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Creating employment

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Growth: Benefiting form Globalization

Creating Employment

Summary

Numerous people in the developed world are not participating in the growth of the world economy. In some countries unemployment remains high, whereas others suffer from the problems of the working poor.

What are the most effective policies for creating employment – particularly in well-remunerated, satisfying jobs – in OECD countries?

How does the choice of these policies depend on what other policies are in place elsewhere in the welfare system? What role can business play in creating employment in developed and developing countries? What interplay between public policy and private enterprise enables the poor to benefit from the globalization process?



Proposed Solutions

Expert Opinion

Economic research has shown that across industrial countries unemployment rates are highly correlated with measures of the generosity of the welfare system. In particular, there seems to be a close connection between the level of unemployment benefits and the duration of entitlements. In addition, the restrictiveness of the unemployment benefit system seems to play an important role. Given the theoretical and empirical evidence, reforms of the welfare system that strengthen the individual incentives for job search and for work in general should be high on the political agenda in many countries. One way to implement such reforms could be a system of unemployment accounts.

Welfare reforms and the successive wage restraint would also help businesses to offer more jobs. To reduce youth unemployment vocational training systems have in some countries proven to be successful. Government training schemes, in contrast, have often proven expensive and not effective.

Flexible labor markets seem to be superior in creating employment and income opportunities for the poor, in contrast to labor protection schemes such as minimum wages. The latter have the disadvantage that they often need other protectionist measures for their successful implementation. Again, in many countries, the welfare system seems to be an obstacle to employment of the less qualified. Reforms should address the problem of guaranteeing a minimum income of the less qualified while maintaining incentives to work at the same time. Also in this realm, a system of unemployment accounts may help.



Strategy Perspectives

Creating Employment

Jørgen Elmeskov

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A Bit of Perspective

- Higher employment will boost output and real income. It is also usually good for government budgets. Hence a need to ensure that government policies do not unnecessarily create barriers to employment.
- It does not follow that policy should aim to maximise employment at any price. First, the ideal is for people to be free to choose how much they wish to work so as to maximise their welfare based on appropriate incentives. Second, the pursuit of legitimate policy objectives – for example in the social field – may skew incentives away from work. In such cases, policy design should be aimed at minimising trade-offs between conflicting policy objectives but may not be able to completely eliminate them.
- Employment has a number of dimensions that have all been elucidated by OECD analysis. The remarks below focus on the number of persons employed and the number of hours they work. The skill dimension of employment is also very important for real income – and possibly for work satisfaction – but is largely left aside in what follows due to space constraints.
- The following first highlights barriers to labour supply in five fields and subsequently discusses how to ensure that there will be demand for an added supply of labour.

Removing Barriers to Labour Supply

- Actuarially unfair public pension systems, early retirement schemes and lenient rules for older recipients of unemployment benefits all skew people's incentives in the direction of ceasing to work at an early age. Across OECD countries, the employment of older workers is strongly related to the strength of such incentives. With rising longevity, (further) reforms in this area is not just a question of removing barriers to employment but also about ensuring fiscal sustainability.
- Despite general improvements in health status, disability rates have been increasing in many OECD countries over past decades and now exceed unemployment rates in quite a few. Lax entry conditions to disability schemes, limited subsequent control, weak efforts at rehabilitation, and insufficient opportunities for people with reduced work capacity to seek and get a job are among the barriers to labour supply in this area.
- With improved education, women's participation in labour markets is approaching that of men in many countries. That said, there are still barriers to female participation arising from tax systems or related to child-care.
- Specific groups, including ethnic minorities or second-generation immigrants, have low participation rates in many countries. Educational failure and associated low earnings capacity, discrimination, and insufficient work-focus in public transfer programmes are among the reasons why such groups may be discouraged from participating.



- Average working hours supplied vary substantially across countries. In some cases low hours may reflect deliberate choices, but evidence shows that the incentives arising from tax systems have a major influence as well.

Ensuring that Demand Meets Supply

- It is crucial that an added supply of labour is not just reflected in higher unemployment. The policies to achieve this and, indeed, to boost employment by reducing unemployment where it is currently high, are largely well-known. A basis for all structural policy efforts in this field are macroeconomic policies to keep employment at its maximum sustainable level, i.e. without generating rising inflation. In this regard, features of unemployment benefit systems and active labour market policies help determine to what extent an added labour supply is “effective”.
- Demand for workers with relatively low skills may be penalised by overly high labour costs. Barriers in this area include wage floors – either statutory minimum wages or de facto minima driven by public transfers. However, wages sufficiently low to clear the market may not be socially acceptable and ways to alleviate the trade-off between social and employment objectives include in-work benefits and labour subsidies. These are, however, not without problems of their own.
- Labour demand, especially for atypical workers, may also be held back by overly stringent job protection rules.
- Policies to strengthen competition in product markets help to ensure that labour demand responds more strongly to increases in supply.
- More generally, to reduce unemployment and keep it low, it is important that policies do not get in the way of, and indeed sometimes assist, the on-going dynamic adjustment in the labour market in response to general developments in an economy. This calls for adequate wage flexibility and mobility of labour – affected by factors such as unemployment benefits and housing policies – but also training opportunities and job search assistance.

Points About the Unemployment Problem

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When fighting unemployment, supply-side policies and demand-side policies are highly complementary.

Supply-side Policies

- The most “lenient” type of supply-side policy in the labor market is probably attempts to strengthen the market powers of labor-market “outsiders”, i.e. unemployed workers, individuals living on different types of social benefits, and new entrants to the labor market (including immigrants). Obvious examples of such policies are so called active labor market policies (ALMP), including retraining and employment subsidies for long-term unemployed and individuals with little appropriate skills. In countries, such as the US and the UK, where the wage dispersion is huge, and the number of working poor is large, it is natural to give the subsidies in the form of income transfers directly to low-wage workers (to encourage the them to work). By contrast, in countries with compressed wage dispersion, for instance as a result of high minimum wages, it makes more sense to subsidize wage costs for firms that hire low-skilled workers.



- However, such lenient types of supply policies have not always been successful. Training programs for low-skilled adult individuals have seldom contributed to many jobs. Moreover, employment subsidies, while often helping specific individuals to be hired, tend to crowd out employed workers from non-subsidized work. More “harsh” supply-side policies in the labor market may, therefore, also be required. An obvious example is a softening of job-security legislation for labor-market “insiders”, i.e. workers with well protected jobs in the formal sector of the economy. Other examples are a removal of laws that automatically extend collective wage agreements to firms without organized workers, and a softening of minimum wage legislation, in particular for young and inexperienced workers. Clearly, such policies have social and distributional disadvantages for those who already have jobs. The political difficulties are therefore obvious.

Demand-side Policies

- But without an increase in the demand for labor, an increase in labor supply would simply raise open unemployment. For instance, higher labor supply may not automatically contribute to lower real product wages and hence this way boost the demand for labor. Moreover, if firms hire workers who earlier lived on various benefit systems, the income of these workers will only increase marginally, since the (after-tax) replacement rates in the benefit systems are often some 60-80 percent. Hence, product demand may not increase enough (as a result of new hiring) to contribute to a sufficient sustained increase in derived demand for labor. Of course, employment subsidies may help boost aggregate labor demand for a while. But Keynesian-type of demand management could also help. I refer, of course, to policies such as tax reductions, public-sector investment and public-sector consumption – as a complement to supply-side policies.
- In addition to short-term demand-management policies in product markets, some long-term structural reforms in product markets may also help boost employment, in particular, in a long-term perspective. For instance, incumbent firms are often protected against competition from potential entrants. One example is spontaneous anti-competitive behaviour of firms, such as cartel agreements. Another example is national and local government regulations that prevent the entry of firms. As a result, there is an insider-outsider divide also in product markets. Deregulations, designed to encourage entrepreneurship and hence the entry of firms, not least in the service sector, may therefore have long term positive effects on employment creation.

ICT's Contribution and Essential Policy Steps Towards a Globalised Network Economy

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Information and communication technologies (ICT) have been the major driving force for new enterprises, new services and major new developments in production in recent years. ICT contribute about 40 percent of productivity growth and one quarter of overall economic growth in the European Union. The economic benefit it creates is most significant in explaining employment growth. ICT is key driver of economic growth because it increases productivity and generates new consumer services within the sector, but most of all it creates additional employment in interrelated industries.

The communication-sector significantly contributes to the development of worldwide economies. Telecommunications bridge distance and boost the attractiveness of remote and rural areas.



Telecommunication technologies enhance the diffusion of information, knowledge and innovative contents, applications and services regardless of geographic location. Clearly, telephone and Internet improve quality of life and people's ability to participate in social and democratic life. Furthermore, telecommunications provide the essential infrastructure for increasing

e-literacy, alleviating the digital divide. Societies are becoming increasingly chances of powerful and innovative electronic communications networks and services.

The liberalisation of the European telecommunications markets has been a major success. Today, we experience more choice at lower rates and better services for the consumer. However, in particular Europe has to be careful about its current review of the Telecommunications Directives and its general telecommunication policy: the EU-25 telecom market value has experienced a distinct slowdown. Overall growth will reach about 2% in 2008 but is expected to weaken further in 2009. In contrast, the US telecom market value is still about 6% and China about 10%. For Europe, the telecommunications industry outlook is gloomy because it lacks of significant investments in new infrastructure and consequently innovations. Without a modern infrastructure, value creation will shrink in the ICT industry with corresponding disadvantages for jobs and productivity. Three preconditions need to be met to tackle major economic problems, in particular in Europe: First, investment in new infrastructure is essential to keep up with productivity in the most competitive regions in the world – above all, in fibreglass networks. Second, the efficient use of currently freed spectrum for broadband services is crucial to achieve and connect rural areas as much as less developed regions. Third, an ICT industry that is competitive on a global scale must be built by suitable policy incentives, legal certainty and a new regulatory framework.