



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

## **G8 Labour and Employment Ministers Conference**

### **“Growth and Employment: The Future of an Active Society in a Changing World”**

#### **Statement of the Business and Industry Advisory Committee to the OECD (BIAC)**

**Stuttgart, Germany  
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BIAC is pleased to have this opportunity to address the Labour and Employment Ministers of the G8 on issues fundamental to the objectives of sustainable employment and economic growth. As we continue to address the significant impact of globalisation on all economies, even given the current more positive economic outlook, many continue to struggle with high unemployment. In this context, business remains focused on policies key to employment creation, while taking into account the dynamics of changing demographics, increasingly diversified work environments and the emergence of a knowledge society.

BIAC emphasises that the first focus should be on employment creation through more efficiency and flexibility in the overall labour market, including in developing countries, and that economic growth continues to be the most important basis for reducing widespread unemployment and for increasing employment across all groups.

**In this climate BIAC stresses the following messages to G8 Ministers:**

- **The Importance of Enabling Policy Framework Conditions for Sustainable Growth**
- **Structural Reforms to Boost Employment are Necessary, including those aimed at:**
  - **Fostering Entrepreneurship**
  - **Creating More Flexibility to Manage Human Resources in an Increasingly Diversified Workplace**
  - **Activation of All Groups: All Who Can Work Should Work**
  - **Encouraging Investment in Human Capital Formation and the Promotion of Lifelong Learning**
- **The Importance of International Co-operation Towards Employment Creation**

In the statement that follows we take the opportunity to elaborate on these important messages.

## 1. The Importance of Enabling Policy Framework Conditions for Sustainable Growth

High unemployment rates combined with global cyclical economic weakness, continues to be a major challenge for many countries. To stimulate economic growth and in turn reduce unemployment in all economies, it is necessary to have good public governance and the implementation of appropriate macro-economic policy and regulatory frameworks that promote competition, innovation and entrepreneurial activity.

Trade and investment liberalisation 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. Foreign direct investment (FDI) generates not just capital, but increased knowledge and skills in an economy. It promotes a focus on productivity improvement, management skills and facilitates integrated links to markets. Attracting FDI requires creating an attractive environment for investment, which includes government accountability and transparency, capital mobility, labour market flexibility, human resource development and infrastructure.

With increasing economic integration, rigidities in the labour markets of developing countries and developed countries need to be addressed, in particular through research and technical assistance. The work of the International Labour Organisation (ILO), the International Organisation of Employers (IOE) and the OECD's focus on investment for development are examples of positive steps in this direction.

BIAC continues to address ways to advance the Doha WTO negotiations and to resolve the Cancún impasse, and we emphasise that the OECD business community remains strongly committed to the multilateral trading system with the WTO at its centre. A strong and effective multilateral trading system is the necessary and most efficient source of global economic opportunities, particularly employment creation. Liberalising international trade remains vital to lifting much of the developing world out of poverty, and has an important complementary role in helping countries absorb and capitalise on the growth and development potential of a rapidly changing global marketplace.

It is through companies that countries seize the benefits of open markets. Through investment and international trade, companies are significant agents of positive change at local and international levels. In this era of globalisation, competitive companies are investing significant resources in policies related to the quality of working environments, employee benefits, environmental health and safety, and community relations. Corporate social responsibility is fundamental to a company's competitiveness and long-term success.

As the only comprehensive set of recommendations for international business collectively endorsed by governments, the OECD Guidelines for Multinational Enterprises (MNE Guidelines), part of the OECD Declaration on International Investment and Multinational Enterprises, serve as an important reference for companies investing at home and abroad. The clear aim of the MNE Guidelines is to improve the climate for foreign direct investment, sustainable growth, and to promote the positive contribution that multinational enterprises can bring to society.

## 2. Structural Reforms to Boost Employment are Necessary

Structural reforms that stimulate demand and activate supply in labour markets are crucial to decrease unemployment and increase the participation rate. In this context, BIAC emphasises the need for structural reforms to: foster entrepreneurship, allow for greater flexibility to manage human resources, activate the supply side of the labour market addressing the needs of all groups and, stimulate investment in human capital formation and the promotion of life long learning.

OECD research confirms that more jobs would be created in the private sector if there were fewer barriers to companies adapting human resources policies and programs to the changing economic circumstances and market needs. We also note the importance of the OECD Jobs Strategy in addressing necessary reforms that take into account changing workplace dynamics and needs of the global marketplace.

In the following paragraphs BIAC provides recommendations on issues in four areas that we believe should be addressed through structural reforms.

- **Policies to foster entrepreneurship are essential to job creation and economic growth**

A policy environment that supports the creation of new businesses and encourages entrepreneurship is key to creating more jobs. Regulatory frameworks that are transparent, understandable, unbureaucratic and pro-competitive are essential to stimulate business creation that may otherwise be discouraged by excessive administrative burdens and costs. Creation of new businesses also relies on access to technology and a skilled labour pool that results from quality education and the accessibility of lifelong learning. Taxation and fiscal policies that support entrepreneurship are also essential.

Particular attention should also be paid to encouraging self-employment and improving the conditions for the creation and growth of micro-businesses and SMEs, which play a crucial role in job creation.

- **Flexibility to manage human resources is needed in an increasingly diversified work place**

Companies require heightened flexibility in the labour market in order to respond to market shifts, customer needs and competitive pressures, as these changes take place at an increasing pace. Obstacles to the creation of new jobs are often rigidities in labour legislation, high non-wage labour costs, overly strict job protection, minimum wages, income taxes, excessively generous benefits systems, and undue administrative barriers, all of which are disincentives for companies to hire.

Overly rigid employment protection legislation can act as a disincentive for companies to hire due to the difficulties they encounter if the company faces serious economic problems. Labour laws and employment policies need to be modernised to allow for more flexibility and reduce regulatory and administrative burdens. As such, existing protective measures should be reviewed and modernised.

The growth of non-standard forms of employment should be seen as a positive advancement toward achieving greater employment opportunities and better work/life balance. For example, such flexible approaches can include part-time or flexible working hours, variations in working time, innovative leave arrangements, telecommuting, and part-time retirement. These measures facilitate the reconciliation of work and family life, and careers across various ages and groups, for example, women, elderly, and the disabled. Labour legislation should facilitate such flexible arrangements, and social partners should work to develop working conditions that meet related challenges of flexibility and security. New forms of employment should be encouraged with the support of dialogue among all stakeholders. Education and training including life-long learning are essential to prepare the labour force to adapt to new forms of employment.

Overly bureaucratic regulations for the hiring of temporary workers should be removed. Greater flexibility in employment policy and work arrangements enabling engagement of temporary workers are needed.

Mobility of personnel within an organisation contributes to its competitiveness. Policies to support mobility can contribute to skill enhancement, and support diffusion of technologies within and between organisations. Mobility also contributes to transfer of skills and technologies to developing countries. High job turnover, and restructuring firms in today's economy has also made mobility critical for both employers and employees in a domestic or international context.

- **Activation policies to address the needs of all groups are essential: all who can work should work**

Policies to increase employment rates of all groups, and in particular those under-represented in the workplace, are crucial in view of the demographic changes we face as a result of ageing populations. Activation of those groups still under-represented in the workspace including older workers, young workers, women, migrants are needed. Measures should be taken to create more flexible employment arrangements in order to meet the needs of a more diverse workforce as well as those of employers.

With regard to older workers, policy measures are necessary, which act both on the demand and supply side to encourage older workers to remain in the workforce longer. It is also important to note that older workers do not form a homogeneous group, underlining the importance of policies that are not targeted simply on age. In view of the current demographic shifts, the skills and knowledge of older workers are an essential element for a competitive labour market. Necessary policies to assist in engaging and retaining older workers include: increasing the effective age of retirement, diversification of working times and work organisation, increased emphasis on lifelong learning, reforms to employment protection measures, encouraging effective job placement and more wage flexibility.

There is a need for continued reform of taxation and fiscal policies that impact both employers and those seeking work. Excessive income taxation can be a real barrier to employment, in particular with regard to unskilled or low skilled workers. Reforming and modernising tax and benefit systems - including monitoring strict application and penalising fraud - is vitally important.

“Making work pay” – that is, implementing strategies that provide the necessary

incentives to work – is essential. Those receiving income support should be encouraged to resume work. The modernisation of social security systems and the implementation of tax policies that do not discourage the unemployed to seek employment are key tools to achieving this objective.

- **Investment in human capital formation and the promotion of lifelong learning is the way forward**

The quality of human capital is a key contributor to innovation and economic growth and is all the more important in the context of a knowledge society. The expansion of the knowledge society, the diffusion of new technologies, ageing populations, and the increased movement of people and ideas will define the challenges to work organisation, labour and employment policies for years to come.

As trade in services and the application of information technologies grows, the economy will increasingly call for employees with new skills and competencies. Therefore, an efficient education system, adapted to the needs of the labour market, and the improvement of skills and employability are crucial to continued economic growth and increased employment.

As well, 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 and respond to changing labour market requirements is instrumental to tackling unemployment.

Both employers and employees have a major responsibility with regard to further training. 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. Indeed, large corporations put enormous resources into internal training and education.

In addition to initial education, governments can encourage further training by offering incentives for personal and company investment. At the same time, governments have a special responsibility for those unemployed as well as employed, who were poor performers or never reached the first level of vocational qualification in the initial education system.

Growth can only be achieved if governments implement the necessary structural reforms of their economies and facilitate policies that are conducive to greater flexibility, competitiveness and job creation. Some steps have already been taken. However, these measures frequently do not go far enough in addressing the serious structural problems that exist in most of our countries.

### **3. The Importance of International Co-operation Towards Employment Creation**

In the context of changing demographics, the emergence of a knowledge economy and increasingly diversified workplaces in the globalised economy, in this statement BIAC has emphasised the importance of enabling policy frameworks and good governance, the importance of structural reforms in labour and employment policy, a need for flexible approaches in labour market and employment policies, the essential need for continued improved education and life long learning, as key areas for policy action towards employment creation and economic growth.

International co-operation between all stakeholders, and co-ordination among international organisations to address these issues and analysis focused on positive policy solutions towards economic growth and employment creation is fundamental to achieving these policy goals.

International co-operation is especially important in the context of enabling developing countries to implement sound policy frameworks to realise the benefits of trade and investment that create employment and economic growth.

The business community remains solidly committed to international co-operation aimed at the continued development of policy frameworks focused on job creation, an essential ingredient to achieving sustainable economic growth for the benefit of all.