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PAC/COM/PUB(2006)15

Paris, 13 June 2006

OECD urges more dynamic government policies on employment and incomes

OECD countries urgently need to get more people into paid employment if they want to boost living standards and keep welfare systems afloat. They can do this by moving away from policies that discourage people from working and companies from hiring and by doing more to raise workers' skills.

That is the message from this year's edition of the OECD's annual *Employment Outlook* and an accompanying report, *Boosting Jobs and Incomes*.

At present, the OECD says, many people on welfare find little financial advantage in taking a job. What's more, even those who do seek work often find their chances of getting a job hampered by poorly designed regulations, lack of job-search support or their own lack of skills. The result is to hold down economic growth and put a brake on increased prosperity.

"Getting people who want to work into jobs is one of the biggest challenges facing many OECD governments," OECD Secretary-General Angel Gurría said. "Systems that exclude people from employment are unfair and need to be changed."

"The key is to ensure that all economic policies are in line with and supportive of measures to boost employment and incomes. We believe that countries that take action along the lines we are recommending will be rewarded by a stronger labour market and, most importantly, improved living standards."

The two new reports encapsulate the outcome of a two-year assessment of employment policies in the OECD's 30 member countries and of the effectiveness of the OECD's Jobs Strategy launched in 1994.

Their recommendations take account of what has been learned about what works over the past decade and changed conditions since then, including ageing populations and the effects of globalisation. They make clear that there is no magic bullet or single set of economic policies that can solve a given country's employment problems. Some countries achieve good employment results by maintaining relatively low welfare benefits and implementing light regulations, but at the expense of relatively wide inequality in earnings. Others obtain similar success with generous welfare benefits and strong activation of job seekers, but at a high cost in terms of public spending on labour market policies.

But a number of basic conditions are needed. Countries that have succeeded in boosting employment share an emphasis on macroeconomic stability and strong product market competition, the OECD says. In addition, most of them provide strong job-search support combined with strict requirements on the unemployed to accept job offers.

JT03210535

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Some countries, the OECD notes, have introduced reforms that boost employment without cutting welfare benefits, for example by accompanying welfare benefits with measures to ensure that recipients look for work and have a financial incentive to take a job. Family-friendly policies such as support for child-care can also help in boosting employment, especially among mothers.

Drawing on such examples, the OECD urges governments to:

- set macroeconomic policies which aim to achieve price stability and sustainable public finances; ensure that recessions do not lead to permanent falls in employment
- make it more attractive for people to work than to stay on welfare benefits
- make sure that benefit recipients receive high-quality services, particularly in relation to their quest for jobs, and that this is monitored closely, backed up by the threat of benefit sanctions
- adapt regulations and tax policies so as to encourage companies to take on staff rather than to shun new hires
- strengthen competition in product markets
- ensure that legislation to protect job security does not undermine the dynamism of the labour market or lead to discrimination in hiring and firing.
- provide people of working age with the education and training opportunities that they need to get jobs and raise their incomes

While the restated OECD Jobs Strategy is mainly a recipe for reforms in rich countries, it does address some issues that are relevant for the newest members of OECD such as how to promote the transition from undeclared work to formal employment.

Among the toughest tasks facing governments are likely to be winning public support for some necessary changes and implementing them effectively the OECD acknowledges.

But that should not serve as an excuse for inaction.

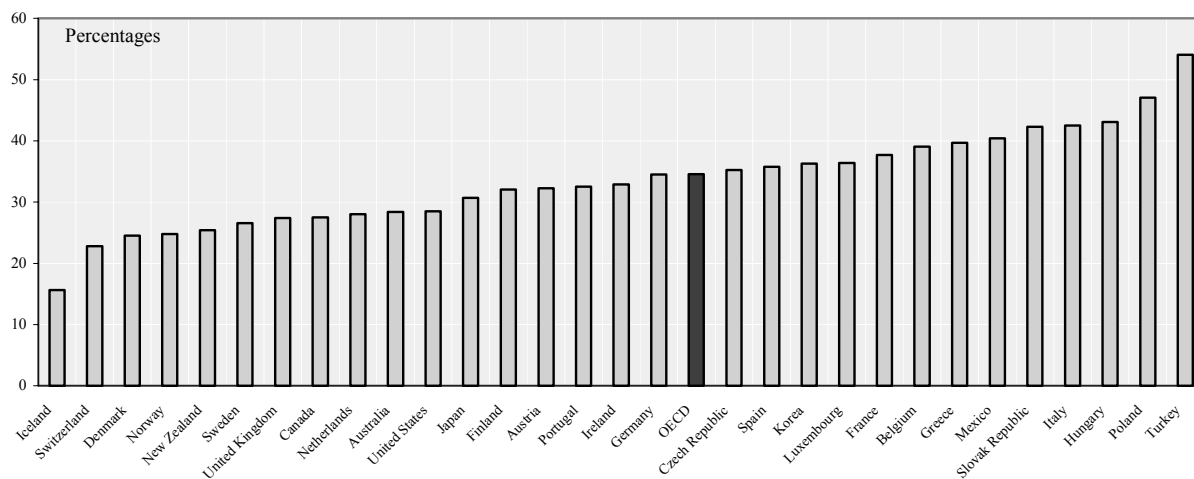
Countries that fail to reform, the OECD asserts, face the prospect of continued weak employment performance, which in turn will hamper improvements in living standards. But the successes achieved by some countries over the past decade show what can be achieved if there is the political will to reform.

For further comment, journalists are invited to contact Raymond Torres in the OECD's Employment, Labour and Social Affairs Directorate (tel. + 33 1 4524 9153 or raymond.torres@oecd.org) or Sveinbjorn Blondal in the OECD's Economics Department (tel. + 33 1 4524 8717 or sveinbjorn.blondal@oecd.org).

Boosting Jobs and Incomes. Policy Lessons from Reassessing the OECD Jobs Strategy is available online at www.oecd.org/els/employmentoutlook/EMO2006. The OECD's *Employment Outlook 2006* is available to journalists from the OECD's [Media Division](#) (tel.+ 33 1 45 24 97 00 or news.contact@oecd.org) or through the [password-protected website](#). The report can be purchased in paper or electronic form through the OECD's [Online Bookshop](#). Subscribers and readers at subscribing institutions can access the online version via [SourceOECD](#).

OECD Employment Outlook – 2006 Edition: Boosting Jobs and Incomes
Release date: 13 June 2006 – ISBN 92-64-023844
€80; \$100; \$55; ¥11 100

Chart Proportion of working-age individuals who are either unemployed or inactive, 2005^a



a) Non-employment rates of persons aged 15-64; 2005 except for Austria, Germany, the Netherlands and Sweden for which data refer to 2004.

Source: OECD Labour Force Statistics database.

**Table Proportion of working-age individuals
who are either unemployed or inactive, 2005^a**

Percentage	
	Non-employment rate
Australia	28.4
Austria	32.2
Belgium	39.0
Canada	27.5
Czech Republic	35.2
Denmark	24.5
Finland	32.0
France	37.7
Germany	34.5
Greece	39.7
Hungary	43.1
Iceland	15.6
Ireland	32.9
Italy	42.5
Japan	30.7
Korea	36.3
Luxembourg	36.4
Mexico	40.4
Netherlands	28.0
New Zealand	25.4
Norway	24.8
Poland	47.0
Portugal	32.5
Slovak Republic	42.3
Spain	35.7
Sweden	26.5
Switzerland	22.8
Turkey	54.1
United Kingdom	27.4
United States	28.5
OECD	34.5

a) Non-employment rates of persons aged 15-64; 2005 except for Austria, Germany, the Netherlands and Sweden for which data refer to 2004.

Source: OECD Labour Force Statistics database.