COMMUNICATIONS

SWITCHING TO THE POLICY MODE: INCENTIVES BY THE OECD JOBS STUDY TO CHANGE OUR MINDSET

In a period when (Western) European policymakers are desperately seeking a way to reduce the unemployment rate to an acceptable level, it is good that the OECD pooled all its scholarship and skills to publish a study on the 'facts, analysis and strategies' concerning unemployment and the labour market in what is called *The OECD Jobs Study*. The summary report was published in June; the background analysis was released at the end of October 1994.¹

In this review I will argue that the study marks an important step in Western institutional thinking about unemployment, its causes and possible cures, since it balances out the viability of various proposed solutions better than previous publications. However, it still leaves us with unresolved dilemmas because it is not radical enough in picturing the consequences of the analyses made, nor goes it far enough beyond orthodoxy to lead us to choices. It often presents two sides of the coin (which is better than presenting one side only), but leaves us in the end with the only option of tossing the coin to make policy decisions. It therefore does not lead to a strategy properly spoken.

The first section summarizes the main aspects of the study. In the second section I go à la recherche de l'équilibre perdu by discussing the main dilemmas in the study and how they relate to biased theoretical thinking and implicitly biased pragmatic choices. In this discussion I will relate *The OECD Jobs Study* to recent publications on the same topic by the World Bank, the International Monetary Fund, the European Union and others. The concluding section embarks on strategic thinking and choices.

1 THE MESSAGE

'The basic policy message of this report is unambiguous: high unemployment should be addressed not by seeking to slow the pace of change, but rather by restoring economies’ and societies’ capacity to adapt to it’ (OECD, Summary Report, p. 30).

The Summary Report of The OECD Jobs Study has three parts: I. Key facts; II. Analysis and considerations for policy, and III. Main planks of a strategy. Part one describes the situation on OECD labour markets focusing on international differences in unemployment rates, labour market participation rates and job growth. Part two discusses the macroeconomic environment and international co-operation, besides issues like technology, flexible working-time, entrepreneurship (under the heading ‘Jobs’) and active labour market policy, skills and competencies and tax/benefit systems (under the heading ‘People’). The strategic part (III) summarizes the policy recommendations.

This 50-page report is not more than a summary of a series of thorough studies on different aspects of the unemployment and employment problem. They encompass 460 pages of scientific work published in two volumes: one on labour market trends and the underlying forces of change; and the second one on the adjustment potential of the labour market.

The first volume addresses macroeconomic developments and policies, trade and foreign direct investment, and technological change and innovation and is based on a detailed analysis of trends in employment and unemployment. In the second volume, wage adjustments, labour adjustments and active labour market policies, skills and competencies, unemployment and related welfare benefits and taxation are discussed.

It is impossible to review the content of each chapter separately. Even a detailed discussion of the Summary Report is beyond the scope of this article. It would be feasible to list a number of comments on separate issues raised in the three publications. This, however, would be dull and hard to read. Therefore, I

2 If I would have to make a selection of issues that need elaborating on, I would list the following five points:
- calculations are made in persons rather than in hours; given the huge changes in the number of hours worked, even in the recent past, this blurs the analysis;
- more emphasis on the practise of social security reform is necessary;
- labour demand adjustment costs are virtually left undiscussed; since employment decisions are increasingly seen as an investment decision, this is a crucial issue;
- there is quite a lot of implicit reasoning and even double-speech, while expressions like ‘experience seems to suggest, experience shows, evidence seems to point at’ are often used; implicit reasoning: poor functioning labour markets are concluded from low inflow into unemployment and even lower outflow out of unemployment; double-speech: ‘increased dispersion in earnings tends to create opportunities for low productivity workers to find a job’ (Report II, p. 51), while what in fact meant is, ‘lower wages for low productivity workers increase their chances to find a job’;