



**Business Statement to the
Meeting of G8 Labour and Employment Ministers**

“Productive Employment as a Factor of Economic Growth and Social Integration”

October 9, 2006

Moscow

This statement reflects views of
the International Organisation of Employers (IOE) and
the Business and Industry Advisory Committee to the OECD (BIAC)

INTRODUCTION

The international business community appreciates the opportunity to meet with G8 Labour and Employment Ministers in Moscow and to contribute to discussions on the theme that will be addressed: “Productive Employment as a Factor of Economic Growth and Social Integration.”

In today’s globalised world, as a fundamental, business emphasises that sustainable economic growth through trade and investment continues to be the most important basis for reducing widespread unemployment and for increasing productive employment across all groups of society. Furthermore, the way to competitiveness and job creation should be through more efficiency and flexibility in the overall labour market in conjunction with lifelong learning that is fostered from an early age.

Economic growth is essential to building capacity for job creation in a time when we are facing aging societies and need to activate all groups to work and to work longer. It is also the necessary basis for economies to shift from too much emphasis on providing benefits by social protection systems to more innovative adaptable frameworks for employment creation.

We note the importance of this G8 dialogue on labour and employment issues, and also the importance of OECD projects and analysis in this area, in particular the OECD Jobs Strategy. We also recognise the important dialogue of the International Organisation of Employers with the International Labour Organisation on a wide range of labour and employment issues and analysis, as well as the dialogue that is essential amongst international organisations themselves.

Reforms are needed in a number of areas to adjust to these developments, to secure sustainable economic growth and to increase the employment rates and productivity of all workers, young and old, including women and disadvantaged groups. The revised OECD Jobs Strategy provides important guidance to developed and developing countries across relevant policy areas.

THE OECD JOBS STRATEGY

Business welcomes the 2006 revised OECD Jobs Strategy – a Policy Framework based on economic analysis and practical evidence, as an effective tool for governments in carrying out necessary structural reforms to increase labour market participation and economic growth.

We underline the message of the OECD Secretary-General, Mr. Angel Gurría, that: *“the restated Jobs Strategy will contribute to strengthen the capacities of our societies to adapt and change and to meet the challenges posed by globalisation and population ageing”*.

The reassessment of the 1994 Jobs Strategy has shown that there is no ‘one size fits all’ policy package for good labour market performance. However, evidence has shown that successful policy approaches are characterised by macroeconomic stability and strong product market competition. This is an important lesson for those countries where labour market performance is in need of significant improvement. It also provides substantial value through insight gained regarding interactions and synergies between different policy areas.

Throughout the Jobs Strategy revision, business maintained four key priorities for sustainable job creation, described in greater detail in the remainder of this paper:

- Create a framework for economic growth as a basis for sustainable employment creation;
- Entrepreneurship, innovation and technology development;
- Flexibility towards a more inclusive labour market;
- Continued emphasis on education and lifelong learning.

In BIAC's view, the revised Jobs Strategy is a constructive and balanced approach to developing policy frameworks that provide support the economic growth necessary to stimulate investment and create jobs. We would highly recommend governments and all other stakeholders, to seriously consider the recommendations made and to come to an integrated, sustainable approach for reforms.

1. Creating a Framework for Economic Growth as a Basis for Sustainable Employment Creation

A sound policy framework strengthening the competitiveness of companies is an essential prerequisite for the private sector to make its full contribution to creating new jobs. Creating these frameworks requires the rigorous attention of governments to implement policies that create conditions for growth. A framework for sustainable economic growth is characterised by: Good Public Governance; Appropriate Macro-economic Policy; Pro-competitive Regulatory Frameworks; and Open Trade and Investment Policies.

Good Public Governance

Good public governance is the fundamental underlying principle that should be the core of all public policy frameworks and should be a key objective for government leadership at all levels. It represents one of the most positive incentives for a company to invest in a market and is essential to ensure that all citizens will enjoy the full benefits brought by these investments, including more jobs.

The aim of good governance should be to create an environment that promotes investment. The efficient management of government functions; predictable, transparent and pro-competitive regulatory regimes; the rule of law; easily understandable and efficient public administrative procedures and services; making maximum use of e-government; effective consultation with social partners and all stakeholders involved in the creation and revision of rules and regulations, including a systematic ex-ante and ex-post impact assessment procedure; the elimination of bribery and corruption, and clear accountable leadership at all levels are some of the specific hallmarks of good governance that potential investors seek.

From a business perspective, trust in government is an important incentive to invest. This trust is achieved through a track record of engagement that results in a clear ability to do business. The whole of government approach to policy coordination, implementation and regulatory quality, contributes to building this trust. Good public governance is a prerequisite for structural reform. It is the basis for a leader's ability to garner the necessary support for making tough political decisions that are aimed at enhancing a country's capacity for economic growth and the creation of jobs.

Appropriate Macro-economic Policy

Macroeconomic policies are an important factor in determining any economy's ability to create prosperity. Governments and central banks need to encourage economic growth in ways that are sustainable. A macroeconomic environment that is conducive to growth must be built upon the foundation of sound government finances so that the public sector does not pre-empt national savings and through this impede investment. Equally important, inflation must be kept under control, so that businesses and consumers are not held back by uncertainty associated with distorted price signals. Sound budget balances and price stability contribute to lower real interest rates and this in turn stimulates investment and economic growth.

Pro-competitive Regulatory Frameworks

Regulatory Frameworks that promote competition are a necessary context to stimulate economic growth and in turn reduce unemployment in all economies.

Product market competition promotes new job creation by enhancing free market entry and exit into the market. The life cycle of young firms depends upon innovative capacity and productivity. Thus, facilitating new entry by removing disincentives and barriers to investment through optimal regulatory frameworks provides for more innovative capacity and productivity improvements to the economy as a whole. The quality of business regulation and institutions are major determinants for private sector investment and thus for employment creation.

Open Trade and Investment Policies

Open markets to trade and investment are instrumental in fostering economic growth, creating wealth and improving labour conditions, and will result in a better division of labour between countries based on comparative advantage.

The WTO Doha Development Agenda (DDA) remains a critical opportunity to liberalize global trade and spread the benefits of globalization. It must not be missed. The world trading system and the open markets that it promotes are essential to the creation of global prosperity. Countries both developed and developing alike, must commit to a genuine liberalisation of their markets.

The international business community is deeply concerned about the suspension of the round. A failure of the Round would squander the achievements made to date, dissolve the substantial welfare gains ahead for all countries and undermine the multilateral world trade system, leaving only bilateral and regional trade deals, which are never more than a second-best option. Achieving meaningful trade liberalization for agricultural products, industrial goods and services may be difficult, but it is certainly attainable. We urge policy leaders establish the basis for the early resumption of negotiations. The DDA needs to restart as soon as possible.

We also emphasise the benefits from liberalisation of trade in services, the fastest growing sector of the world economy. Services not only provide the bulk of employment income in many countries, but they also serve as vital input for producing other goods and services.

International trade is closely linked with foreign investment. Both are complementary activities essential to modern international business operations. They are less and less likely to be stand-alone activities and both are very powerful engines for economic development. Attracting foreign investment requires creating an attractive environment for business, which includes government accountability and transparency, rigorous law enforcement, cost-effective regulatory frameworks, credible approaches against bribe solicitation and corruption, open trade and investment regimes, labour market flexibility, intellectual property right protection, human resource and infrastructure development.

The OECD promotes these policies with its Policy Framework for Investment (PFI). The PFI is also a strong statement by OECD countries against investment protectionism. BIAC fully shares the views recently expressed by OECD Secretary-General Angel Gurría, that the global economy is facing a resurging risk of international investment protectionism, and that we must all cooperate to ensure that national policy toward international investment are guided by transparency and openness.¹

Business recognises the challenges for individual employees, companies, even for entire sectors brought on by the positive opportunities afforded by open markets, including off-shoring. In this context, BIAC welcomes the completion of the OECD Project on Trade and Structural Adjustment as well as its complementary project on enhancing services sector performance. OECD fact-based analysis and policy tools such as the OECD Jobs Strategy and OECD Recommendations on Regulatory Quality and Reform are critical in addressing misperceptions related to globalisation and pre-empting protectionist policies.

¹ Mr. Angel Gurría, OECD Secretary-General, Statement to the Meeting of the International Monetary and Financial Committee

2. Entrepreneurship, Innovation and Technology Development

Entrepreneurship and innovation are key to creating more jobs, and are at the heart of business creation and transformation in today's global economy. Investment is not limited to large multinational companies. A favourable policy framework should also support the creation of new businesses and encourage entrepreneurship, as small and medium-sized enterprises (SMEs) are major potential source of growth. An OECD study estimates that 70% of net job creation can come from fast-growing SMEs.² This number should climb in the years to come as SMEs increasingly tap into new global markets, unless miscalculated government policies throw up additional barriers to their internationalisation. Regulatory frameworks that are transparent, understandable, unbureaucratic and pro-competitive are essential to stimulate and sustain business creation and expansion that may otherwise be discouraged by excessive administrative burdens and costs. Likewise, property rights are tools for empowerment and play a key role in helping small enterprises to develop into fully fledged and growing enterprises.

We note in this context that the importance of women to overall economic activity can often be underestimated. Frequently, business laws, policies and services do not adequately consider the needs of women entrepreneurs and sometimes exacerbate gender specific constraints to entrepreneurship. Policy choices need to be cognizant of this factor particularly taking into account cultural considerations.

Nurture an Entrepreneurial Climate

Opportunities for self-employment and improving the conditions for the creation and growth of micro-businesses and SMEs also play a crucial role in job creation. Likewise, instilling the value of entrepreneurship in young people can contribute to their successful and early integration into the labour force. These entrepreneurial skills can be developed with business in coordination with educational institutions. Creation of new businesses also relies upon access to technology and a skilled labour pool that results from quality education and the accessibility of lifelong learning tools.

Although companies find that it in many countries it has become easier and cheaper to establish a new business in many countries, they also report that there are still a large number of regulatory impediments for new businesses. In this respect, regulatory frameworks should be better targeted at facilitating the start-up and sustainability of SMEs. Where such frameworks are established, BIAC Members note that they provide for technical and financial support, for example to promote e-business.

Thus, business continues to emphasise the importance of promoting the positive values of entrepreneurship. In this respect, business also highlights the important role of education in instilling the values of entrepreneurship.

Frameworks for Innovation and Technology Development

The development and implementation of new technologies, and their applications across sectors are a key source and driver of economic growth and job creation. Policy frameworks that support innovation, the development and implementation of technologies are thus critical. Pro-competitive regulatory frameworks and partnership with industry are essential to allow new technologies to flourish. Across sectors, companies are making sizable investments in innovative products and services that benefit our societies, and this business actively fuels growth and creates jobs.

Business also emphasises the need for private capital venture funds for R&D, the importance of partnerships for innovative activities, the need for policy frameworks that provide greater legal certainty for high-tech investment, reducing barriers to e-commerce services, the importance of intellectual property rights protection, the importance of training for high tech services, and the mobility of knowledge workers.

² OECD draft report on "Removing Barriers to SME Access to International Markets"

3. Flexibility Towards a More Inclusive Labour Market

In today's globalised economy, companies require flexibility in labour markets in order to respond to market shifts, customer needs and competitive pressures. We must constantly strive to create a more efficient, competitive and productive environment, in which labour markets are sufficiently flexible so that companies can match the right skills, employees and the organisation of work in response to changing economic and demographic circumstances.

Obstacles to the creation of new jobs are often in the form of rigidities in labour legislation, high non-wage labour costs, overly strict job protection, and too high minimum wages. Likewise overly tight protection against dismissal is an obstacle to change and an obstacle to hiring new employees. Where reforms have taken place, providing for more flexibility with respect to employment protection legislation, there have been positive effects on the hiring of workers. We also note the importance of labour market mobility in today's global workplace.

The growing variety of forms of employment can not only contribute to overall job creation, but also to address the needs of specific categories of employees as well as those of employers. In order to alleviate difficulties for those at the margin of the labour market, the overall labour market must first function effectively and real incentives to work must be available.

Companies recognize the importance of providing for flexible working arrangements to meet the needs of their employees. Such flexibility can help to maximize the potential of employees who may have specific needs and obligations, but at the same time can productively contribute to an enterprise. More flexible employment arrangements in order to meet the needs of a more diverse workforce as well as of employers, such as part-time or flexible working hours, variations in working time, innovative leave arrangements, telecommuting, part-time retirement, etc, require that governments provide policy frameworks that facilitate such flexibility. It is critical, however, that governments realize that a one size fits all approach to developing or mandating such policies would be counterproductive, and could negatively impact the competitiveness of firms.

Making work pay – that is, implementing strategies that provide the necessary incentives to work – is essential. For example, frameworks that allow married couples and both parents of children to fully benefit from work are important tools to achieving this objective.

We note that in many countries, a dependency culture has been created with unemployment benefits being so high that active job-seeking is discouraged. The benefit structure and the relationship of benefits to one another therefore needs continued analysis to target the benefits to those in greatest need. Appropriate schemes need to be designed to ensure that people have the incentives to enter the labour market where their skills are most applicable. The difference between remuneration for work and benefits should always be high enough to stimulate increased individual motivation for active job-seeking.

Governments, in particular, have a role to play in stimulating labour demand and in activating the supply side by reforming and modernizing tax and benefit systems (including monitoring strict application of benefits and penalizing fraud). Reforms should also aim to reduce regulatory and administrative burdens related to employment and social benefits. A successful policy to make work pay will also have a positive effect on reducing the informal economy.

Active Aging for More Successful Labour and Social Policy

In developed countries, the general tendency is for people to lead longer and healthier lives. This positive development, however, has a number of economic consequences. Under existing structures most developed countries will, now or in the near future, experience serious deficits in their social security budgets, including health care systems that are expected to increase under pressure from economic and demographic changes.

Ageing populations, declining birth rates, longer schooling and early retirement are reducing the proportion of the population that will work and pay taxes to support the number of people receiving pensions, payments (i.e. unemployment, student support, disability), health and nursing care. For social security institutions, in particular with regard to retirement benefits and health insurance, structural changes are needed in many countries in order to avoid a collapse of these systems or the economy as a whole, and ensure sustainable social policy frameworks.

While the aging of populations has tremendous social and economic impacts, we do note that older workers can bring valuable experience to the workplace. Thus, frameworks are needed to facilitate their employment in a way that benefits all. Continued education and lifelong learning, cultivated from an early age, is key to the continued employability of workers and in particular to older workers.

In view of these developments, a climate conducive to workforce participation and ‘active ageing’ should be encouraged; which means providing support for people to lead active lives as they grow older. It is important to consider, in addressing engagement of older workers, both the demand side (the creation of more jobs), and the supply side (encouraging active labour market policies).

The following supply side measures with respect to older workers should also be considered:

- Increasing the effective age of retirement;
- Diversifying working times and work organisation;
- Increasing emphasis on lifelong learning;
- Analysing the effects of employment protection measures;
- Encouraging more wage flexibility;
- Promoting effective job placement.

Tackling Youth Unemployment

Youth unemployment is a serious issue, due to factors such as tight labour markets and the mismatch of skills and job preferences among youth. As such, measures need to be taken to realize the full potential, on both the supply and demand side for the young workforce.

A successful approach to employing youth must take into account the national context as well as a policy framework that integrates the range of interdependent policies. This is critical for both developed and developing countries alike.

The core objectives of an integrated youth employment policy should include:

- Enabling policy frameworks to generate productive, sustainable employment of youth;
- An emphasis on initial education;
- Efforts to match skills of young people to current and emerging job requirements and career paths;
- Involvement and support of all stakeholders
- Active labour policy frameworks to move young people into employment.

4. Continued Emphasis on Education and Life Long Learning

Companies depend upon a labour pool that is flexible, technologically literate and work-ready. As such, they have a vital interest in schools turning out young people equipped to take on the ever more technologically sophisticated and knowledge intensive jobs. Education is perhaps the most effective mechanism to improve employment prospects for all groups.

At the same time, education policies should not just be looked at as a means of providing a basic education for all. Higher levels of education and training (development of relevant competencies), including life long learning, reduce the risk of unemployment and increase chances of finding work, while lower levels of education contribute to vulnerability in the labour market. Thus, encouraging the workforce to improve their skills during their whole career and respond to changing labour market requirements is instrumental to tackling unemployment and to enhance the adaptability of companies and workers.

Education contributes to social inclusion by equipping students with the basic skills and competencies needed to engage in society in both their personal and professional life.

Both employers and employees have a major responsibility with regard to further training and life long learning. Employees need to take initiative to develop transferable skills and be receptive to learning that is not exclusively job- or firm-specific. Employers can provide development opportunities at the workplace as well as firm- and job-specific training.

CONCLUSION

Governments must be courageous in their efforts to implement policy solutions that activate all groups to work, and strive to garner the support of constituencies when changes will be politically difficult. This can only be done by convincing populations that change will indeed bring greater benefits than the current frameworks. Clearly communicating this message must be a priority for governments seeking to push through difficult reforms.

In concluding, we wish to highlight a number of key points:

- Sound macroeconomic policies aiming at price stability and sustainable public finances that are able to stabilise the economy and absorb adverse shocks are a precondition for further economic growth and job creation.
- Set the right conditions for business to compete, to grow, to innovate, to make necessary changes and to start new companies that are the source of job creation.
- Social and labour market policies should be targeted at activation. Too much emphasis on protection has too often resulted in discouraging people to accept a job.
- The best protection against loss of work and income is investment in education and lifelong learning.

Importantly, governments need to find the political means to implement employment policies that will be economically sustainable and provide the base confidence for the private sector to invest in economic growth projects, large and small.

As we noted earlier, the OECD Jobs Strategy is a constructive and balanced approach to boost job creation and importantly the economic growth necessary to stimulate investment and create jobs. We highly recommend that governments seriously consider the recommendations made, and to come to an integrated, sustainable approach for reforms.

Business looks forward to continued dialogue towards these goals.