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TRACKING NEO-LIBERALISM

Labour Market Policies in the OECD Area

1. INTRODUCTION

Under conditions of globalization neo-liberal policies are often advanced as the only ones that nation-states can pursue effectively. By embracing the deregulatory logic of the global market, it is argued, nation-states will be better positioned to achieve success than if they cling to outdated notions of state intervention. Thus states should be catalysts in promoting market adaptation. If they act in this way, their citizens will reap the benefits because their societies will be more competitive in the global economy. Arguments of this type are part of public discourse and are employed to promote, justify or legitimate the adoption of neo-liberal policies. To a surprising degree, given the simplicity of the case just advanced, and the widespread failure of neo-liberal policies referred to in the introduction to this book, these propositions continue to play a key role in the development of public policy and in the efforts of international organizations to influence the policies adopted by states. Consequently it is important to continue to interrogate the claims advanced on behalf of neo-liberal policy.

In this chapter, we examine the case of labour market policy, once a crucial site for welfare state promotion of income equality and social justice, now seen potentially as a key ingredient of international competitiveness. More particularly we investigate the role of the OECD in analysing labour market issues in its *Jobs Study* and in advancing a very detailed set of policy prescriptions in its *Jobs Strategy* (see OECD, 1994a, 1997b). Adoption of the OECD's strategy, it claimed, by increasing the flexibility of labour markets could solve the persistently higher unemployment rates that emerged in most advanced industrialized economies in the 1980s (see OECD, 1999). Likewise, the OECD also assumed that the *Jobs Strategy* would produce greater economic competitiveness in the world economy:

> In a world where trade in goods and services, as well as international investment flows, develop much faster than domestic economies, where technologies are

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> developed and diffused extremely rapidly, and where domestic markets are liberalized, competition is constantly increasing. To stay in the race, firms – and their staff – must continuously innovate and improve their efficiency (OECD, 1996: 5).

The 'innovation' and 'efficiency' essential to national economic competitiveness were also to be fostered by increased flexibility in domestic labour market policy (OECD, 1994a: 28–29). The case of labour market policy is interesting because the OECD has been both diligent and persistent in pushing its agenda for over a decade. It has released detailed reports that enable us to measure compliance with its recommendations and which can be compared to performance on other indicators. Since actual compliance with OECD recommendations varies considerably the example can illuminate both the posited convergence of public policies in the face of the competitive pressures stemming from globalization and the consequences of non-compliance with the neo-liberal model.

Two central questions are covered in this chapter; the degree to which the *Jobs Strategy* can improve domestic labour market performance, and the degree to which it can improve states' international competitiveness. The first question is whether adoption of the neo-liberal policy package is associated with good labour market performance? Assessing this question is complicated by the task of interpreting which performance measures are most effective for cross-national comparison. There are problems with all labour market indicators and choice of indicator can have a large effect on how the success or failure of neo-liberal policies is interpreted in this case. Here we focus on the employment rate since this is the least problematic of the available indicators as it provides the best approximation of the degree to which a society's labour resources are fully utilized. The employment rate is the percentage of the working-aged population that is actively employed. The OECD (1999: 24), despite attention to other indicators such as the non-accelerating wage rate of unemployment (NAWRU)-derived measures of structural unemployment, has argued that ultimately overall improvement in employment rates correlates most strongly with real declines in structural unemployment. Thus it is ultimately the employment rate against which the success of the Jobs Strategy should be measured.

Second, we ask whether addressing labour market problems in the way recommended by the OECD improves states' competitiveness in the global economy. Neo-liberal economics has maintained that high unemployment rates are caused by supply-side factors like the inflexibility of labour markets and the consequent failure of wages to adjust downwards (Lapido and Wilkinson, 2002: 35–36). One consequence of excessive protection of the labour market, in the words of international financier George Soros, would be that 'Capital will tend to avoid countries where employment is heavily taxed or heavily protected' (quoted in Standing, 1999: 62). At the enterprise level, interest in all forms of labour flexibility seems to have been driven by attempts to achieve competitiveness (Jacobson and Hartley, 1991: 5; Reilly, 2001: Ch. 4). And a key motive expressed by policy makers in their drive to transform social and labour market policy in the direction of greater flexibility has been 'the desire to make national economies more "competitive"' (Standing, 2002: 31).