

**Unclassified**

**ECO/WKP(98)9**



PARIS

Organisation de Coopération et de Développement Economiques  
Organisation for Economic Co-operation and Development

**OLIS : 15-May-1998**  
**Dist. : 26-May-1998**

**Or. Eng.**

**ECONOMICS DEPARTMENT**

**ECO/WKP(98)9**  
**Unclassified**

**THE OECD JOBS STRATEGY : PROGRESS REPORT ON IMPLEMENTATION OF  
COUNTRY-SPECIFIC RECOMMENDATIONS  
ECONOMICS DEPARTMENT WORKING PAPERS N0. 196**

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## FOREWORD

This paper was presented to the 1998 OECD Ministerial Council Meeting in response to a request made by Ministers at their 1997 Meeting. It has a double focus: first, it summarises some recent developments in labour markets; and, second, it reviews the progress that a number of countries have made over the last year or so in implementing policies consistent with the OECD Jobs Strategy. This latter aspect is based on country examinations by the Economic and Development Review Committee (EDRC), where country representatives meet to discuss and to exert peer pressure on the policies pursued by individual OECD Member countries. Nevertheless, while the paper builds on the proceedings and conclusions of the EDR Committee, as published in OECD Economic Surveys, the assessments and conclusions in the paper are those of the OECD Secretariat. The paper was prepared by Richard Kohl and Jørgen Elmeskov, who also supervised its production. Statistical support was provided by Martine Levasseur and secretarial assistance by Penelope El Ghadhab.

This document is also available under the same number and the same reference in a French version.

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## **THE OECD JOBS STRATEGY: PROGRESS REPORT ON IMPLEMENTATION OF COUNTRY-SPECIFIC RECOMMENDATIONS**

### **EXECUTIVE SUMMARY**

1. As more countries experience falling structural unemployment, the evidence is mounting that, implemented comprehensively, the OECD Jobs Strategy represents an effective response to countries' labour market problems. That is the key conclusion to emerge now that the Economic and Development Review Committee (EDRC) has examined progress made by OECD countries over the last year or so in implementing the Jobs Strategy.

2. As reported to the 1997 Ministerial Meeting, the EDRC has fleshed out country-specific recommendations for implementing the Jobs Strategy, a process extended more recently to the new Member countries. Subsequently, the Committee has used these recommendations as a benchmark for assessing the progress made by individual countries. The large majority of countries have been subject to such a follow-up review. Following the request made at last year's Ministerial Meeting, this report pulls together the lessons learned through the EDRC reviews and, thus, presents an update on the progress in implementing the Jobs Strategy.

3. The main conclusions of the update report are the following:

- For the OECD area as whole, 1997 was a good year in the sense that growth increased, unemployment and inflation fell and budget deficits continued to shrink. However, progress was mixed across countries. Moreover, with unemployment at over 7 per cent of the labour force, corresponding to some 35 million persons, reducing it remains a policy priority.
- In a number of countries, significant cyclical unemployment and output gaps co-exist with low inflation. In these countries, macroeconomic policies should be set so as to ensure the take-up of slack while continuing the trend towards fiscal consolidation. By contrast, some countries run the risk of overheating and in these countries policy needs to guard against rising inflation.
- In all countries, unemployment is predominantly structural. Where employment is weak, it is predominantly the marginal groups on the labour market that are affected. By contrast, groups traditionally considered as belonging to the core of the labour market seem to enjoy broadly the same employment rates across countries.
- Countries that have experienced falling unemployment over the 1990s have typically also experienced strong growth of both employment and labour force, and conversely for countries with rising unemployment. This illustrates the importance of removing impediments to job creation but also the point that large increases in labour supply are no hindrance to lower unemployment.
- Based on OECD's estimates, six countries have experienced falling structural unemployment rates over the 1990s. While some other countries have managed to maintain relatively low levels of actual and structural unemployment, these six countries are important because they demonstrate that unemployment can be rolled back if comprehensive policy reform is undertaken.
- Across the countries reviewed, there has been much action along the lines recommended. In purely numerical terms, countries took at least some action along the lines of two thirds of the individual recommendations for structural policies.
- Action varied across policy areas. Most progress was made on the recommendations to improve the business climate through enhanced competition and better conditions for business start-ups and small enterprises. But countries were more hesitant to follow-up on recommendations which might lead to a wider dispersion of incomes or might antagonise insider groups on the labour market.
- While all reviewed countries made progress on at least some of the recommendations given, much remains to be done. The need for further action is borne out by the large number of countries in which structural unemployment either rose or remained high over the 1990s.

4. As stated in last year's report to Ministers, countries may have different ways of implementing the Jobs Strategy, depending on their institutions and traditions; and the strategy is set to evolve as knowledge is gained. But the evidence suggests that, if implemented comprehensively, it works. As requested by Ministers last year, a fuller up-date of how countries have fared in implementing the Jobs Strategy, drawing on a wider range of the Organisation's work, will be presented to them in 1999.

## I. Introduction

5. The OECD Jobs Study was published in 1994 and contained a comprehensive analysis of the problem of high and persistent unemployment in many Member countries and widening income differentials in some. The Jobs Study also developed more than 60 concrete, but not country-specific, policy recommendations for dealing with those issues. Building on these recommendations, the OECD Jobs Strategy has been articulated around ten broad orientations for macroeconomic and structural policy which together form a comprehensive blueprint for action to create more jobs and reduce unemployment, and to increase standards of living and strengthen social cohesion (Box 1).

### Box 1. The OECD Jobs Strategy

- Set macroeconomic policy such that it will both encourage growth and, in conjunction with good structural policies, make it sustainable, i.e. non-inflationary.
- Enhance the creation and diffusion of technological know-how by improving frameworks for its development.
- Increase flexibility of working-time (both short-term and lifetime) voluntarily sought by workers and employers.
- Nurture an entrepreneurial climate by eliminating impediments to, and restrictions on, the creation and expansion of enterprises.
- 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.
- Reform employment security provisions that inhibit the expansion of employment in the private sector.
- Strengthen the emphasis on active labour market policies and reinforce their effectiveness.
- Improve labour force skills and competences through wide-ranging changes in education and training systems.
- 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.
- 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.

6. As an important part of the follow-up to the *Jobs Study*, EDRC country reviews have since autumn 1995 developed policy recommendations for implementing the Jobs Strategy in individual countries, taking into account the specific institutional and political background in each. By spring 1997, country-specific recommendations had been derived for almost all Member countries and their collective experience in pursuing the Jobs Strategy was pulled together for the May 1997 OECD Ministerial Meeting in a publication entitled *Implementing the OECD Jobs Strategy: Lessons from Member Countries' Experience*<sup>1</sup>. The main findings were summarised in the six broad lessons presented in Box 2.

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1. The broader analytical background and a summary of country experiences and recommendations are presented in OECD (1997a).

**Box 2. Lessons from Implementing the OECD Jobs Strategy**

- High and persistent unemployment has been the result of both conjunctural and structural forces, and it can be durably reduced
- Many countries have made progress in implementing the Jobs Strategy, but progress has been uneven both between countries and between different areas of policy
- The central issue dividing the more comprehensive reformers from the less comprehensive is differences in judgement about potential conflicts between better labour market performance and concerns for equity and social cohesion.
- There are significant synergies between structural reforms in different fields
- Macroeconomic conditions and their interactions with structural forces are important for labour market outcomes.
- Overall, the Jobs Strategy remains an effective response to labour market problems in Member countries, and the EDRC has encouraged countries to press on with its implementation.

7. At the 1997 meeting, Ministers asked for a full review of progress with the implementation of the Jobs Strategy to be prepared for their meeting in 1999. That review will integrate activities related to the Jobs Strategy undertaken by a range of committees across the OECD. Answering a further request by Ministers, the present note gives an update on EDRC work in support of the Jobs Strategy since the 1997 Ministerial Meeting. During this period, another two countries, the Czech Republic and Hungary, have been reviewed in depth and country-specific recommendations have been derived. Moreover, for the majority of the countries covered before the 1997 Ministerial Meeting, progress in implementing the country-specific recommendations has been reviewed in the context of EDRC's continuous surveillance process. As part of this process, recommendations have in some cases been withdrawn or modified in the light of policy and other developments.

8. This paper first reviews some recent labour market developments, including countries' progress in reducing structural unemployment, and their macroeconomic background. It then assesses the progress made in implementing the structural policy recommendations given in the previous round of EDRC reviews and presents the new sets of recommendations derived for the Czech Republic and Hungary. The paper concludes by assessing the speed of reform across policy areas and countries. It should be underlined that this paper is based on the EDRC process and only integrates policy developments and recommendations discussed by the EDRC.

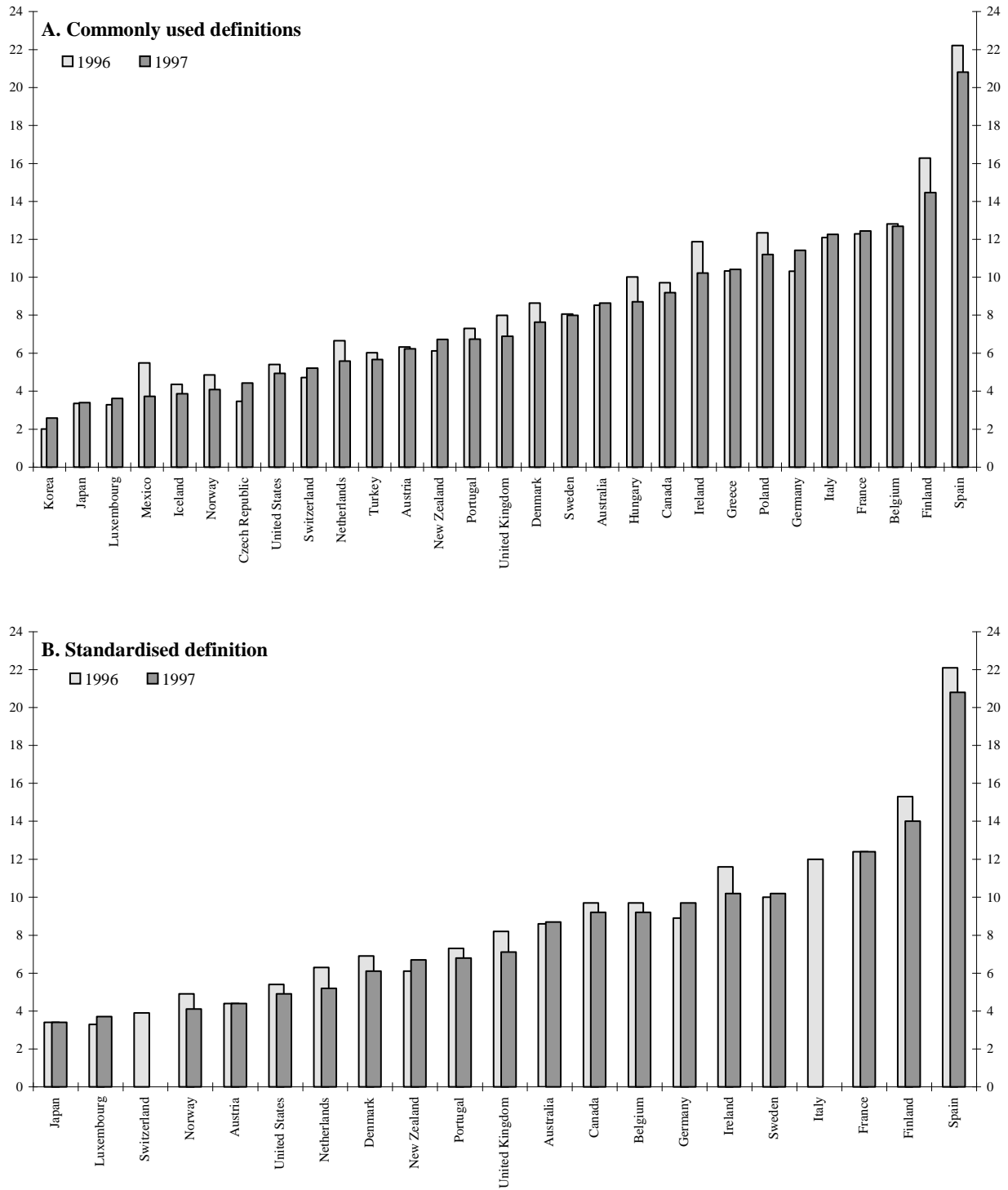
## **II. Recent developments in labour markets**

9. In the OECD area as a whole, unemployment declined slightly in 1997 but still touched 7.2 per cent of the labour force on average, or some 35½ million persons (national definitions). Unemployment rates fell in more than half of the OECD countries, but they rose in ten countries (Figure 1, Panel A). As a result of these changes, the dispersion of unemployment rates across OECD countries decreased though it remained substantial<sup>2</sup>. Thus, unemployment declined substantially in some high-unemployment countries,

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2. International comparisons and calculations of dispersion are in principle best done using standardised unemployment rates. However, standardised unemployment rates are not available for all OECD countries. Using available data, the conclusions based on national definitions appear to be borne out by the standardised data (Figure 1, Panel B).

**Figure 1. Unemployment rates, 1996-97**  
As a per cent of total labour force



Source : OECD Secretariat.

including Finland, Ireland, Poland and Spain. The United Kingdom, Denmark, Hungary, Mexico and the Netherlands also experienced sizeable declines. By contrast, unemployment increased by more than one per cent of the labour force in Germany, and significant increases were also recorded in the Czech Republic, Korea, New Zealand and Switzerland -- though levels of unemployment remained relatively low in these countries.

10. Based on OECD Secretariat estimates of structural unemployment rates for 22 OECD countries, actual 1997 unemployment rates included a cyclical component in the majority of countries (Figure 2, Panel A). Indeed, in some of the major continental European countries cyclical components were substantial. However, in a number of other countries, estimated cyclical components had either disappeared (United States, United Kingdom, Denmark, Iceland, Ireland, Norway) or become very small (Netherlands). Nevertheless, the inherent uncertainties associated with a decomposition of unemployment into cyclical and structural components need to be kept in mind when interpreting these indicators.

11. Looking at developments over the 1990s, and applying the same methodology as in OECD (1997a), six countries stand out as having been able to reduce structural unemployment in a significant way (Table 1). In addition to the United Kingdom, Ireland, the Netherlands and New Zealand, which were already recorded in OECD (1997a) as having significantly reduced structural unemployment, Denmark and Australia have been added to the list. Lower structural unemployment in itself implies a major step forward but also carries with it derived benefits for, *inter alia*, government budget balances. Estimated trends and levels of structural unemployment have also changed for a few other countries<sup>3</sup>. These changes reflect the inclusion of information for 1997 and the review of previous estimates of structural unemployment, not least as a result of additional or revised data.

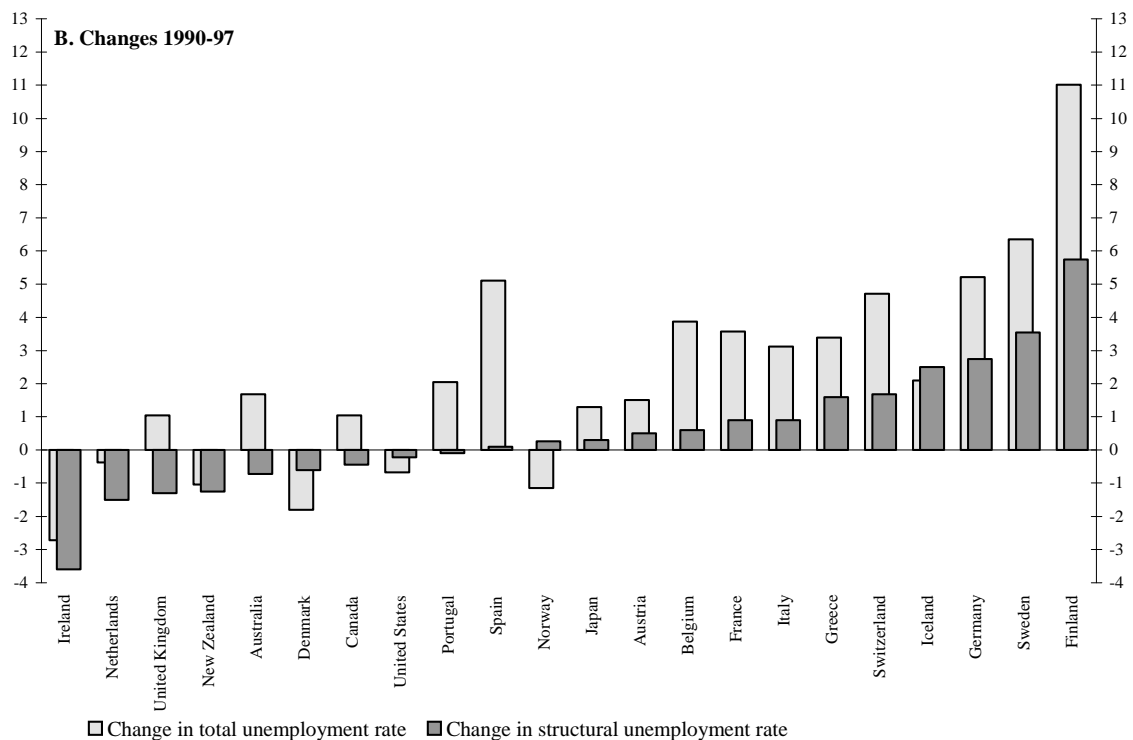
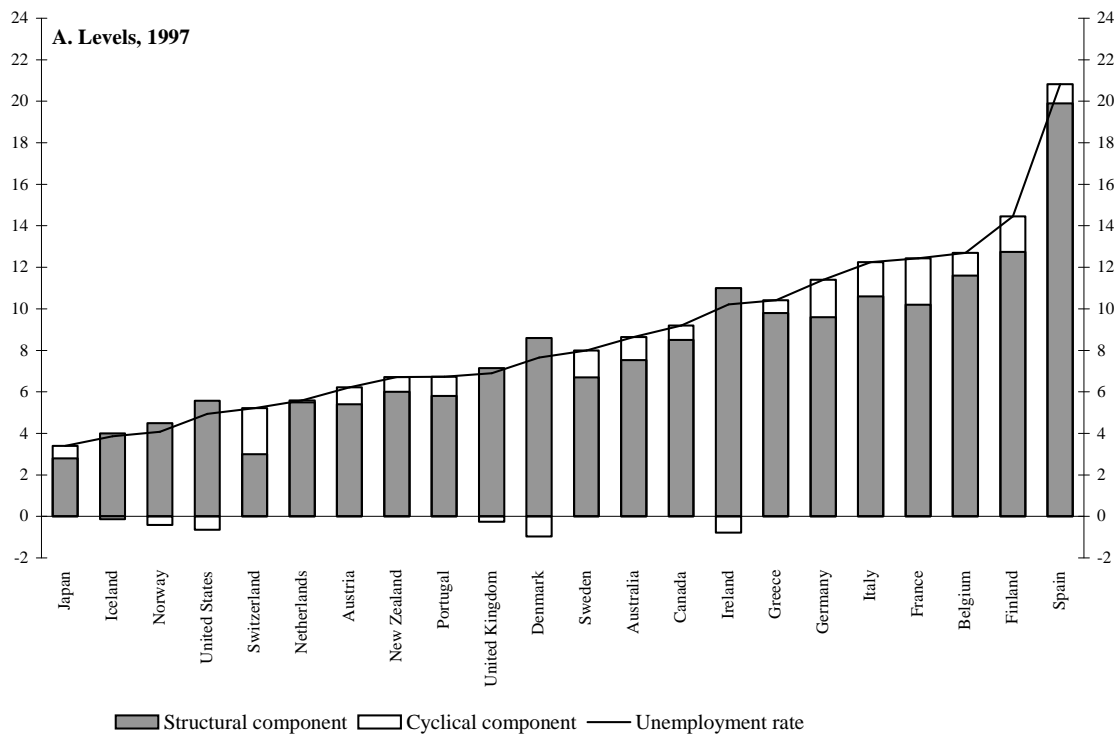
12. As noted in OECD (1997a), changes in estimated structural unemployment rates over the 1990s have tended to be associated with changes in the same direction of actual unemployment rates, underlining the importance of getting both macroeconomic and structural policies right (Figure 2, Panel B). Developments in actual unemployment are similarly correlated with the strength of employment trends (Figure 3, Panel A). It is noteworthy that the countries with falling or stable unemployment rates tended to be the ones where participation rates and population growth contributed strongly to the growth of the labour force. This illustrates that strong labour force growth is no hindrance to lower unemployment but, frequently, an accompanying feature. Across countries, the differences in the strength of employment trends was almost completely accounted for by differences in private sector employment growth, illustrating that private sector employment is the key to overall employment growth (Figure 3, Panel B). As a result of these and previous employment trends, employment rates differ strongly across countries. In this regard, it is notable that the cross-country differences do not stem from different employment rates for prime-age males, who are frequently seen as the typical labour market insider group (Figure 3, Panel C). By contrast, the contributions from women and from young and older workers seem to account for most of the cross-country variation in overall employment rates, pointing to the importance of labour market conditions that enable non-core groups to seek and obtain gainful employment.

13. Some of the labour market outcomes just mentioned were somewhat divergent across the six countries which experienced a downward trend of structural unemployment over the 1990s. Thus, falling unemployment occurred against the backdrop of strongly rising employment in Ireland, the Netherlands,

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3. The most pronounced changes since OECD (1997a) are as follows: the level of structural unemployment has been revised down (up) over the whole period for Finland and Ireland (Greece), and revised up for the historical period for Portugal. The 1997 estimate is considerably lower (higher) than the 1996 estimate in OECD (1997a) for Australia and Spain (Belgium).

Figure 2. **Structural and cyclical components of unemployment rates<sup>1</sup>**  
Per cent of total labour force



Note:

1. Based on commonly used unemployment definitions. Structural unemployment data are based on Secretariat estimates of the non-accelerating wage rate of unemployment (NAWRU).

Source: OECD Secretariat.



Table 1. **Structural unemployment in the OECD countries, 1990-97<sup>1</sup>**

As a per cent of total labour force

*In the nineties the structural unemployment rate has ...*

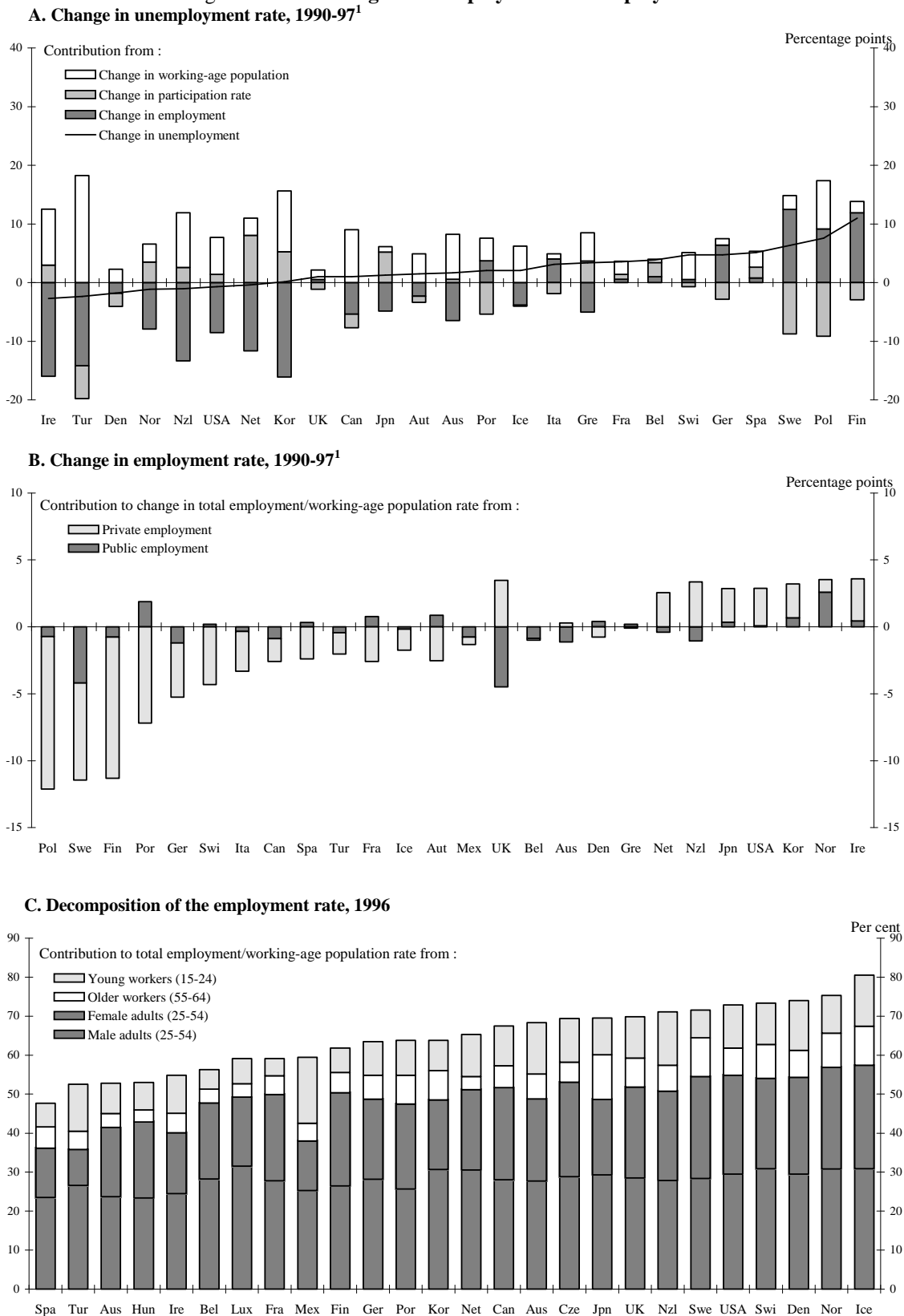
		1990	1997
↑ ... increased:	Finland	7.0	12.8
	Sweden	3.2	6.7
	Germany	6.9	9.6
	Iceland	1.5	4.0
	Switzerland	1.3	3.0
	Greece	8.2	9.8
	Italy	9.7	10.6
	France	9.3	10.2
	Belgium	11.0	11.6
	Austria	4.9	5.4
... remained fairly stable:	Japan	2.5	2.8
	Norway	4.2	4.5
	Spain	19.8	19.9
	Portugal	5.9	5.8
	United States	5.8	5.6
	Canada	9.0	8.5
↓ ... decreased:	Denmark	9.2	8.6
	Australia	8.3	7.5
	New Zealand	7.3	6.0
	United Kingdom	8.5	7.2
	Netherlands	7.0	5.5
	Ireland	14.6	11.0
	OECD structural unemployment rate <sup>2</sup>	6.8	7.1
	OECD actual unemployment rate <sup>2</sup>	6.0	7.5

*Notes:*

1. Based on commonly used definitions of unemployment. Structural unemployment data are based on Secretariat estimates of the non-accelerating wage rate of unemployment (NAWRU). A change is considered significant (in absolute terms) if it exceeds one standard-deviation. The latter was calculated for each series and country over the 1986-97 period.
2. Weighted averages of the countries reported in the table.

Source: OECD Secretariat.

Figure 3. Accounting for unemployment and employment



1. Germany 1991-97.  
 Source : OECD Labour Force Statistics, Analytical Data Base.

New Zealand and, to a lesser extent, Australia. By contrast, the contribution from employment growth to the decline in unemployment over the period 1990-97 was very limited in Denmark, and zero in the United Kingdom. Available evidence also suggests that trends in real wages and in the dispersion of wages and incomes have differed significantly across the six countries. A comprehensive assessment of labour market trends over the 1990s would need to take these and other developments into account but is outside the scope of this update report. Moreover, it needs to be borne in mind that while the six countries demonstrate that it is feasible to durably reduce high unemployment, other countries managed to avoid a rise in structural unemployment in the first instance. And some of the countries where structural unemployment has gone up nevertheless maintain relatively low levels of unemployment.

14. The generally positive association between robust employment growth and falling unemployment is borne out by developments in 1997 (Figure 4, Panel A). Countries with high employment growth tended to be the ones where output grew strongly (Figure 4, Panel B). But differences in productivity growth also contributed to different employment growth across countries. In this context it may be noted that low productivity growth is not necessarily a negative outcome. In countries which undertake structural reforms to reduce high unemployment, rapid employment growth is desirable even if it appears to be associated with lower productivity growth. This may be the case, for example, where structural reforms result in increased employment of low-productive labour or results in the use of less capital-intensive production methods<sup>4</sup>. By contrast, in countries where the scope for rapid employment growth is limited because unemployment is already low, low productivity growth unambiguously means slow growth of living standards.

15. With area-wide GDP accelerating to grow at an average rate of 3.1 per cent in 1997, the output gap for the OECD area as a whole is estimated to have fallen by about ½ percentage point to around ½ per cent. Broadly mirroring the cyclical components of unemployment, output gaps are estimated to have been substantial in 1997 in large parts of continental Europe, Japan and Canada (Figure 5, Panel A). Reflecting the continued, albeit diminishing, output gap, inflation as measured by the GDP deflator fell further to a rate of 1.6 per cent<sup>5</sup> -- the lowest in more than three decades. Half of the OECD countries recorded inflation between zero and 2 per cent in 1997.

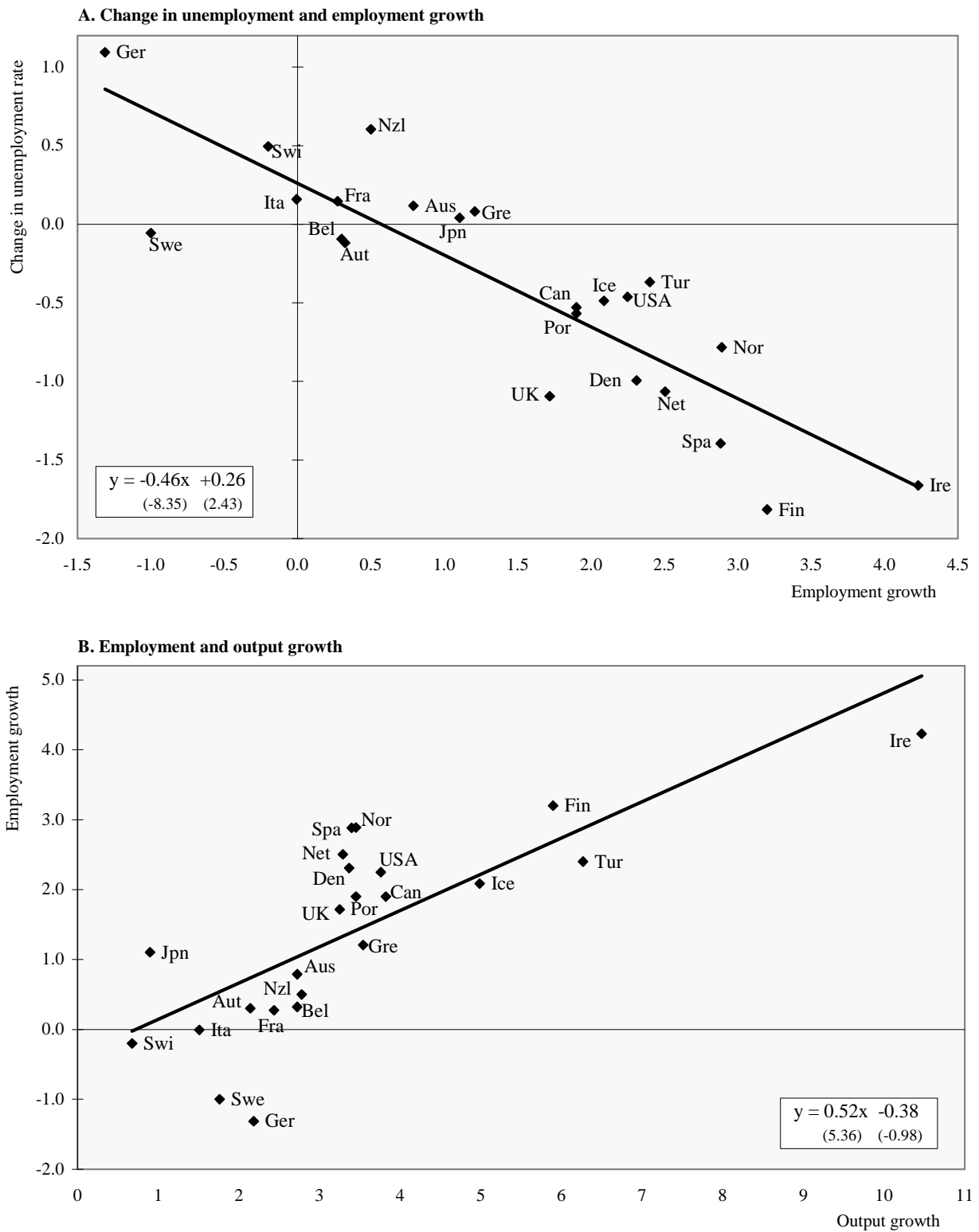
16. The combination of higher growth, a declining output gap, falling unemployment and lower inflation reflects favourably on area-wide macroeconomic policies. In addition to these achievements, government budget deficits fell for the fourth year running, to reach a level around 1¼ per cent of GDP; and government gross debt stabilised at around 71 per cent of GDP. Nevertheless, performance was uneven across countries in terms of these indicators:

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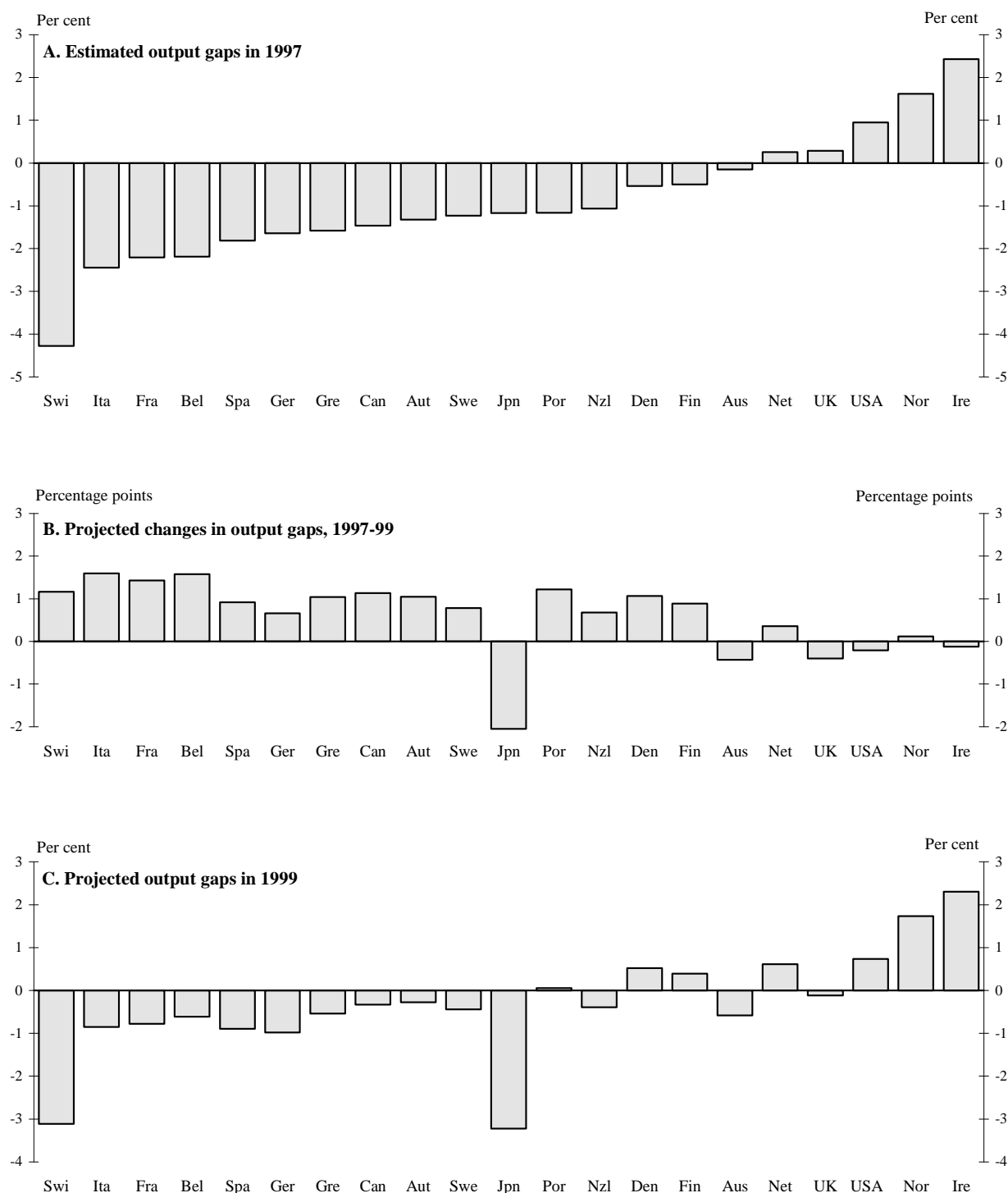
4. In this context, it may be noted that most of the countries with relatively employment-intensive growth (those lying above the regression line in Figure 4, lower panel) are ones that managed to reduce structural unemployment over the 1990s or those whose macroeconomic and structural policy stances had prevented structural unemployment from rising in the first place (United States, Japan, Norway). While the evidence is not unambiguous, especially in view of the short period considered, there seems to have been some tendency for the employment content of growth to have been higher in countries that pursue policies consistent with putting downward pressure on structural unemployment. A joint test comprising all nine countries with declining or stable, low structural employment (United States, Japan, United Kingdom, Australia, Denmark, Ireland, Netherlands, New Zealand, Norway) suggests that the employment intensity of growth was significantly higher than in other countries.

5. Excluding high inflation countries.

Figure 4. Unemployment, employment and output growth, 1997  
Per cent or percentage points



Source : OECD Secretariat.

Figure 5. Output gaps<sup>1</sup> in OECD countries

1. Deviation of actual GDP from potential GDP as a percentage of potential GDP.

Source : OECD Secretariat.

- The United States, the United Kingdom and a number of small European countries mostly had moderate unemployment rates, no or little spare capacity but, with the exception of the United Kingdom, no visible signs of inflationary pressures. The United States, Denmark, Ireland and Norway all had general government budgets in balance or surplus.
- Most other continental European countries had high unemployment, sizeable output gaps, low inflation and public sector deficits which were significant, albeit within the threshold of 3 per cent of GDP implied by the Maastricht Treaty.
- Canada, Australia and New Zealand had low inflation, public budgets close to balance or in surplus, and output gaps ranging from sizeable to small.
- Finally, Japan had low unemployment but a sizeable output gap, no underlying inflation and a significant budget deficit.

17. Secretariat projections in *OECD Economic Outlook*, 63 suggest further improvements in the macroeconomic environment over the coming 18 months. While the unfolding developments in Asia and their spillovers remain a cause for added uncertainty, the projections point to a reduction in output gaps in countries where these are currently large -- Japan being a notable exception -- while pressures on capacity may decrease in some of the countries where output gaps are currently inverted, though they will remain high in Ireland and Norway, in particular (Figure 5, Panels B and C). These developments may take place with inflation remaining broadly stable in most countries and government budget balances showing some slight further improvement. Unemployment may stay largely unchanged for the area as a whole, but could fall in Europe, though it will remain high given that it is to a large extent structural.

### **III. Progress in 1997 in implementing country-specific recommendations**

18. EDRC examinations of 21 Member countries have included a review of progress in implementing the country-specific recommendations derived in the previous round of EDRC reviews. The countries covered are the United States, Japan, Germany, Italy, the United Kingdom, Canada, Australia, Austria, Denmark, Finland, Greece, Iceland, Mexico, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, and Turkey. In addition, first-round country-specific recommendations have been developed for Hungary and the Czech Republic. Some countries have not had a follow-up EDRC review since the 1997 Ministerial Meeting, and their progress on implementing the OECD Jobs Strategy recommendations therefore cannot be covered in this paper.

19. This section reviews the progress made over the review period in implementing the country-specific recommendations in the structural field. The nine, main structural policy orientations (see Box 1) are grouped under three broad categories: labour market reforms (comprising tax/transfer systems, wage formation, employment protection, working-time flexibility, and active labour market policies), education and training policies, and the business environment (product market competition, enhancing technology, and stimulating entrepreneurship). Within each issue category there is: (i) an assessment of progress in implementing the country-specific recommendations; (ii) a review of how recommendations have evolved in the light of policy and other developments; and (iii) a summary of initial recommendations for countries not previously covered (the Czech Republic and Hungary). A set of ten tables summarising progress in the individual fields is appended as an Annex.

20. A word of caution may be in order before the individual areas are discussed. The review of progress is undertaken using the first-round country-specific recommendations as a benchmark. This

means that policy action in areas not covered by these recommendations may not be picked up, unless the EDRC introduced a recommendation in its second-round review. This is worth underlining since such policy action may well have labour market ramifications. As well, it is in the nature of this update that only policy developments between the first- and second-round reviews are covered. Thus, policy actions taken by countries prior to the first-round reviews are not covered, even if they may have affected labour market performance in the review period. On the other hand, such prior policy action was reflected already in the recommendations made, or not made, during the first round of reviews. Finally, it bears repeating that the progress report only covers countries having been reviewed by the EDRC over the indicated period.

### ***A. Labour Market reforms were uneven***

#### *1. Unemployment and other benefits: action was taken by most countries but much remains to be done*

21. The first round of EDRC reviews saw lower generosity of unemployment and other social benefits, tighter access to these programmes, especially early retirement and disability pensions, and reduced work disincentives from benefit claw-backs as key elements in raising labour market flexibility in a number of countries. Indeed, unemployment benefits protect job losers from large falls in income, but when overly generous they can discourage active job search and put upward pressure on wages. Similarly, early retirement, invalidity or sick pay schemes have in some countries served as substitutes for unemployment benefits, resulting in disincentives to look for work. Moreover, means testing of benefits can result in high marginal effective tax rates, discouraging people from accepting work or from increasing their labour supply.

22. In terms of changes to benefit generosity, progress was mixed over the review period (see Annex Table 1). Only Canada was seen to have fulfilled the recommendations made in the first round of examinations to reduce benefit levels and duration, though progress was made also in Germany and most Nordic countries (Denmark, Finland, Iceland and Norway, whereas Sweden increased the standard replacement rate). A number of the countries for whom it was recommended, made at least some progress in tightening work availability requirements and other aspects of eligibility conditions on unemployment and related benefits (Germany, Canada, Austria, Finland, Iceland, Netherlands, New Zealand, Norway and Sweden), but progress was variable across these countries, and a few countries made no progress in this area. As concerns work disincentives from unemployment and other benefits, the United States, the United Kingdom, Canada, Austria, Finland, New Zealand and Sweden made progress in reducing these. The only country to take no action over the review period in any of the foregoing areas was Spain. Several European countries, for whom it was recommended, tightened up on invalidity and sick pay schemes (Germany, Italy, Austria, the Netherlands, Norway and Spain) (Annex Table 2)<sup>6</sup>. Most of these countries also managed to curb some features of early retirement programmes, and Denmark abolished its early withdrawal scheme while leaving its early retirement programme intact. Norway, however, lowered the age at which people become eligible for early retirement.

23. In the wake of these developments, a number of recommendations for action were switched to recommendations for authorities to monitor the evolving situation in the wake of policy action (this was the case in particular for Canada, Finland and New Zealand). In a number of cases, however, while progress was made, it was deemed insufficient to remove the need for further action (most countries reviewed fell into this category under one or other of the recommendations). A large number of

6. Portugal also took action in this area although it had not been recommended in the previous EDRC review.

recommendations remain unfulfilled in the absence of any policy action (notably in the case of Spain), while new recommendations were introduced for Norway and Sweden.

24. The reviews of the Czech Republic and Hungary noted that various benefits were too generous and needed to be reduced. In both countries, eligibility for invalidity schemes and sick pay were judged to be too lax and subject to abuse; periodic recertification of eligibility was recommended as a solution. Work disincentives built into the benefits systems were also found to be excessive in both the Czech Republic and Hungary. Their reviews recommended that the social assistance floor be readjusted and that the treatment of earned income by recipients of unemployment insurance and disability benefits be revised, respectively. For Hungary, there was a general recommendation to replace the plethora of current benefits with a more unified, coherent and means-tested system.

*2. Labour tax rates: overall taxes on labour income were cut, and some countries also provided relief for lower income groups*

25. High taxes on labour may reduce labour supply or raise labour costs, creating adverse effects on employment and strengthening incentives for work in the informal sector. The OECD Jobs Study recommended that, when fiscal conditions permit, countries should lower taxes on labour in order to promote employment. The first-round EDRC reviews also concluded that several countries should lower taxes on low earnings to eliminate work disincentive effects and to encourage employment of less skilled workers, while at the same time cushioning the incomes of those at the bottom of the income scale.

26. Mexico made good progress in this area and some European countries (Italy, Denmark, and Portugal) took actions to make overall taxation of labour income less burdensome despite a climate of fiscal retrenchment (Annex Table 3). Germany also took action, by slightly modifying the income tax schedule, but on the other hand, increased social security contributions while the government's tax reform proposal, which was endorsed by EDRC, has been unable to gather a majority in Parliament. The United Kingdom, Canada, Austria and New Zealand cut income taxes on low incomes, and Germany, the United Kingdom and Mexico reduced payroll taxes on low-income workers.

27. While progress was achieved by a number of countries in this area, Mexico and New Zealand were the only countries deemed to have addressed the first-round recommendations so comprehensively that these were changed to monitoring the future needs for reform. Thus, recommendations for action remain both for those countries which had made some progress and those which had not (United States, Finland, Greece, Sweden, Turkey). The only new recommendation concerned the Netherlands which was urged to cushion the impact of the legal minimum wage either by continuing the policy of reducing payroll taxes on low-income earners or by lowering the minimum wage in combination with in-work benefits for employees.

28. As concerns the new Member countries, the EDRC recommended that Hungary reduce social security contributions by workers -- replacing the revenue with greater reliance on broader taxes -- and at the same time improve collection of these contributions, thereby minimising the incentives for avoidance and under-reporting and reducing incentives to work in the informal sector.



*3. Wage formation: bargaining has continued to become more decentralised, but countries have been more hesitant on other reforms that might lead to a widening of the wage distribution*

29. High aggregate wage flexibility helps to preserve a level of real wages consistent with low unemployment, while relative wage flexibility allows for a better matching of labour demand and supply across firms, sectors, regions and skill groups. Although uncertainty remains over the relationship between specific wage bargaining regimes and different aspects of wage flexibility, the first-round country reviews in many cases recommended more decentralised wage bargaining and more flexible relative wages. Moreover, a number of countries were urged to modify minimum wages and legal wage floors. One point to note here is that, in some cases, first-round recommendations were addressed more to the social partners than to governments.

30. In the period under review, moves towards further decentralisation of bargaining were made in half of the countries where this had been recommended (Italy, Australia, Iceland, Mexico and Spain) (Annex Table 4). Six countries (Germany, Italy, Austria, Mexico, the Netherlands and Spain) took at least some measures which might lead to a more efficient structure of relative wages, including through a widening of the wage distribution, wages more in line with skill levels, reduced use of administrative extension, or increased use of opt-clauses in collective agreements. On the whole, however, lack of action on the recommendations given is the dominant impression in this area (Germany actually took contrary action by introducing a binding minimum wage in the construction industry to prevent workers hired abroad from underbidding domestic workers). Progress was also mixed on recommendations to change minimum wages, with no action by the majority of countries receiving this recommendation, only one (Australia) moving in the recommended direction, and both the United States and New Zealand raising their minima. These patterns confirmed the tendency noted in OECD (1997a) for many Member countries to resist a wider wage distribution for fear that it might adversely affect income distribution or social cohesion.

31. Against the background of uneven progress across countries and recommendations, Mexico was the only country deemed to have taken sufficient action on previous recommendations to alleviate, at least for the time being, the need for reform, with Australia having done so in respect of the recommendation to decentralise wage bargaining. The United Kingdom has announced plans to introduce a national minimum wage and the EDRC recommended that this be set at a moderate level and be differentiated by age<sup>7</sup>. Other countries in all cases needed to do more on the original recommendations.

32. In these areas, Hungary was encouraged to move away from the central determination of a wage floor and towards decentralisation of wage bargaining, while no recommendations were made for the Czech Republic.

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7. Ireland has also announced plans to introduce a national minimum wage. In both cases, commissions have been established to make recommendations concerning the modalities, including levels, of the national minima. The OECD Secretariat has made submissions to both these commissions (OECD, 1997c and d). Recently, the Irish National Minimum Wage Commission has proposed a minimum wage at the level of Ir£4.40, to be introduced from April 1st, 2000. Under reasonable assumptions about general wage developments between now and year 2000, this level would put the minimum wage towards the high end of the OECD spectrum when compared to median wages.

4. *Employment protection legislation (EPL): progress was mixed, with a few countries taking significant action but many making no advances*

33. The principal aims of EPL are to protect workers against unwarranted dismissal and to lower contracting costs by establishing a set of ground rules. However, excessive *de jure* or *de facto* limits on the freedom of business to hire and fire workers, or high costs associated with hiring and firing, may inhibit structural adjustment, discourage job creation and increase labour market segmentation. By strengthening the power of insiders -- current job holders -- job protection may raise the general level of wages and reduce employment.

34. Over the review period, Germany and the Netherlands took significant action in a number of fields, including easing regulation of fixed-term contracts and dismissals (Annex Table 5). Other countries took more limited or no action to implement the relevant recommendations, with Norway actually enforcing existing regulations on temporary-work agencies more stringently, though also easing constraints on fixed-term contracts for particular groups in the labour market. Spain introduced new permanent contracts with lower (albeit still high) severance payments<sup>8</sup>.

35. Following these actions, Germany and the Netherlands were deemed to have taken adequate action on a considerable part of the original recommendations, even if a need to monitor the situation remained and action was still required in some areas. With four countries having taken no action, and a number of others making only limited progress, the first-round recommendations remained in place over a wide range.

36. The EDRC perceived employment protection to be an impediment to labour market flexibility in both the Czech Republic and Hungary. A general easing in employment protection, and specifically a loosening of notification requirements, was recommended in both countries. The review of the Czech Republic also urged the authorities to reduce requirements for prior authorisation and to ease the obligation to find work for laid-off employees, while the Hungarian review suggested that a reduction in the burden of severance payments would be welcome.

5. *Working-time flexibility and part-time work: progress was good in the countries under review*<sup>9</sup>

37. The OECD *Jobs Study* suggested that increased working time flexibility and more part-time work may lead to higher employment, because increased flexibility of labour inputs helps firms to contain labour costs while flexible forms of work can bring forward additional labour supply.

38. Progress was made in a number of countries, with Austria and Spain taking significant steps to implement the first-round EDRC recommendations to liberalise working hours, the former by allowing more freedom for collective agreements on organisation of working time, even if this was limited to the metal industry, and the latter by eliminating the *Ordenanzas laborales* which controlled working time (Annex Table 6). Italy was seen to have complied with the recommendation to ease restrictions on part-time work.

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8. At the same time, reductions in social security contributions were targeted on workers hired under these new permanent contracts.

9. The French and Italian governments have announced their intentions of reducing the normal work-week by statutory measures. Neither country has been reviewed since these announcements, but a Secretariat assessment was presented in OECD (1997b).

39. Following the good progress made by Italy and Spain, there appeared to be no immediate need for these countries to move further, and a similar conclusion was reached for Austria on the issue of flexible working-time arrangements. Other countries, which had either taken little, no or reverse action, needed to go further to implement the recommendations.

40. For the Czech Republic and Hungary, no recommendations were made in either area.

*6. Active Labour Market Policies (ALMPs): actions to improve targeting and efficiency were taken in many countries, but the need for more evaluation remains*

41. The OECD *Jobs Study* and subsequent analysis in OECD (1996a) enumerated a number of ALMPs which were found to facilitate the re-entry of the unemployed into the work force. These included job search assistance, training programmes, and financial support to potential entrepreneurs. All were found to be most effective when targeted and tailored to meet the needs of specific populations or regions. General programmes in these areas as well as broad programmes of public sector job creation and employment subsidies to private sector employment were seen as less effective. Overall, a need for more evaluation of ALMPs was identified, and this was also reflected in the first-round recommendations.

42. The United Kingdom, Canada, Mexico and Switzerland were the only countries judged to have made some progress in evaluating ALMPs (Annex Table 7). By contrast, many countries undertook policy changes with a view to improving the design of ALMPs. Thus, Germany and Finland restricted requalification for unemployment insurance through ALMPs, as had been recommended, though Sweden abandoned proposals for moving in this direction<sup>10</sup>. A number of countries for whom it was recommended took action to strengthen targeting. For example, Germany and the United Kingdom increased targeting on the long-term unemployed, and Norway focused on integrating long-term social assistance recipients. Finland took action to strengthen job brokering while Australia made reforms to follow-up on the recommendations to expose the public employment service (PES) to greater private-sector competition. Italy introduced legislation with the same purpose as well as to decentralise the PES. All the countries for whom it had been recommended took measures to switch labour market policies towards active measures though it remains to be seen whether, ex post, expenditure proportions will have changed. In this regard, the introduction of the Welfare to Work programme in the United Kingdom was seen as a major step which, however, needed close monitoring in view of its recent introduction.

43. As a general observation concerning this policy area, where reforms have tended to be relatively frequent, the second-round recommendations for countries to switch to monitoring mode on different policy issues should be seen partly as a means of “allowing the dust to settle” in the wake of reforms over the review period rather than as representing a strong feeling that enough has been done. Across countries, recommendations for switching to monitoring the effects of policy reform were particularly prevalent for the United Kingdom, Finland and Norway. The much more limited progress on evaluation, on the other hand, meant that original recommendations in that respect to a large extent remained in place.

44. The reviews of the Czech Republic and Hungary echoed the recommendations for more evaluation of ALMPs.

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10. Norway implemented the decision, taken before the previous EDRC review, to abolish requalification through ALMPs. Nevertheless, people exhausting their UI entitlement will receive an allowance at roughly the same after-tax level as UI benefit, conditional on participation in ALMP programmes.

***B. Education and training policies moved forward***

45. The OECD *Jobs Study* recommended improving education and training systems. Such policies were observed to have positive results in directly stimulating productivity by increasing human capital, and indirectly through better matches between skill demand and supply. The *Jobs Study* also found that higher skills tend to lower individuals' risk of unemployment. In the first round of EDRC reviews, the majority of country-specific recommendations had focused in particular on improving vocational education, including: expanding or improving its quality; establishing homogenous national standards and qualifications; and better integrating vocational training with academic programmes. But a large number of other recommendations were also given, affecting all levels of education.

46. In general, most countries initiated policy measures in the direction of EDRC recommendations for secondary education, especially vocational education, whereas the picture was decidedly more mixed with respect to basic education and tertiary education (Annex Table 8). Thirteen of the fourteen countries who had received a recommendation to expand or improve vocational education also acted upon it, Iceland being the exception. Thus, Australia introduced government funding of off-the-job training of apprentices and trainees. The Netherlands integrated all its training, apprenticeship, adult education and vocational training into 46 regional centres. Norway introduced a programme to offer two years of in-work training to all vocational school graduates. Denmark and Sweden took several measures to strengthen upper secondary education, improve choice and reduce drop-out rates.

47. In regard to basic education, progress was more limited. However, Mexico made good progress across a broad front, while Switzerland developed special programmes to improve literacy of immigrants<sup>11</sup>. Also at the tertiary level, action was more scant than at the secondary level. Nevertheless, Australia followed up recommendations to increase the role of user charges, Finland strengthened career guidance and Iceland took measures to reduce the duration of studies. Sweden, and to some extent Austria, also made progress on the recommendations in the area of tertiary education.

48. Hectic reform activity on vocational education meant that a number of recommendations in this area could be switched to that of monitoring the effects of policy changes. Nevertheless, many recommendations for action remained. This was the case to a much larger extent for other aspects of education systems, where reforms had been much fewer. Sweden had made significant progress on the previous set of recommendations, but received a number of new recommendations (reflecting the fact that education was the subject of an in-depth chapter for that country).

49. In the country reviews of the Czech Republic and Hungary, improvements to the education system received substantial attention. In both countries, the primary education system was judged to be largely satisfactory, but improvements were needed at the secondary and tertiary levels. Specific recommendations took the form of widening access to higher education and increasing graduation rates. Establishing more integrated educational systems both vertically (between secondary and tertiary) and horizontally (within and across university programmes and between university, vocational and technical schools) was recommended, with particular emphasis on establishing clearer standardised entrance examinations and procedures.

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11. Subsequent to the EDRC review, Turkey introduced legislation to prolong compulsory primary education from five to eight years.

### *C. The business environment improved in some respects*

50. An improved environment for business may stimulate job creation both directly and through numerous indirect routes, including by improving the overall level of competition and efficiency in the economy. The necessary reforms to enhance the business climate fall under three of the broad orientations of the Jobs Strategy, outlined in Box 1: strengthening product market competition, creating and diffusing technology, and promoting entrepreneurship. Reflecting the state of knowledge in the two latter areas, country-specific recommendations were scant in the first round of EDRC reviews and the two areas are therefore treated under a common heading in what follows. Due to the limited number of recommendations the risk may be particularly high in these areas that significant policy action has gone unreported. Other reports to the 1998 Ministerial Council Meeting deal with the issues of entrepreneurship and technology, productivity and job creation and should improve the basis for future country-specific policy recommendations. Indeed, the report on entrepreneurship is in part based on five pilot country case-studies of policies in that area, undertaken under the auspices of the EDRC.

#### *1. Product market competition: many countries took measures to increase competition in general and to reform the state sector*

51. In the first round of EDRC reviews, country-specific recommendations had focused in particular on making the government-owned sector consistent with a more competitive environment. In the follow-up reviews, it became clear that virtually every country for whom further privatisation of government-owned enterprises had been recommended also made headway. The same was true for twelve of the fourteen countries for whom making the state sector more competitive and increasing contestability had been suggested (Annex Table 9). Germany, Italy, Austria, Iceland, Mexico, Portugal and Turkey made progress in both of the latter areas, with Spain implementing a particularly comprehensive programme.

52. Most countries for which this had been recommended also took action over the review period to strengthen the overall competitive environment and to tighten competition legislation and enforcement. Competitive pressures were also strengthened through lowering of external trade barriers in Australia and New Zealand, and a number of countries took action to introduce more competition in professional services and crafts. Some progress was made on the recommendations for liberalising shop opening hours, with three countries (Germany, Austria, Finland) out of five moving forward. By contrast, much less action was taken in other areas. In the category of reducing state intervention or subsidies, only Finland, Iceland, Norway and Portugal took any action, and in fact Germany moved backwards by increasing subsidies in construction and slowing down the reduction of coal subsidies. Italy, Portugal and Switzerland were the only countries to move forward on the liberalisation of public procurement.

53. In terms of recommendations for the future, and despite the progress on privatisation and subjecting state-owned enterprises to competition, countries needed to move further in these fields. By contrast, a few countries were felt to have taken action which, at least for the time being, was sufficient in the area of competition law and enforcement (Netherlands, Switzerland) and easing of border restrictions (New Zealand). The limited progress on reducing sector-specific interventions and subsidies meant that the first-round recommendations remained in force.

54. The Czech Republic and Hungary have both adopted liberal and strong competition regimes and the EDRC reviews had no recommendations for action in this area, with the sole exception of rent control in the Czech Republic.

*2. Improving technology and stimulating an entrepreneurial climate: action taken on most recommendations but need to go further*

55. The first-round, country-specific recommendations for creating and diffusing technology and promoting small enterprises and entrepreneurship were diverse across countries and therefore difficult to organise under broad headings (nevertheless an attempt is made in Annex Table 10). Most of them had to do with establishing the appropriate framework conditions for both technology and entrepreneurship to thrive, whereas few went in the direction of urging additional public intervention. Substantial progress was made on most of the specific recommendations in these areas. Thus, three out of five countries for whom it had been recommended took action to stimulate R&D and technology diffusion<sup>12</sup>. Austria and Germany implemented reforms to their planning approval process, Mexico and Portugal continued to advance in upgrading their infrastructure, and Germany, Austria, Finland, Mexico, the Netherlands and Switzerland all took steps to foster greater venture capital activity and more dynamic financial markets. Most countries which had been urged by the EDRC to ease the burdens on small and medium-sized enterprises (SMEs) or to remove barriers to inter-enterprise co-operation undertook reforms in that area.

56. Despite the relatively widespread progress in implementing previous recommendations, few countries were deemed to have reformed sufficiently to be able to switch to monitoring mode. Indeed, progress by Sweden in establishing a better climate for SMEs was the only exception to this rule.

57. For Hungary, the review suggested that the business climate could be improved by enhancing links between basic scientific research and industry, and diffusing new technology to traditional sectors and smaller firms.

#### **IV. Conclusion**

58. Overall, following the review of progress over the last year or so, the lessons drawn for the 1997 Ministerial (summarised in Box 2) seem to remain valid. Thus, it is encouraging that two more countries, Australia and Denmark, have joined the group of countries with declining structural unemployment over the 1990s (the group also comprises Ireland, the Netherlands, New Zealand, and the United Kingdom). Reducing structural unemployment is crucial because in all countries it constitutes the dominant component of unemployment. Nevertheless, cyclical unemployment remains significant in some countries, particularly in continental Europe. Having achieved low inflation, it is now important that the countries where output gaps and cyclical unemployment remain high pursue macroeconomic policies consistent with the steady absorption of this slack. This should be done without jeopardising the degree of fiscal consolidation achieved so far. Indeed, fiscal consolidation needs to go further and in that respect, lower unemployment, both cyclical and structural, would be helpful.

59. As described, many of the countries which have undergone a follow-up review seem to have made progress in implementing the structural policy recommendations given in the first round of EDRC reviews on implementing the Jobs Strategy. Table 2 presents a broad overview of this progress. The table should be interpreted with caution since it simply counts the number of recommendations and the ones on which countries have made sufficient, some or no progress. Evidently, all recommendations are not equally important and the 'intensity' of individual recommendations and policy responses may also differ. Moreover, policy action in areas not covered by first-round recommendations is not covered and, in the

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12. The FY 1998 budget for Japan includes a major increase in spending on basic research, which was the focus of the EDRC recommendation in this policy area.

<b>Table 2. Summary of progress in implementing the Job Strategy since the development of country-specific recommendations</b>				
	Recommendations for :			
	Labour market reforms	Education and training policies	Business environment	Total
<b>USA - total</b>	4	3		<b>7</b>
No Action	2	3		<b>5</b>
Opposite Action	1			<b>1</b>
Actions :	1			<b>1</b>
-- More needed	1			<b>1</b>
-- Sufficient				
<b>Japan - total</b>	4	3	3	<b>10</b>
No Action	2	3	1	<b>6</b>
Opposite Action				
Actions :	2		2	<b>4</b>
-- More needed	2		2	<b>4</b>
-- Sufficient				
<b>Germany - total</b>	24	5	11	<b>40</b>
No Action	3	2		<b>5</b>
Opposite Action	2		2	<b>4</b>
Actions :	19	3	9	<b>31</b>
-- More needed	16	3	9	<b>28</b>
-- Sufficient	3			<b>3</b>
<b>Italy - total</b>	10	2	5	<b>17</b>
No Action	2		2	<b>4</b>
Opposite Action				
Actions :	8	2	3	<b>13</b>
-- More needed	7	2	2	<b>11</b>
-- Sufficient	1		1	<b>2</b>
<b>United Kingdom - total</b>	6	3		<b>9</b>
No Action				
Opposite Action				
Actions :	6	3		<b>9</b>
-- More needed	3	3		<b>6</b>
-- Sufficient	3			<b>3</b>
<b>Canada - total</b>	11	3	1	<b>15</b>
No Action	3	2	1	<b>6</b>
Opposite Action				
Actions :	8	1		<b>9</b>
-- More needed	3	1		<b>4</b>
-- Sufficient	5			<b>5</b>

<b>Table 2(continued). Summary of progress in implementing the Job Strategy since the development of country-specific recommendations</b>				
	Recommendations for :			
	Labour market reforms	Education and training policies	Business environment	Total
<b>Australia - total</b>	4	2	2	<b>8</b>
No Action				
Opposite Action				
Actions :	4	2	2	<b>8</b>
-- More needed	2	1	2	<b>5</b>
-- Sufficient	2	1		<b>3</b>
<b>Austria - total</b>	12	5	10	<b>27</b>
No Action		1	2	<b>3</b>
Opposite Action				
Actions :	12	4	8	<b>24</b>
-- More needed	10	4	8	<b>22</b>
-- Sufficient	2			<b>2</b>
<b>Denmark - total</b>	8	2	3	<b>13</b>
No Action	3		1	<b>4</b>
Opposite Action				
Actions :	5	2	2	<b>9</b>
-- More needed	5		2	<b>7</b>
-- Sufficient		2		<b>2</b>
<b>Finland - total</b>	22	3	6	<b>31</b>
No Action	9			<b>9</b>
Opposite Action				
Actions :	13	3	6	<b>22</b>
-- More needed	9	1	6	<b>16</b>
-- Sufficient	4	2		<b>6</b>
<b>Greece - total</b>	10	3	2	<b>15</b>
No Action	8	1	1	<b>10</b>
Opposite Action				
Actions :	2	2	1	<b>5</b>
-- More needed	2	1	1	<b>4</b>
-- Sufficient		1		<b>1</b>
<b>Iceland - total</b>	4	8	3	<b>15</b>
No Action	1	4		<b>5</b>
Opposite Action				
Actions :	3	4	3	<b>10</b>
-- More needed	3	3	3	<b>9</b>
-- Sufficient		1		<b>1</b>
<b>Mexico - total</b>	9	5	7	<b>21</b>
No Action	4			<b>4</b>
Opposite Action				
Actions :	5	5	7	<b>17</b>
-- More needed	1	1	7	<b>9</b>
-- Sufficient	4	4		<b>8</b>
<b>Netherlands - total</b>	17	4	5	<b>26</b>
No Action	5	3		<b>8</b>
Opposite Action				
Actions :	12	1	5	<b>18</b>
-- More needed	8		4	<b>12</b>
-- Sufficient	4	1	1	<b>6</b>
<b>New Zealand - total</b>	6	7	2	<b>15</b>
No Action		4	1	<b>5</b>
Opposite Action	1			<b>1</b>
Actions :	5	3	1	<b>9</b>
-- More needed		2		<b>2</b>
-- Sufficient	5	1	1	<b>7</b>



<b>Table 2 (cont). Summary of progress in implementing the Job Strategy</b>				
<b>since the development of country-specific recommendations</b>				
	Recommendations for :			
	Labour market reforms	Education and training policies	Business environment	Total
<b>Norway - total</b>	17	3	8	<b>28</b>
No Action	8		4	<b>12</b>
Opposite Action	2			<b>2</b>
Actions :	7	3	4	<b>14</b>
-- More needed	3		4	<b>7</b>
-- Sufficient	4	3		<b>7</b>
<b>Portugal - total</b>	6	6	10	<b>22</b>
No Action	4	3	2	<b>9</b>
Opposite Action				
Actions :	2	3	8	<b>13</b>
-- More needed	2	3	7	<b>12</b>
-- Sufficient			1	<b>1</b>
<b>Spain - total</b>	17	3	5	<b>25</b>
No Action	8	2		<b>10</b>
Opposite Action			1	<b>1</b>
Actions :	9	1	4	<b>14</b>
-- More needed	7	1	3	<b>11</b>
-- Sufficient	2		1	<b>3</b>
<b>Sweden - total</b>	12	5	6	<b>23</b>
No Action	5		4	<b>9</b>
Opposite Action	1			<b>1</b>
Actions :	6	5	2	<b>13</b>
-- More needed	6	3	1	<b>10</b>
-- Sufficient		2	1	<b>3</b>
<b>Switzerland - total</b>	5	3	9	<b>17</b>
No Action	2	1	1	<b>4</b>
Opposite Action	1			<b>1</b>
Actions :	2	2	8	<b>12</b>
-- More needed	1	1	7	<b>9</b>
-- Sufficient	1	1	1	<b>3</b>
<b>Turkey - total</b>	4	1	4	<b>9</b>
No Action	4	1	1	<b>6</b>
Opposite Action				
Actions :			3	<b>3</b>
-- More needed			3	<b>3</b>
-- Sufficient				
<b>Total all countries</b>	212	79	102	<b>393</b>
No Action	73	30	21	<b>124</b>
Opposite Action	8	0	3	<b>11</b>
Actions :	131	49	78	<b>258</b>
-- More needed	91	30	71	<b>192</b>
-- Sufficient	40	19	7	<b>66</b>

nature of the exercise, only the countries reviewed in the second round are considered. Nevertheless, the data illustrate some important findings:

- A lot of action has been taken over the review period. On a total of 393 recommendations, countries pursued action in the direction indicated by the recommendations in 258 cases.
- Very few moves went in the contrary direction. Indeed, only seven countries took action in the opposite direction to that recommended, and only two of these (Germany, Norway) did so in the case of more than one recommendation.
- While the reforms over the last year or so are clearly too recent to have had much impact, it may be symptomatic of the policy determination which has brought structural unemployment down in the United Kingdom, Australia, Denmark and the Netherlands that these countries acted on a high proportion (more than two-thirds) of the recommendations that had been given to them. However, other countries (Germany, Italy, Austria, Finland, Iceland, Mexico, Switzerland) also took action on a high proportion of the recommendations.
- Across different policy areas, countries moved forward on a larger proportion of the recommendations relating to the business climate. Progress was slower, in this sense, for recommendations relating to education and training as well as to labour market reforms, which also was the area where most contrary action was concentrated. Within the area of labour market reforms, the lowest follow-through rate concerned policies related to wage formation and industrial relations. By contrast, action was taken on a larger proportion of the recommendations relating to early retirement and invalidity benefits as well as active labour market policies.

60. Another finding for the 1997 Ministerial also seems to be confirmed: many countries are anxious about policy reforms which, at least in the shorter term, risk directly leading to a wider dispersion of incomes and antagonising insider groups. Thus, few countries were willing to reduce unemployment benefit replacement rates or their duration, although many tightened eligibility conditions for UI, early retirement and disability. Most countries were unwilling to loosen employment protection, but did increase working-time flexibility and the use of part-time work and fixed-term contracts. More decentralised wage bargaining went forward in many countries, but loosening up on minimum wages and allowing for wider wage distributions generally did not. And many countries made at least some reforms with a view to making active labour market programmes more effective.

61. The same pattern was repeated for policies to enhance the business climate. Most countries were willing to undertake broad measures that affected the rules of the game or were likely to improve productivity, but were less willing to take actions which would negatively affect subsidies and rents earned by narrow interest groups except, strikingly, in regard to the state sector. Thus, most countries for whom it was recommended tightened competition law and enforcement and moved forward with privatisation of government-owned firms and the opening up of the government sector to greater contestability. By contrast, less progress was made in cutting subsidies and state interventions, liberalising shop hours and opening government procurement.

62. While progress in education and training does not easily lend itself to the same kind of reasoning, it was nevertheless uneven across areas. A number of countries took action on secondary education, and in particular vocational education, whereas policy initiatives along the lines of EDRC recommendations were more scant at the primary and tertiary levels.

63. This review has strengthened the conclusion reached in 1997: the Jobs Strategy is an adequate response to current labour-market problems and, where implemented over a broad range of policy areas and given sufficient time to work, it is capable of delivering. The mounting evidence that following the Jobs Strategy leads to improved labour-market outcomes and the rising number of countries which have done so and experienced declining structural unemployment should provide an incentive to action in countries which have so far made little progress. The case is getting stronger, that they too could benefit from implementing the Jobs Strategy. This may give rise to some cautious optimism concerning the future.

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## **ANNEX: PROGRESS IN IMPLEMENTING COUNTRY-SPECIFIC RECOMMENDATIONS**

The synoptic tables in this annex summarise the assessment by the Economic and Development Review Committee of progress by individual Member countries in implementing the country-specific recommendations and of the need for further action. The tables of necessity have a summary character. In particular, while the tables may identify a need, as perceived by the EDRC, for policy action in a given field, they provide little information on the perceived intensity of these needs. Similarly, while progress may be identified, the extent of progress is more difficult to convey. Moreover, policy developments in areas not covered by the original country-specific recommendations are not considered.

### **List of annex tables**

1. Unemployment and related benefits: EDRC recommendations and actions taken
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8. Education and training: EDRC recommendations and actions taken
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10. Creating, upgrading, diffusion of technology, stimulating an entrepreneurial climate: EDRC recommendations and actions taken

Annex Table I. Unemployment and related benefits: EDRC recommendations and actions taken

	Lower replace- ment rates	Shorter duration of benefits	Stronger work availability conditions	Tighter eligibility conditions	Limiting re- qualification possibilities	Condition benefits on training participation	Longer waiting periods	Reduce poverty traps/work disincentives	Establish or strengthen UI schemes	Other
United States								F	N	Access to health and child care for poor. <b>Action:</b> additional funding in 1998 budget, but likely to be insufficient. Health care only extended to children, need reform to Medicare for adults.
Germany	F	F	M	F	F					Curb social spending, put pensions on sustainable financial basis.
Italy		N								Replace rates and benefit periods across different categories of job losers should be harmonised. <b>Action:</b> extended income supplement to banks, trade and public utilities. Introduce more effective anti-poverty measures. <b>Action:</b> planned introduction of statutory minimum wages and extended use of in-work benefits.
United Kingdom			F					F		Increase the extent of experience rating with respect to previous use of the UI system by beneficiaries. <b>Action:</b> Employment Insurance Act increases experience rating. Reduce the dependence of UI generosity on local unemployment rates. <b>Action:</b> none.
Canada	M	M	F	F				M		Reference wages for older workers should more closely reflect their employment opportunities; the subsidy provided by the UI system to seasonal employment in tourism needs to be curtailed. <b>Action:</b> none.
Austria				F			F	F		Shorten the duration of unemployment before participation on ALMPs is required. <b>Action:</b> none.
Denmark	F	F			N					<b>Action:</b> none.
Finland	F	N	M	N	M		N	F	F	<b>New:</b> stronger job search criteria and greater contact with PES.
Greece										UI could be increased from their current exceptionally low level towards their statutory level.
Iceland				F						Ease the current severance payment system while introducing a carefully designed UI.
Mexico									N	Avoid UI becoming an alternative to disability and early-retirement schemes. <b>Action:</b> passed law limiting use of UI scheme for older workers.
Netherlands	N	N	M	F						
New Zealand				M		M		M		
Norway		F	X	M			N	N	N	Decrease benefits for part-time workers. <b>Action:</b> none.
Spain	N	N	N	N			N	N		Consider deducting severance payments from UI payments; replace the support system for agricultural workers in certain regions with means-tested income tax credits. <b>Action:</b> none.
Sweden	R		F	F	N			X, F		Shift financing of UI from government and integrate with ALMPs. <b>Action:</b> some.
Switzerland										
Turkey										Care should be taken to reduce the adverse effects if a new UI scheme is introduced.
<b>New assessments</b>										
Czech Republic	X							X		Reduce social-insurance benefits for additional children.
Hungary								X		
X = new recommendation.										
N = no action has been taken on previous recommendation.										
R = policy moved in the opposite direction of previous recommendation.										
F = some action taken along previous recommendation but more action is needed.										
M = action taken; monitor situation to identify any need for further action.										
UI = unemployment insurance benefits.										
Source: OECD Economic Surveys.										

Annex Table 2. **Early retirement and invalidity schemes:  
EDRC recommendations and actions taken**

	Tighten early- retirement schemes	Tighten invalidity or sick pay schemes	Other/explanation
United States			Programmes for disabled should be adjusted to reduce work disincentives. <b>Action:</b> no action taken.
Japan			Relax the earnings test for pension recipients. <b>Action:</b> no action taken.
Germany	F	F	<b>Action:</b> legal limit for sick pay reduced.
Italy		F	
Canada		N	
Austria	F	F	
Denmark	F		
Finland	F		<b>New recommendation:</b> strengthen link between earnings and pensions.
Netherlands	F	F	Facilitate the return to the labour force of persons excluded from disability. <b>Action:</b> Reintegration Act for disabled persons.
Norway	R	M	
Spain		M	
<b>New assessments</b>			
Czech Republic		X	Require periodic recertification
Hungary	X	X	Require periodic recertification, lower replacement rates.

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

Source: *OECD Economic Surveys*.

Annex Table 3. **Taxes and social security contributions: EDRC recommendations and actions taken**

	Reduction in taxes on labour income		Targeted reduction on low incomes	
	Overall	Payroll taxes	Income taxes	Payroll taxes
United States			N	
Germany	F	R	N	F
Italy	F			
United Kingdom			F	F
Canada		N <sup>1</sup>	M	
Austria			F	
Denmark	F			
Finland	N			
Greece				N
Mexico		M		M
Netherlands				X
New Zealand			M	
Portugal	F			
Sweden	N			
Turkey	N			
<b>New assessments</b>				
Czech Republic				
Hungary		X		

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. Provided that increased spending on ALMPs is not thought to be practical, payroll tax reduction should be given priority.

Source: *OECD Economic Surveys*.



Annex Table 4. Wage formation and industrial relations: EDRC recommendations and actions taken

	Decentralisation of wage determination	Wider wage distribution or abandon indexing	Wages more linked to skill level, experience and productivity	Abandon or relax administrative extension	More use of "opt-out" clauses	Modify minimum wages
United States						R
Germany	N	F		R	F	
Italy	F	F				
United Kingdom						X
Canada						N
Australia	M					F
Austria		F	F		F	
Denmark		N				N
Finland	N	N	N	N		N
Greece	N		N			N
Iceland	F					
Mexico	M		M			
Netherlands		F		N	F	N
New Zealand						R
Norway	N	N	N			
Portugal						N
Spain	F	N	F		F	
Sweden	N	N				
<b>New assessments</b>						
Czech Republic						
Hungary	X					

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

Source: OECD Economic Surveys.

Annex Table 5. Employment protection legislation: EDRC recommendations and actions taken<sup>1</sup>

	Recommendation to ease							
	General stance	Prior authorisation	Notice periods	Severance payments	Dismissals	Fixed-term contracts	TWA <sup>1</sup>	Guidelines for courts
Japan							F	N
Germany	F				M	M		
Italy	F					F		
Finland	F		F			F		
Greece		N		N				
Mexico	N			N		N		
Netherlands	F				F	M	M	
Norway	N					F	R, F	
Portugal	N							
Spain	F			F				F
Sweden	F							
Turkey	N		N	N				
<b>New assessments</b>								
Czech Republic	X <sup>2</sup>	X	X					
Hungary	X		X	X				

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. Regulation of temporary work agencies to be eased.

2. Requirement to find alternative employment for certain workers to be relaxed.

Source: *OECD Economic Surveys*.

Annex Table 6. **Working-time flexibility, worker mobility and part-time work:  
EDRC recommendations and actions taken**

	Ease constraints on:	
	Flexible working-time arrangements	Part-time work
Germany	F	F
Italy		M
Austria	M	F
Finland		F
Greece	F	
Iceland	N	
Portugal	F <sup>1</sup>	
Spain	M	
Sweden	N	
Switzerland	N <sup>2</sup>	N
<b>New assessments</b>		
Czech Republic		
Hungary		

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. Establish a legal framework for workers with no formal contracts.

2. Remove obstacles to equal treatment of men and women with respect to working time

Source: *OECD Economic Surveys*.

Annex Table 7. Active labour market policies: EDRC recommendations and actions taken

	More evaluations needed	Increase role of ALMPs <sup>1</sup> relative to passive measures	More targeting on LTU <sup>2</sup> and weak groups	Reform or abolish re-qualification via ALMPs	Integration and restructuring of ALMP activities	Increased contestability of PES <sup>3</sup> and improve job brokering
Japan	N					F
Germany	N		F	F	F	
Italy	N					F
United Kingdom	M	M	M			
Canada (F) <sup>4</sup>	(F)				(M)	
Australia					F	M
Austria		M				
Denmark					F	
Finland			F	F	M	M
Greece			N			N
Mexico	F					
Netherlands					F	N
New Zealand		M				
Norway	N	M	M			N
Portugal	N		N			
Spain			F			N
Sweden			F	X	F	
Switzerland	F				M	
<b>New assessments</b>						
Czech Republic	X					
Hungary	X					

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. ALMP = active labour market policy.

2. LTU = long-term unemployed.

3. PES = public employment service.

4. Recommendations in parentheses are for province or canton-level governments.

Source: *OECD Economic Surveys*.

Annex Table 8. **Education and training: EDRC recommendations and actions taken****A. Basic education**

	Improve quality or literacy	Longer duration	Stronger core curriculum	More funding to disadvantaged areas
United States			N	N
Japan			N	
Italy		F		
Canada	N		N	
Denmark	X			
Iceland		F	N	
Mexico	M	M		M
New Zealand	N			
Portugal	F	N	N	
Spain	N			
Switzerland	M			
Turkey	N			

**B. Upper secondary education**

	Reduce drop-out rates	Improve quality	Strengthen Career Guidance	Vocational education			
				Expand or improve	Standardise qualifications	Strengthen links with business	Improve integration with academic education
United States					N		
Japan		N			N		
Germany				F		F	F
Italy	X			F			
United Kingdom	F	F		F			
Canada					F		
Australia				F			
Austria				F		F	F
Denmark	M	M					
Finland			M			F	
Greece				F			M
Iceland	F	F		N		N	
Mexico				M	F		
Netherlands				M			N
New Zealand	F	N		F	M	N	
Norway			M	M		M	
Portugal			N	F	F		
Spain	N			F	X		
Sweden	M		X, F	X		X, F	
Switzerland				F			
<b>New assessments</b>							
Czech Republic	X	X			X		
Hungary	X	X		X <sup>1</sup>			X

Annex Table 8 (cont.)

*C. Tertiary education*

	Increase business orientation or integrate	Shorten duration	Strengthen career guidance	Increase enrolments	Improve quality, diversity or integrate	Increase user charges
Germany	N	N <sup>2</sup>				
Australia						M
Austria	N	F				
Denmark		X				
Finland			M			
Iceland		M				N
Greece		N				
Netherlands	N					N
New Zealand						N
Sweden	F	X		M		
Switzerland				N		
<b>New assessments</b>						
Czech Republic				X	X	
Hungary				X	X	

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. Vocational programmes should be contracted.

2. Some Länder have been making progress in this area.

Source: OECD Economic Surveys.

Annex Table 9: Competition and regulations: EDRC recommendations and actions taken

	Strengthen competition in general	Tighter competition legislation and enforcement	Ease border restrictions	More liberal shop opening hours	More competition in professional services and crafts sectors	Increase competition in public procurement of goods or services	Reduce sector-specific intervention or subsidies	SOE <sup>1</sup> : restructure and subject to stronger competition	SOE <sup>1</sup> : privatisation
Japan	F	F							
Germany		F		F	F	R	R	F	
Italy	N	N			M, X		F	F	
Canada					N		X		
Australia		F <sup>2</sup>	F						
Austria		N		F		N	F	F	
Denmark	F				N		F		
Finland			F		F	F	F	F	
Greece							N	F	
Iceland							F	F	
Mexico	F <sup>3</sup>						F	F	
Netherlands	F	M					F		
New Zealand			M			N			
Norway		F				N, F	F	N	
Portugal	F, N <sup>3</sup>					F	F	M	
Spain	F <sup>2</sup>			R	M		F	F	
Sweden	F					N	X, N	N	
Switzerland	F	M		N	F	F	F		
Turkey		F				N	F	F	
<b>New assessments</b>									
Czech Republic		X <sup>3</sup>							
Hungary									

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. SOE = State-owned enterprises.

2. Integrate local government policies and practice.

3. Deregulation and support of the land, housing and rental market to encourage mobility.

Source: OECD Economic Surveys.

Annex Table 10: **Creating, upgrading, diffusion of technology, stimulating an entrepreneurial climate: EDRC recommendations and actions taken**

	Stimulate R&D and technology diffusion	Foster venture capital and more dynamic financial markets	Ease tax/administrative burden on SMEs <sup>1</sup> ; enhance inter-enterprise co-operation	Facilitate new business startups	Reform planning approval process, decentralise	Improve infrastructure
Japan	N <sup>2</sup>					
Germany		F	F	F	F	
Italy						
Canada						
Australia						
Austria	F	F	F	F	F	
Finland		F	F			
Mexico		F	F	F		F
Netherlands		F	F			
New Zealand						
Norway	N		F, N			
Portugal	F		F		N	F
Spain						
Sweden			M <sup>3</sup>			
Switzerland	F	F <sup>4</sup>	F			
<b>New assessments</b>						
Czech Republic						
Hungary	X					

X = new recommendation.

N = no action has been taken on previous recommendation.

R = policy moved in the opposite direction of previous recommendation.

F = some action taken along previous recommendation but more action is needed.

M = action taken; monitor situation to identify any need for further action.

1. Small and medium-sized enterprises.

2. Improve basic research.

3. No action taken on reducing tax or administrative burden.

4. Replace progressive taxation of profits with a flat rate tax, abolish taxes on firm's capital, and cut stamp duty on share issues.

Source: OECD Economic Surveys.



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