



The Voice of OECD Business

Meeting of the OECD Employment, Labour and Social Affairs Committee at Ministerial Level

“Tackling the Jobs Crisis”

September 28, 2009

Introduction

Business welcomes the opportunity to meet with OECD Labour and Social Policy Ministers to discuss policies necessary to recovery from the ongoing jobs crisis.

Thanks to prompt and significant governmental rescue packages through massive stimulus programs, many economies are experiencing initial signs of recovery. However there is still much uncertainty concerning what lies ahead, and the unemployment ratio is expected to rise through 2010 in many countries. The OECD unemployment rate reached a post war high of 8.3 % in June 2009, and according to OECD estimates may reach 10% by the end of 2010.

For the global recovery to take hold long term, governments will need to continue and intensify efforts to undertake coordinated and coherent policy actions to restore confidence and sustainability in financial markets and availability of capital. Governments must ensure that labour market and social policy frameworks support business activity in order that more jobs can be retained and new ones created. Labour Ministers must be engaged in the overall recovery efforts.

Public policy, including reactive and countercyclical emergency responses, must support enterprises. Governments must continue to adopt appropriate labour policies and structural change that will support enterprise creation, entrepreneurship and innovation. As deficits are also growing, structural reforms will be necessary to diminish deficits in the years to come. These are the only sustainable bases for the creation of wealth, jobs, new products and services. Importantly, government stimulus must be targeted, timely, and temporary with a view towards long term recovery.

In this context, BIAC continues to emphasise 5 key principles to guide economic recovery in support of job growth:

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- **Actions must support job creation:** Jobs may be created by short term stimulus and emergency measures, including in the public sector, but policies must also continue to encourage entrepreneurial activity, innovation and enterprise creation, as well as trade and investment including so called “green” or sustainability initiatives. These activities are the most important source of jobs, and the only path to sustainable job creation.
 - **Employability must be emphasised over job security:** We cannot focus on protecting jobs, especially those that would no longer exist otherwise due to structural transformations in the economy. Rather we must focus on employability that is supported by labour market policies, including reduction of non-wage labour costs, which activate the labour force into work and provide for labour market mobility. These policies must be linked with effective social benefits and safety nets, and be strongly supported by opportunities for education and training.
 - **The most vulnerable must be protected:** Our actions must continue to target vulnerable groups, to ensure that those most disadvantaged when facing unemployment can return to jobs as quickly as possible, and that they do not slip into poverty resulting from long term unemployment.
 - **Social dialogue is necessary:** No one actor has all the answers; policy solutions must be practically focused and should reflect in a balanced way the needs and expectations of all stakeholders. We must continue to share experience regarding what works and what doesn’t work, and be prepared to rapidly implement measures accordingly.
 - **Protectionism is not the answer:** Despite continued challenges, there must be a continued commitment to structural reform as well as keeping markets open. Protectionism will only have negative impact on jobs over the long run.

The OECD is uniquely placed to support policy considerations and actions by governments with a multidisciplinary analysis of issues and factors impacting employment and social protection systems. The Reassessed OECD Jobs Strategy has provided important guidance in advance of the crisis, and should be reviewed as necessary to maintain its effectiveness as a comprehensive guidance framework for employment and social policy.

The OECD has an important role in global coordination on employment issues, including at the G8, G20 and with the International Labour Organisation (ILO), the World Bank and International Monetary Fund (IMF). This global coordination has been critical in keeping the jobs crisis squarely on the agenda of governments as an issue which must be addressed in a co-ordinated manner across ministries, and this should continue.

In preparation for this Ministerial, BIAC conducted a survey of its members in order to receive the business perspective on the effectiveness of economic stimulus measures for employment. These responses serve as the basis for issues highlighted in this paper.

This statement addresses the following:

1. Policy Responses to the Jobs Crisis: Highlights of the BIAC Survey
2. Green Jobs
3. Business Recommendations for Government Action in the Jobs Crisis: Continue to Make Reform Happen
4. Role for the OECD

1. Policy Responses to the Crisis: Highlights of the BIAC Survey

The following section draws from the responses of the BIAC ELSA survey. BIAC received (18) responses including from BIAC Member organisations, Indian and Slovenian business (BIAC Observers) and the International Organisation of Employers (IOE).

This section provides an overview of responses received in the following areas:

- Business perspectives on economic recovery
- Effectiveness and sufficiency of government stimulus measures for employment
- Main challenges for firms, and priority actions for business in the crisis
- Focus on youth, other vulnerable groups and temporary workers

Business perspective on economic recovery

Generally business continues to express caution with regard to the speed of economic recovery, and return to job growth. In a number of countries (Czech Republic, India, Italy, Netherlands, New Zealand and Slovenia) positive GDP growth was considered likely for 2010. Japan views GDP growth as more uncertain. Irish business indicated a return to growth is likely in 2011. Sweden expressed that a return to 2008 GDP level would be not before 2012.

Unemployment is expected to decrease in 2011 in the Czech Republic, and Germany, while the employment recovery dates still remain uncertain for the majority of countries.

As is emphasised by the OECD Employment Outlook, the impact of the crisis varies by sector. For example, many countries implied the crisis has hit especially hard in construction (Ireland and Spain) and manufacturing sectors, with Germany and Ireland noting that export-dependent sectors have been hit especially hard. Countries have also indicated that services sectors are now struggling as the crisis continues.

Countries have noted that other sectors, such as pharmaceuticals, telecommunications, food or industries with emerging technologies (i.e. green) have suffered less.

All survey responses emphasised that access to credit and financial resources remain one of the most critical problems for companies, in particular for SMEs. Barriers to entry for start up business, including administrative burden and ensuring product market competition, were also cited by the majority of respondents as major concerns of firms.

Effectiveness and sufficiency of government stimulus measures for employment

BIAC Members were asked to describe the range of stimulus measures implemented in their country. As is highlighted by the OECD EC Survey results, business also identified a broad range of issues and programmes that are covered by stimulus packages designed to preserve or increase labour demand, including passive and active measures to which firms are engaged.

Generally, business welcomed stimulus measures and responses strongly advocated active labour and social policy approaches. These measures include: temporary reductions in social insurance contributions, reduced or eliminated overtime pay, employer subsidies, tax deductibility on training programs, income support measures, temporary schemes for part time unemployment and the implementation of mobility centres to address abrupt increases in unemployment.

Increased funding for job placement services and support for education and training programs were cited as necessary, and of the most important measures taken by governments.

With respect to income support measures, the response was mixed, and members expressed caution regarding extending passive subsidies indefinitely. In the case of the Czech Republic, income support has not been effective enough, where as in Germany it is perceived to have been effective.

Japan reported on the importance of support measures for temporary workers, citing also the Japanese Government initiative to introduce the job card system to help narrow the gap between regular and irregular contracts.

While business is generally positive about the impact of stimulus to help retain jobs or lead to job growth, business is generally cautious to judge effectiveness given that it is too soon to determine long term results. (United States)

Main challenges for firms, and priority actions for business in the crisis

BIAC Members identified a number of challenges for firms in the crisis as well as actions by firms with regard to employment. Generally, access to finance, keeping personnel costs down, and remaining competitive are forefront in the minds of companies in this crisis.

Additional challenges cited by companies with respect to employment and overall competitiveness include: increased labour market rigidity, the challenge to keep labour costs

down, inflexibility of the wage system, continued lack of available credit and liquidity, high non wage labour costs, falling consumer demand (lack of new orders), continued need for structural reforms – labour market flexibility and still too rigid employment protection, and the need for more customised qualification systems to enhance labour mobility.

Business itself is taking action in the crisis to retain jobs, often in conjunction with stimulus measures. Firms are focused on retaining talent where possible given that it will benefit both the firm and the individual in economic recovery.

For example, priority actions cited by business to retain jobs include reduced working time arrangements, accumulated leave programmes, putting greater emphasis on training/education, negotiation of reduced salaries, reduction of non wage labour costs, restructuring, discontinuation of paid overtime, and reduction of overtime credits. Employers in Hungary reported that they are implementing job search assistance programs to support individuals in cases of outplacement. Layoffs are also undertaken when necessary, but only as a last resort when possible.

Focus on youth, other vulnerable groups and temporary workers

Increasing attention has been given by business to support employment of more vulnerable workers including youth, women, the disabled, immigrants and as well as those on temporary contracts.

With respect to youth, business is responding to the many types of programmes aiming to strengthen links between education skills and training/work opportunities. These actions include focusing internships on building skills and competencies, to create regional training programmes, to mix trial employment with training internships, and to increase in number and length of fixed term contracts.

Generally, business advocates closer cooperation between industry, government and schools. Some specific initiatives include in Japan the Job Card system for young employees; in New Zealand amongst other programs, an initiative has been to develop new research scholarships. Providing a discount on social insurance for those under 25 was also cited as a useful action (Sweden).

With respect to vulnerable workers, business has suggested the need for reformed benefits for sick leave, in some cases increased benefits for cases of persons with heavy disabilities.

In countries like Japan, there are efforts being made to reduce the gaps between temporary workers and regular contracts. Italy also cited the issue of temporary workers, and the need to better coordinate social safety nets with the view to foster social inclusion and to prevent long term unemployment.

2. Green Jobs

In a number of countries, so called “green growth initiatives” or “green investment” are part of stimulus package focus on job creation. “Green policy initiatives” have the potential for strong positive impacts on both the economy and society. Greening of the economy is a priority across countries, as well as across industry sectors.

However, BIAC cautions that here should not be a narrow definition of so called “green jobs.” While job creation is an expectation of these initiatives, in order to facilitate job growth in this context it will be necessary that workers should acquire new skills and competencies. Education must include a focus on new skills, including R&D and provide training for technicians to facilitate employment and economic growth in new sectors.

So called “green” industry is reliant upon conventional industry. Key sectors such as steel, chemicals, and transportation will be at the centre and facilitate so-called ‘green’ innovation such as bio-energy and wind power. In the move to a lower carbon emission society, all jobs must become ‘greener’. Thus, efforts to ‘green’ existing jobs and focus on environmentally friendly innovation for the creation of new jobs should focus on industry broadly. Green growth must be innovation driven.

Sustainability and ‘greening’ must come from all fronts. Not only does business need to reduce CO₂ emissions and increase energy efficiency, but other economic players, households and the public sector must do the same as well. Education on environmentally-friendly practices and programmes, such as improvement in building insulation, energy efficient consumer behaviour, sustainable agriculture, etc. are equally important to environmental sustainability.

Specific measures cited by business in this area include building insulation and energy saving initiatives, investment and or tax relief for environmentally friendly transportation, the private sector including energy fuel and engine manufacturing actively promoting green growth.

‘Green’ growth and job creation must go hand-in-hand with economic growth for conventional industry. Innovation by the private sector will be indispensable for fostering environmentally friendly, sustainable economic growth and subsequent creation of jobs.

3. Business Recommendations for Government Action in the Jobs Crisis: Continue to Make Reform Happen

Governments will continue to face an enormous challenge to act under increasingly tight budget constraints. In this climate, a commitment to structural reform remains important, and governments must have the courage to implement measures with speed to improve the environment for jobs.

BIAC survey responses reaffirm the following recommendations from business to government for actions that we believe will contribute to a faster return to growth,

sustainable employment, and job creation, also critical to ensuring the financial sustainability and viability of social protection systems.

Reduce Labour Market Rigidities

Structural reform of labour market rigidities must continue, even in this most difficult environment. More flexibility in labour markets is essential not only for the survival of firms, but also for companies' abilities to retain employees through the economic downturn. In response to the crisis, policies need to facilitate actions such as innovative approaches to working hours, ensuring eligibility of benefits to employees and firms when measures must be taken to either reduce working hours, furlough employees, or temporarily scale back production, and other similar actions.¹

Implement the “Flexicurity” Approach – Active Labour Market Policies

Workers and companies need both more flexibility and security to maximise workforce protection. This can be achieved through removing rigid labour law, ensuring a wide variety of contractual arrangements, putting into place active labour market policies effectively linked with social protection systems, the opportunity to develop skills and competencies, and employment services. While there is no one size fits all approach for activation policies, their emphasis should be on employability, thereby enabling individuals and companies to facilitate entry and re-entry to employment in an easy, efficient, and timely manner to avoid long term unemployment.

Reduce Non-wage Labour Costs

Reduction of non-wage labour costs, through for example, reduction of some social security contributions and fiscal cost, has immediate effects, and will also improve companies' incentives to hire once the crisis has abated.

Ensure Safety Nets Promote Employability and Incentives to Work

Social safety nets are essential, but the crisis will not be resolved on the basis of extending benefits to stimulate consumption and demand alone. To the extent possible, social spending should be aimed at supporting employability and re-entry to the workforce as soon as possible. Income supports should be treated as any other type of incentive – they should be timely, temporary, well targeted to those in need.

¹ BIAC notes that previous OECD reports gave broad support to continued labour flexibility policy initiatives and a number of specific reform measures in OECD countries. For example, these reform measures in Australia contributed to significant high employment levels towards the end of 2007. In that context, Australia business also commented that there are risks that are yet to be quantified associated with recent policy reforms which will re-regulate and re-centralise certain aspects of the labour market, including new industrial awards, bargaining rules and employee protection measures. Therefore, past support by the OECD for workplace flexibility needs to be heeded.

Invest in Skills, Education and Training

An important element of employment policy in stimulus measures is to provide budget support for training and education. Communication and engagement between governments and all actors in the economy are crucial in this effort, as is the constant updating of skills needs. Governments should ensure that ICT, science, and technology training are encouraged and available to support innovative industries including so called “green initiatives”. Local and regional level partnerships between the main economic actors are critical in this regard.

Ensure Labour Mobility

As jobs disappear, companies reorganise, sectors disappear, and new ones emerge, mobility is key to ensuring that people can go to where the jobs are and that firms can reallocate employees to other job opportunities as easily and quickly as possible.

Invest in Developing and Improving Public Services

Public services, including health, education, child care services, transportation and housing infrastructure, are important elements of an effective social safety net, as well as important contributors that ensure people have the best chances to find and remain in employment. These sectors are also a source of future jobs. Education and training should be targeted accordingly.

Reduce Administrative and Compliance Costs for SMEs

The needs of SMEs should be a policy priority in fiscal stimulus packages and in employment and social policy responses. Development of entrepreneurship skills must also receive attention as more individuals attempt to set up ventures. Now more than ever, steps are needed to create the right regulatory environment for sustainable enterprises, including measures to reduce excessive administrative costs and red tape, stimulate entrepreneurship, and provide access to lending facilities.

4. Role of OECD

The OECD is uniquely placed to support policy considerations and actions by governments with a multi-disciplinary analysis of issues and the factors impacting employment and social protection systems.

OECD guidance based on factual analysis is critical to making practical policy decisions. As stated above it provides an important resource for governments, and also in coordination at multilateral level such as in the G8, the G20 and in conjunction with relevant ILO initiatives.

BIAC recommends the following future work to be undertaken by OECD on employment and social policy issues:

- Continued analysis of the impact of the financial and economic crisis on employment, including the process of exit initiatives (rolling back stimulus programs) that lay ahead;

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- Ensure continued relevance of the OECD Reassessed Jobs Strategy, and where questions may arise, undertake analysis to ensure that any future revisions continue to be based on a multidisciplinary approach to employment and social policy issues;
 - Conduct a survey of how temporary contracts interact with social benefit systems in OECD countries;
 - In the context of the OECD Green Growth Initiative, undertake analysis of how the coordinated approaches across disciplines will impact job creation in new innovative sectors and the overall consideration of sustainability and job creation;
 - Continue to coordinate with the International Labour Organisation on global employment issues, and in particular contribute to work related to the ILO Global Jobs Pact, emphasising that sustainable enterprise creation is necessary for job creation.

Conclusion

The success of actions taken to address the crisis will be evident by a return to economic recovery and a smarter, sustainable approach to managing and harnessing the benefits of globalisation in a more inclusive manner.

An essential indication of success will be creation of sustainable and productive jobs. If entrepreneurship and innovation are allowed to flourish, new industries will continue to emerge to address the needs and demands of a transformed economy – one that effectively implements the concept of sustainability based on three pillars of economic, environmental and social action.

Key to this outcome is widely accessible education and training. Quality education must be a priority and should instil commitment to lifelong learning to more effectively match labour market demand and supply needs.

Business is firmly committed to working with OECD and its Member Governments to reinvigorate global economic growth and re-establish confidence in our financial systems based on sound and effective regulatory frameworks. This outcome is essential to addressing our employment and social policy challenges.