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OECD Urges Governments to Combine Job Strategies with Other Social Objectives

Strategies to create jobs have succeeded in some countries, but governments must consider a range of issues including the need to boost employment levels and meet individuals' needs for job security and work-life balance in taking forward their strategies to fight unemployment, according to a new report from the OECD.

The OECD's latest review of labour market trends and issues, **OECD Employment Outlook 2004**, predicts some reduction in unemployment rates over the next two years, supported by the continuation of strong growth in certain countries, notably the United States, and a recovery in most others -- in particular Japan and, to a lesser extent, the European Union.

Nonetheless, the OECD says, this is likely still to leave more than 36 million people unemployed in the 30 OECD countries, equivalent to nearly 7 percent of their combined labour force. As governments strive to tackle unemployment, the OECD urges them to avoid taking too narrow an approach and to consider wider economic and social objectives as well.

In addition to cutting unemployment, it is important to raise the proportion of working-age persons who actually work, the OECD says. At present, about 35% of people of working age in OECD countries are not employed and most of these people are statistically classified as "inactive" even though they can and often wish to work. This figure masks big differences between countries, with the non-employment rate being below 30% in Australia, the Netherlands, New Zealand, the Nordic countries (except Finland), North America, Switzerland and the United Kingdom, but over 40% in Belgium, most of Central and Eastern Europe, Greece, Italy, Mexico and Turkey (see Chart 1).

Strategies to raise employment also need to take other social objectives into account. The reform of employment protection legislation (EPL) is a case in point. On the one hand, less strict EPL may make it easier for employers to hire workers, thereby improving the job chances of groups which are subject to entry problems, such as young people and women. But this can also damage job security and sometimes put undue emphasis on the creation of temporary forms of employment.

Similarly, cutting the size or duration of welfare benefits can make it more attractive in financial terms for people to work, while tighter access to benefits may help to ensure that individuals who can work do not withdraw from the labour market. In such circumstances, however, governments need to avoid letting hard-to-place individuals drop out of the benefit system entirely, thereby falling into poverty.

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OECD Media Relations

General Inquiries: Tel. (33) 1 45 24 97 00 - Fax. (33) 1 45 24 80 03/94 37 · **Research & Documentation:** Tel. (33) 1 45 24 80 88/80 89
www.oecd.org/media · **E-mail:** news.contact@oecd.org

Organisation for Economic Co-operation and Development, 2 rue André-Pascal, 75775 Paris Cedex 16, France · Tel. (33) 1 45 24 82 00 - Fax. (33) 1 45 24 85 00
www.oecd.org

As a general rule, the OECD report notes, an effective policy to meet both employment and social objectives involves a modest degree of employment protection regulation combined with services that help new workers into employment by making them more attractive to employers. This requires a “**mutual obligations**” **approach**, whereby welfare recipients are offered counselling, job-search support and other re-employment services: as a counterpart to continued benefit support, individuals must look actively for a job or take steps to improve their employability. The “flexicurity” approach of Denmark shows that such a combination of policies can have positive results, although it doesn’t come cheap: labour market programmes cost the equivalent of almost 5% of Denmark’s GDP.

OECD Employment Outlook 2004 highlights additional possible policy responses that governments can consider in their search for more and better jobs, including:

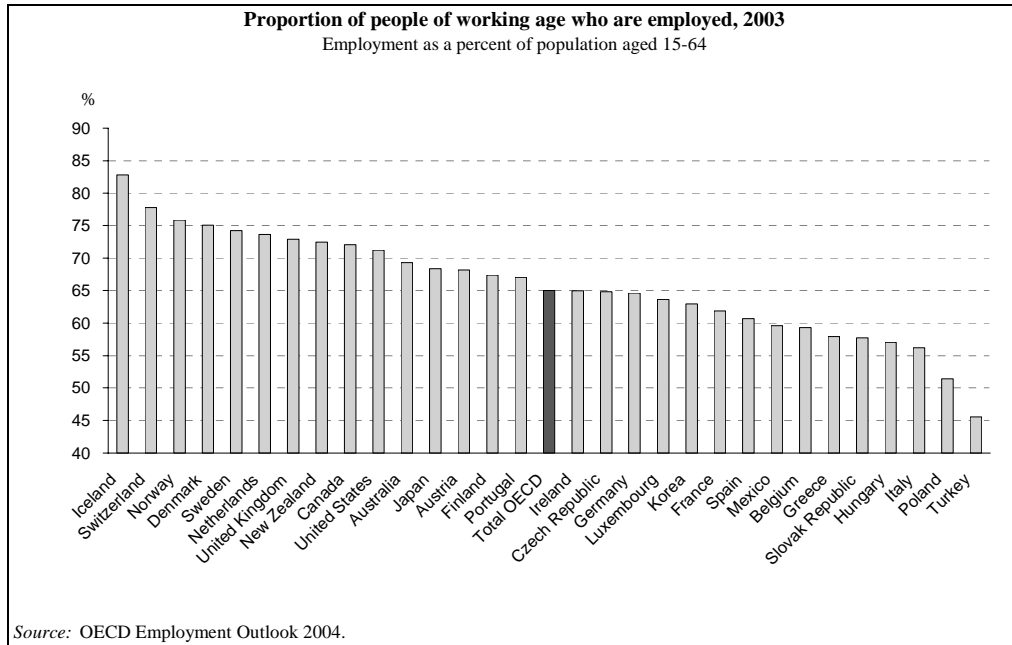
- **Greater “flexibility” in working time** as a way of boosting employment. Expanding options to work part-time can make it easier for parents with young children to combine working and parenting and for some older workers to extend their careers, while greater flexibility of working hours can help firms adjust to changing work loads. However, other working-time arrangements tend to make it more, rather than less, difficult for workers to reconcile their work and family life. Thus, workers whose job requires them to work evenings, nights or week ends, as well as those with unpredictable work schedules or particularly long hours, report significantly greater conflicts between their work hours and their family responsibilities.
- **Improved regulation and government administration** to beat the “informal” economy and undeclared employment. Tax and social security systems should be made more coherent. Burdensome red tape affecting formal employment should be cut. Existing regulations should be better implemented, backed by well-functioning labour and tax inspectorates. Social protection and employment promotion schemes should reach the really needy, even when they are employed in the informal economy, but at the same time be designed to encourage integration into the formal economy.
- **Support for lifelong learning** to help workers to improve their skills. During the past two decades, the pay gap between people with different levels of skills has widened. Wider earnings inequality may indeed be needed to support employment of the low-skilled, which raises a potential trade-off between efficiency and equity objectives. Workers who receive training that enables them to improve their skills have a greater chance of keeping their job than their non-trained counterparts.

The OECD recently launched a project for the reassessment of its Jobs Strategy – a blueprint for reforms to cut high and persistent unemployment adopted 10 years ago by OECD countries. The main outcomes of the reassessment will be discussed by OECD Ministers in two years time. The challenge is to formulate a balanced reform agenda that helps countries adapt to structural change while also meeting employment and social objectives.

OECD Employment Outlook 2004 is available to journalists on the password protected web site (<http://www1.oecd.org/media/journalists/journalists.htm>) or on request from the OECD Media Relations Division (new.contact@oecd.org). For further comment, journalists are invited to contact the Head of the OECD’s Employment Policy Division, Raymond Torres (tel. (33) 1 45 24 91 53 or raymond.torres@oecd.org).

Country chapters on France, Germany, Italy, Japan, Mexico, Spain, United Kingdom and United States are available at www.oecd.org/els/employmentoutlook.

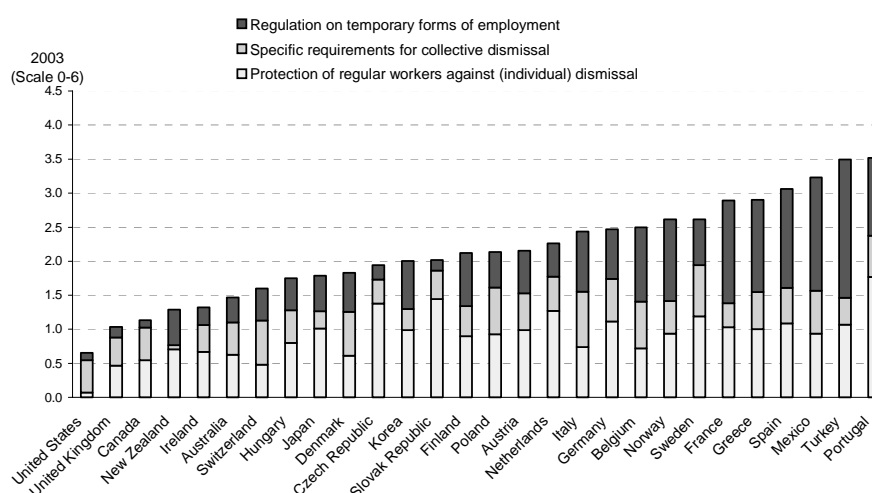
Chart 1



How strict are employment protection regulations in OECD countries?

- The strictness of employment protection varies widely among OECD countries, with greatest protection in Southern European countries, Mexico and Turkey, and least protection in six English-speaking countries.
- However, there is evidence of convergence in the amount of protection, driven by an easing of employment protection laws in countries where they were strongest at the end of the 1980s.
- In many cases, it has become easier for employers to make use of temporary contracts while protection for permanent workers has remained quite strong. This combination can contribute to growth in temporary employment and, potentially, an undesirable polarisation in employment conditions and career prospects between permanent and temporary workers. A side-effect may be that fewer people are strongly attached to firms, and fewer get trained.

How strict are employment protection regulations in OECD countries?
Index measuring the strictness of employment protection legislation in 2003



Source: OECD Employment Outlook 2004.

How do working hours compare across countries?

- In Finland, France, Japan, Germany and Spain, there have been large falls in hours worked per capita – of over 15% since 1970. In Canada, New Zealand and the United States, on the other hand, hours per capita have *risen* by over 15% (see Chart 3).

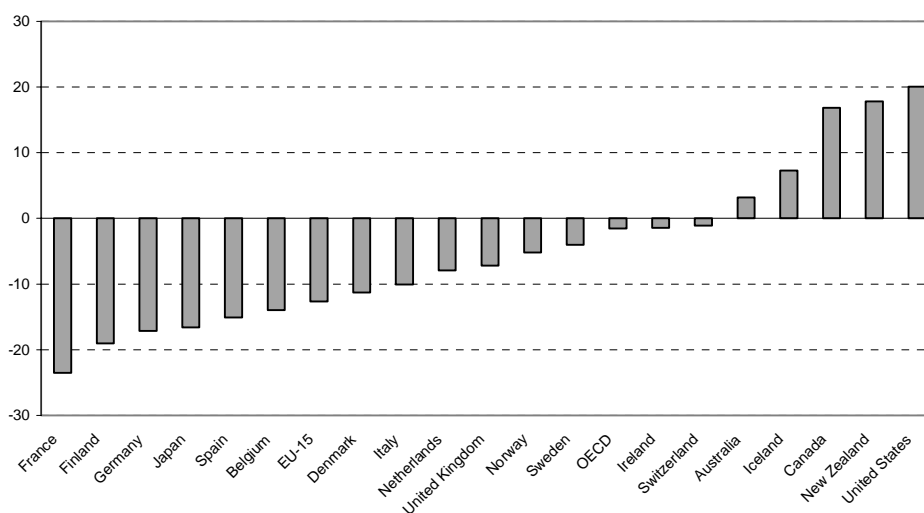
- In the countries where per capita hours increased the most, the driver of these increases has been growth in employment rates which has outweighed the increase in the proportion of workers with part-time hours.

- In other countries, such as France and Japan, reductions in the typical work year (e.g. due to a shortened workweek or more days of annual leave) have been more important than any rise in employment rates. As a result, hours worked per capita have fallen along with average hours per worker.

- These differences in trend are mirrored by even greater differences in the level of working hours in different countries. The average French adult now works for only 600 hours a year compared to 1100 for the average Korean adult. Hours per worker also vary substantially across OECD countries, ranging from a low of 1340 hours in the Netherlands (where part-time work is especially widespread) to 2410 hours in Korea.

Trends in hours worked per capita have diverged since 1970

Percentage change 1970-2002



Source: OECD Employment Outlook, 2004.