher-level agreements should be introduced or strengthened, and the administrative extension of collective agreements should be reformed"*.

32. The call to move away from sectoral wage bargaining and phase out extension mechanisms is based on the assumption that decentralised wage bargaining at the firm level is considered as preventing excessive wage claims since this would lead to a loss of market shares to competitors with detrimental effects on employment. It seems to be obvious that the proponents of decentralized, firm based bargaining are assuming that workers' representatives closely linked to the company tend to share the perspective of the management regarding the competitiveness of the firm and the preservation of jobs and thus moderate wage claims. However, a look at sectoral wage bargaining and related restraints without any blinders would have shown that economic survival and competitiveness of firms is always a key precondition for the security of jobs. It's exactly for that reason that sectoral wage bargaining hardly ever tapped the full potential available for wage increases; in general the "slowest vessel in the convoy", i. e. the firms with the lowest productivity have served as a benchmark for negotiate wage hikes at industry level. In this respect it is obvious – even though overlooked by the proponents of decentralized, firm based wage bargaining - that high coordination among employers tends to be associated with lower wages. This is also reflected in the wage drift, which allows most firms to set off constraints imposed by collective bargaining. To put it differently: sectoral wage bargaining goes along with a wide scope of action for wage setting policies by individual firms. Moreover, sectoral wage bargaining is favorable to small companies; subsequent to a shift towards enterprise based bargaining they will face the risk of paying higher wages.

33. Centralised and sectoral wage bargaining systems imply also a "peace-keeping" function by transferring wage conflicts between management and the workforce to a level above the firm. Within these systems bargaining takes place between unions and employers associations, enabling individual employers to maintain a good relationship with their workforce. In this respect it must also be emphasized that "industrial peace" has become a key asset for companies within a business environment becoming increasingly uncertain.

34. Last but not least it must also be emphasized that institutional changes in national bargaining systems should be left primarily to their key actors, trade unions and employers. Often unobserved by economists, in many countries they have started already a process of institutional transformation without abandoning collective bargaining at the sectoral level. They have recognized that bargaining agreements at the sectoral level can provide a framework for conditions of work and pay, while the actual terms and

conditions for both individual firms and workers, agreed upon on firm level, can vary in accordance with competitiveness and productivity of the firm. However, in order to prevent a cost-cutting race to the bottom and to protect workers, a wage floor provide by sectoral agreements is indispensable.

35. With regard to the importance of wage floors, the draft policy lessons are overly critical on the role and importance of minimum wages. Thus, it is important to emphasize that analytical work of the reassessment no significant impact of the minimum wage on the aggregate unemployment rate was found. In line with that finding, the outgoing chairman of the *UK Low Pay Commission*, Adair Turner, reported that “since its introduction in 1999 the minimum wage has been a major success. It has significantly improved the wages of many low earners; it has helped improve the earnings of many low-income families; and it has played a major role in narrowing the gender pay gap. But it has achieved this without significant adverse effects on business or employment creation.”⁵ Similar evidence has also been reported with regard to other countries.

⁵ Low Pay Commission. National Minimum Wage. Report 2006, p. vii