Revisiting policy options for more jobs

by Alain De Serres, Head of Division, and Peter Gal, Economist
Structural Surveillance Division, Policy Studies Branch, OECD Economics Department

In many OECD countries, the labour market has yet to recover the lost ground suffered in the aftermath of the financial crisis. In some of them, unemployment has been persistently high, resulting in a very high incidence of long-term unemployment. In part, this reflects the weakness of demand but given that a slow recovery has been a reality for many countries, a number of structural factors also contribute to the situation in the hardest-hit countries.

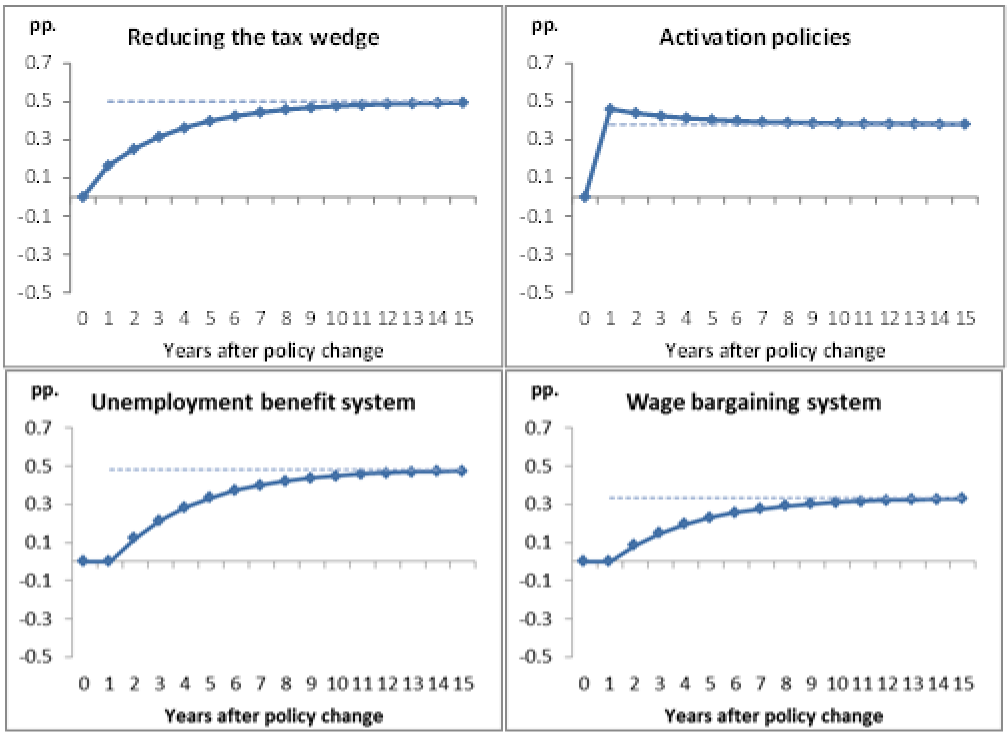
Lifting employment requires a combination of measures that will boost job creation, encourage labour force participation and facilitate the matching of jobs and job seekers. A recent OECD study reassesses the effectiveness of a wide range of *structural labour market policies* for spurring employment, building on insights from a vast volume of economic literature and new empirical analyses. Besides the overall labour market, it also considers a number of specific labour market groups, along the demographic dimension (youth, elderly, women, men) and the skill dimension (low-, middle and high educated), as well as a large number of potentially beneficial policies.

Four policy areas stand out as the key labour market policy levers, showing strong potential for lifting employment rates (See Figure 1 below).

- First, a reduction in the so-called tax wedge, that is the part of labour costs that governments collect through income taxes and social security contributions boost overall employment*.* It does so not only by making it more attractive for companies to hire workers (job creation channel), but also by making it more attractive for employees to accept job offers, as they receive a higher take-home pay.

- Second, spending more on activation policies, in particular job training, facilitates finding a good match between the skills that employers search and what employees can offer.
- Third, reforms of unemployment insurance systems to provide more effective re-employment assistance and services to jobseekers, while conditioning benefits more strongly on job-search intensity, raise incentives to accept job offers, contributing thereby to stronger employment growth.
- Finally, striving for a wage bargaining system that raises the responsiveness of wage adjustments to labour market conditions, including by giving firms more leeway in the applications of collective agreements negotiated at the sector level, also raises employment.

Figure 1: The estimated employment impact of labour market reforms in four different policy areas



Source: Gal, P. and A. Theising (2015), “The macroeconomic impact of structural policies on labour market outcomes in OECD countries: A reassessment", OECD Economics Department Working Papers, No. 1271, OECD Publishing, Paris., Figure 5.

Note: In these simulations, the magnitude of reforms is chosen to be of a typical size that was observed in the past. More specifically it is the average improvement of the policy indicators over 5 consecutive years, across all the 25 OECD countries and years (1985-2011) included in the study.

Outside the realm of labour market policies, easing regulations of product markets – most importantly, liberalizing entry to markets and thus increasing competition – have an extra potential to create jobs over the medium- to long run.

Importantly in the context of subdued growth, all these findings are valid even under the assumption that the overall government budget remains unchanged, thus making sure that public finances would not be strained further by putting in place these reforms.

Finally, note that the OECD is currently revising the OECD Jobs Strategy, which will delve into more details on the design and the mechanism of labour market policies.

References

Gal, P. and A. Theising (2015), "The macroeconomic impact of structural policies on labour market outcomes in OECD countries: A reassessment", OECD Economics Department Working Papers, No. 1271, OECD Publishing, Paris.