



Business and Industry Advisory Committee to the OECD

Comité Consultatif Economique et Industriel Auprès de l'OCDE

BIAC Statement to the Meeting of OECD Ministers of Labour

Paris, 14 October 1997

Introduction

1. The international business community represented by BIAC is pleased to present this statement to the 1997 Meeting of OECD Labour Ministers. BIAC believes that this meeting is taking place at an important time for many of our economies. New business opportunities resulting from the globalisation process and increasing international trade, investment and economic performance offer substantial new benefits. Governments must enact bold and substantive reforms in the areas of labour market policy and social policy as these policy fields should be adapted to the changing and challenging circumstances.

2. BIAC agrees that the topics selected for this Ministerial Agenda are appropriate. Indeed, in order to combat the public's fear about changing technologies and increasing international competition there is a need to:

- help students of all ages to equip themselves with the best possible knowledge to succeed in labour markets,
- identify changing employer needs resulting from local or global competition and help the labour force adapt to them, and
- help individuals who stumble or lag behind on the road of opportunity with targeted, market-based approaches which reward individual responsibility and personal initiative.

3. How have governments fared in implementing policies along the lines suggested by business? To prepare this paper BIAC surveyed its member organisations. Although the situation and circumstances vary by country, the results of this survey produced some key messages for OECD Labour Ministers. Not surprisingly, their conclusions echo many of the same recommendations made by the OECD in its 1994 *Jobs Study* and the follow-up *Strategy* that has emerged from this work.

4. Many OECD countries plagued by high and persistent unemployment have tried or have proposed plans to address the problem by adjusting national labour policies in an attempt to introduce greater flexibility and reduce the (non-wage) costs of employment (e.g. Belgium, France, Germany, Japan, Spain) and/or reinforce training, apprenticeship and job placement services to facilitate reinsertion of the unemployed (e.g., Finland, Japan, Korea, New Zealand, Spain). BIAC salutes these efforts.

5. Unfortunately, on the whole the effectiveness of most of the actions taken to-date has been less-than-satisfactory. Why? Again, the answer varies according to the country, but there were some common themes.

6. Many companies noted the excessive bureaucracy involved with some of the new policies: they suggest that it is too complicated for companies, especially small- or medium-sized enterprises, for example, to identify potential workers through the PES. Others have complained of a segmented, piecemeal approach to reform rather than a simple, broad reduction of non-wage labour costs which would be far more effective. In addition, compliance costs of government regulation impact directly and indirectly on confidence to invest and employ. Still others complained of a lack of coherence between different measures, e.g., with the introduction of promising programmes for training and placement while maintaining complicated rules on hiring combined with overly generous unemployment benefits which discourage job search. Many praised their governments' plans but complained of continuing resistance by trade unions which prevented full implementation of new policy initiatives, above all to tackle structural causes of unemployment. Others suggested that there was a tendency to go for visible yet expensive programmes whose high cost was not justified by their effectiveness.

7. Generally, nearly all respondents suggested that there was insufficient regulatory reform and that, well-intentioned as they are, the measures do not go far enough in addressing the serious structural impediments to job creation that exist in most of our countries. There was a sense that political decision-makers are not seriously tackling an immense problem, and increasingly giving the impression of being powerless to effect meaningful change in a world of international competition.

8. The business community has, for more than a decade, invested considerable time and energy in advocating and facilitating policies which are conducive to greater flexibility, competitiveness and job creation. We have done so locally, nationally and internationally. We have done so at the enterprise level, at the national employers' organisation level, and at the international business organisation level. We have expressed our views publicly and privately. And we have heard our words repeated frequently by policy-makers. BIAC believes that, although the private sector can serve as a catalyst for the formulation of policy advice, the responsibility for action and implementation of reform to adapt the structure of our economies remains with the governments.

9. This Statement summarises the main findings of the BIAC survey of industry and employers' organisations on the main subject areas in the agenda of OECD Labour Ministerial.

Policies for Low-Paid Workers and Unskilled Job Seekers

10. Unskilled workers in OECD countries are the primary risk group as a result of evolving production methods and changing employer needs, resulting from, *inter alia*, globalisation and new technologies. This problem justifies directing public assistance to these disadvantaged groups to improve their skills and employability. At the same time, whatever the skill level of a given individual, any public policy effort to raise his/her potential should be centred on employing the individual at the existing skill level. Assisting low-skilled workers in OECD countries should not discourage them from accepting low-skilled occupations, which do exist in all OECD countries.

11. Some governments have attempted to deal with this problem through a combination of measures: minimum wage policies, reductions in employer charges (e.g., social security) for

companies that employ (and train) the unskilled, special public training/apprenticeship programmes, and income support.

12. Although some companies are concerned with the imposition of administrative formalities/rigidities which make the programmes costly and difficult to implement efficiently, we agree that the only solution to this problem is to give these individuals the incentive to learn new skills and an opportunity to apply them in the market place. BIAC believes that low-skilled workers should also bear personal responsibility to strive to improve their attractiveness in the labour market. Minimum wages must not be too high relative to productivity, or companies will be discouraged from employing low-skilled workers. Income support must not be set at a level which discourages the unskilled from seeking employment opportunities or self-employment. Work is the best income source and provides the best environment for further education and skill upgrading.

13. In this issue area, we are conscious of the fact that policies aimed at tightening criteria for special (income and other) support to already disadvantaged individuals may be a painful task. However, at the same time, many policies aimed at addressing the needs of the workers with high unemployment risk have an impact on the entire labour force. For instance, minimum wages raise the earnings of not only individuals with low prospects for skill development, but also first time job-seekers who have better long-term prospects. This weakens their possibilities for employment. The existing incentive structure prices these workers out of the labour market.

14. Components of social spending, which are the reasons behind non-wage payments, should above all be designed in such a way to contribute to long-term efficiency and competitiveness of the work force. This must, however, not be based on costs which are too high and which weaken competitiveness. Our finding is that the current arrangements are unsustainable. BIAC, therefore, supports those countries which are carrying out a case-by-case review of existing support mechanisms to assist the specially disadvantaged individuals through targeted, cost-effective programmes.

Enhancing the Effectiveness of ALMPs

15. Labour market programmes, active or passive, are a sign of failure in other areas. The discussion of this subject should be conducted with full realisation of the fact that ALMPs cannot be expected to substitute on a lasting basis for good policy in other areas which affect job creation. The whole approach to the use of ALMPs should therefore be rethought to re-conceive them as a temporary system of measures. They should have a clear timetable for performance evaluation and, where and when structural unemployment is observed on a downward trend, there should be a process for commensurate reduction in their extent and availability as a public service.

16. The experience from countries having a high structural unemployment rate and a high rate of active measures is mixed. On the one hand ALMPs enable the unemployed to stay in touch with the labour market, which is good. On the other, they distort the functioning of the labour market. Research shows that little recruitment will be made without a subsidy once the subsidy is known to exist. It is therefore crucial to focus on active and rapid job search assistance, in addition to improving the quality of the general job brokerage (placement) systems. Contacts with the unemployed must be frequent, which goes hand in hand with an emphasis on active and rapid job search and improved quality of brokerage. Investment should be made more up front in order to shorten the period of support. Matching between companies' needs and job-seekers' skills must be improved, and there should be a closer liaison with companies. Employers' organisations are willing to be more deeply involved in initiatives to develop such conditions. Some employers

organisations (e.g., in New Zealand) have also been involved in joint ventures with their PES, providing job placement services targeted at low skilled and/or long-term job seekers.

17. On the question of focusing public employment services (PES) on the long-term unemployed vs. providing high quality job placement services to job seekers, BIAC Members do not see a contradiction in principle. BIAC believes that requiring companies to report all vacancies to PES is not only objectionable in principle, but also impractical. A PES can only attract vacancies by establishing its credibility as a provider of good services. Good PES services are not necessarily expensive. Most ALMP spending currently goes to temporary employment programmes. Only a small fraction of spending currently goes to job brokerage, labour market information, placement and labour market training. We recommend that the priority be shifted to the latter type of activity.

18. The scope for private employment agencies needs enlarging. Though there is a legitimate concern that this may lead to private agencies “creaming out” the better job seekers, it would still be possible for the PES to acquire and offer, as a result of enhanced competition, a reasonable amount and selection of vacancies that can be offered to the rest of the unemployed.

19. ALMPs should not be evaluated in isolation, but in the broader policy context affecting incentives to provide, seek or retain jobs, which includes, in particular, the compensation in unemployment insurance and income support.

20. We encourage the Ministers to invite the OECD to continue with a bold comparative review of the performance in the conception and operation of ALMPs and the functioning of the PES in general, expand the review process to countries with high and persistent unemployment and high passive or active spending programmes which have not yet been reviewed, and develop country-specific recommendations.

Lifelong Learning to Maintain Lifelong Employability

21. Although the focus of discussion on the unemployment problem is placed on poorly qualified workers, lifelong learning is an issue for all workers. All of our data indicates that, in the context of high income countries, broadly speaking, the higher the level of qualification, the lower the unemployment rate and the higher the wage level. Furthermore, higher qualified workers participate more in continuing training, and tend to benefit more from it. Conversely, an education system which delivers a high drop-out rate and large numbers of low-skilled workers results in high societal cost in the form of unemployment and expensive special training efforts. The conclusion is that the education system needs to be geared towards developing individuals' capacities to a maximum and perhaps most importantly, acquiring better means of addressing the needs of the lower performing students. Maintaining a sufficient level and quality of investment in initial education, which is crucial for lifelong employability, remains the responsibility of governments.

22. Education systems must also incorporate the latest research on how learning occurs so that the quality of learning is substantially improved and individuals are provided with the attitudes and skills they require to be lifelong learners. While this is fundamentally the responsibility of governments, many businesses are currently involved in influencing policy and in being catalysts for the necessary change.

23. The primary responsibility for assuring learning beyond initial education lies with both individuals and companies. Governments can help by providing incentives such as tax benefits,

subsidised access to distance learning facilities, support for companies offering apprenticeship places, etc. This also concerns large-scale training for new growth sectors. Poorly qualified school leavers can be offered a training credit system (as in the UK and the US)¹. In addition, much of the needed improvement consists of low-cost reorganisation of institutional frameworks. Some governments have made strides in adapting their education institutions to the requirements of lifelong learning, which is, in our opinion, the right track to follow (See Annex on New Zealand). Even where measures result in an increase in educational expenditures, increasing accountability and control resulting from better labour market-education linkages would improve the efficiency of investment in education. Where policies to enhance lifelong learning imply new and additional government expenditure, resources should be sought primarily by reducing public expenditure in areas such as assistance to public enterprises with chronic deficits, rather than in increased revenues.

24. Governments should place a particular emphasis on the significant potential offered by the ongoing revolution in information and communication technologies (ICT), when designing their approach to lifelong learning. New information networks and associated technologies, such as the Internet, enable an open learning environment and can bypass some of the institutional costs and impediments of traditional learning establishments. These technologies and systems greatly enhance the possibilities of integrating training activities with the working life of an individual, and enable greater individual control and responsibility for the content of training received. The rapidly declining cost of network access can eventually enable even the disadvantaged groups out of employment to use new technologies for self-empowerment. Both governments and educational institutions need to develop further their capacity to offer training through digital networks². However, a wider and profitable utilisation of ICT necessitates a change in attitudes towards more open and less hierarchical structures for information management and supervision. All societal actors need to make more progress in this respect.

25. In addition to offering new tools for learning and training, the ICT revolution ultimately adds a further challenge to lifelong learning as populations of employees (and employers) increasingly need continued training and retraining in order to keep up with changes in technology and the marketplace.

New Forms of Work Organisation

26. The fact that new technologies are having a significant impact on work organisation is not new. Arguably, even the pace of organisational transformation which is required by new technology is not of a greater order of magnitude than what was the case in the industrial revolutions of 19th and early 20th centuries. What is perhaps new in the work environments of OECD countries is that the society which has emerged from the prosperity of the 1960s is too accustomed to the status quo, which is reflected in elaborate, unwieldy and rigid organisational structures.

¹ In the United States, both the federal government and individual state governments, with the involvement of both education systems and businesses, are for the next five years offering a number of opportunities for training leading to employment under the heading of "Welfare to Work" programmes. In addition, for many years, there has been available to high school dropouts the opportunity to take preparatory classes and then a test to qualify for a General Education and Development certificate. This programme is funded jointly by the federal government and the states.

² For a specific view from a country well advanced in the use of digital networks, see *The never-ending joy of learning. Industry's Vision of Lifelong Learning*, Confederation of Finnish Industry and Employers, 1996.

27. Labour markets in the future will build upon continuous change due to globalisation, new technology and intense competition. This will be a basic aspect to which both workers and management should adapt in a flexible way. Such adaptation will become a central point of departure both for prosperous business outcomes and for continuation of job opportunity.

28. For business, the objective is to employ labour and capital in the most efficient way: to match production with rapidly shifting operational and customer demands. Achieving this match effectively requires flexibility in the rules and procedures governing work organisation. The challenge for governments is thus to promote smooth adaptation to new realities by allowing the necessary flexibility in their regulatory systems. In the current environment, and despite some resistance, certain countries have already or are seeking to make this adjustment by introducing rules which can accommodate new forms of work organisation and/or flexible working time arrangements with corresponding wage costs. BIAC believes these governments deserve credit for adopting the correct approach.

29. In an attempt to deal with their unemployment problems, some governments are taking a different view of “new forms of work organisation”. They have proposed (or are implementing) “job-sharing” schemes through legislated reductions in working hours or by offering a mixture of rules and incentives which are supposed to make it attractive for employers to reduce the working time of some employees while hiring others to fill the gaps. These measures seem to be predicated on the belief that there are a static number of positions available to a growing labour force in an economy, and that by reducing the time of some workers, companies will be forced to hire others to make up for the lost production capacity. BIAC believes that in general this approach is not only based on faulty premises, but is also harmful to competitiveness at the company and country level because it increases production bottlenecks, raises labour costs, reduces responsiveness to customer needs and generally creates efficiency losses.

30. It is difficult for companies to cope with the increased labour costs resulting from legislated working time reductions, especially SMEs. A survey in Sweden indicated that only 3 percent of SMEs would employ more people if there were a reduction in working hours. The vast majority of the small business owners polled suggested that they would simply have to work more themselves!

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31. For companies to compete effectively and create new employment opportunities, they must have greater flexibility to take advantage of new technologies; to join with other companies joint-production partnerships and strategic alliances, to subcontract services, to reorganise tasks and work schedules according to both employer needs and employee preferences. In short, companies must be given the regulatory environment to be dynamic.

What the OECD Should Do

32. Ministries of Labour do not have sole responsibility for solving the unemployment problem. However, their acts can have a profound effect on most of the impediments which discourage job creation. Labour ministries have wide-ranging responsibilities in the regulatory framework affecting, for instance, the wage-formation process where more flexibility is needed to reduce the adjustment burden which currently falls heavily on workers with low initial productivity.

³ See Swedish Employers Confederation, *Less Work, More Jobs?*, SAF, 1997.

33. It is consistently recommended and confirmed by all commentators that action to reduce unemployment should be carried out along a broad front of policy areas involving economics, labour, education, finance (taxation) and other ministries. However, our finding is that in most countries plagued by high and persistent unemployment, such broad and concerted action is not evident or is not sufficiently strong. This leads us to conclude that there is a continuing need to conduct a frank and open dialogue on many of the issues at the international level within a framework which avoids the fragmentation of governments in capitals. This is why work carried out at the OECD on the jobs question is of utmost importance and has no equivalent elsewhere. BIAC has consistently been supportive of the OECD work on the jobs problem. BIAC encourages Ministers to recommend further work at the OECD to effectively monitor the implementation of the recommendations emerging from the OECD *Jobs Strategy*. We also encourage Ministers to spur an active implementation of the recommendations and findings at national level.

ANNEX:**LIFELONG LEARNING TO MAINTAIN LIFELONG EMPLOYABILITY****The Experience of New Zealand**

New Zealand adopted a comprehensive strategic approach to support lifelong learning to assist in the maintenance of lifelong employability. With the development of the new school curriculum and the National Qualifications Framework, the country has the beginnings of a system under which it matters much less where, or in which educational programme, a person is studying. Individuals are starting to have greater choice and flexibility, and fewer barriers to participation and lifelong learning. Below are the main ingredients of what has been termed a “seamless” education system

- Parent support programmes, such as Parents as First Teachers, for the child’s first three years of life.
- Early Childhood Education: although not compulsory, participation rates for those up to the age of five have increased from 43% in 1990 to 54% in 1995. There is increased diversity of provision, with funding contingent on meeting minimum standards.
- School and post-school sectors: governance and management changes since 1989 have seen a move from centralism to devolution, from imposed decision making and a cost plus mentality to autonomy of management and decision making and greater accountability for results to the clients of the systems.
- The New Zealand curriculum, introduced from 1992, has been designed to improve learning by specifying achievement outcomes in essential skill areas (such as communication, numeracy, information, problem solving, self-management, etc.), and essential learning areas (such as languages, mathematics, science, technology, social sciences). It also defines essential and generic skills which have to be incorporated into all learning programmes.
- The new 8 level qualifications framework is a comprehensive system covering the senior secondary school through to all kinds of tertiary institution and industry-based learning. The emphasis is on **outcomes** rather than on traditional course **input**. The framework is based on defined standards against which candidates - students, trainees, employees - may be judged as having reached the required level of attainment of performance. The standards are not curriculum documents, but they provide the structure on which programmes and courses are based
- Skill New Zealand is the industry training strategy aligned with the qualifications framework. Supported by 1992 legislation, it has enabled 51 self-defined Industry Training Organisations (ITOs) to set themselves up and, with some financial assistance from a contestable pool of government funding, set industry standards registered on the qualifications framework, and oversee training arrangements linked to the framework. Since 1992, the stock of trainees under the system has virtually doubled.

Remaining or Emerging Issues

The following are some of the factors putting stress on the school sector:

- increased staying on rates, especially at year 13 (48% in 1995 as compared with 13% in 1975)
- a more ethnically and socially diverse student profile (e.g. in 1996 20% of students were Maori, 7% Pacific Island, 5% Asian). At least in the case of Maori and Pacific Islanders, the claim is that these students feel disadvantaged in a white/Pakeha learning system; that they learn in different ways.
- teacher supply shortages and an ageing teacher population
- shortage of specialist teachers especially in mathematics and science
- increased accountability relationships and reporting requirements
- almost simultaneous introduction of new curriculum and assessment regimes, with resulting work load problems
- perceived lack of emphasis on public examinations and the concept of “excellence” as opposed to competence
- concerns about lack of increased resourcing to keep pace with population growth, inflation and other external pressures.

Post-school pressure points centre on:

- growth in participation (50% in the 1990-1995 period) leading to increases in size and number of tertiary institutions
- diversity of people seeking education, development and training opportunities
- increased blurring of traditional distinctions between school and post-school institutions, and between types of tertiary institutions, raising issues for government of funding and resourcing
- level and method of current funding regimes which influence the affordability of education and training for students and the ability of institutions to attract students and to offer the range of programmes wanted by students
- ownership and management regimes of Crown owned, State funded tertiary institutions
- compliance costs and portability issues associated with the National Qualifications Framework.