



USING OECD TO INFLUENCE ECONOMIC POLICY IN EUROPE?

Ronald Janssen, Trade Union Advisory Committee to the OECD

September 2016

Vienna

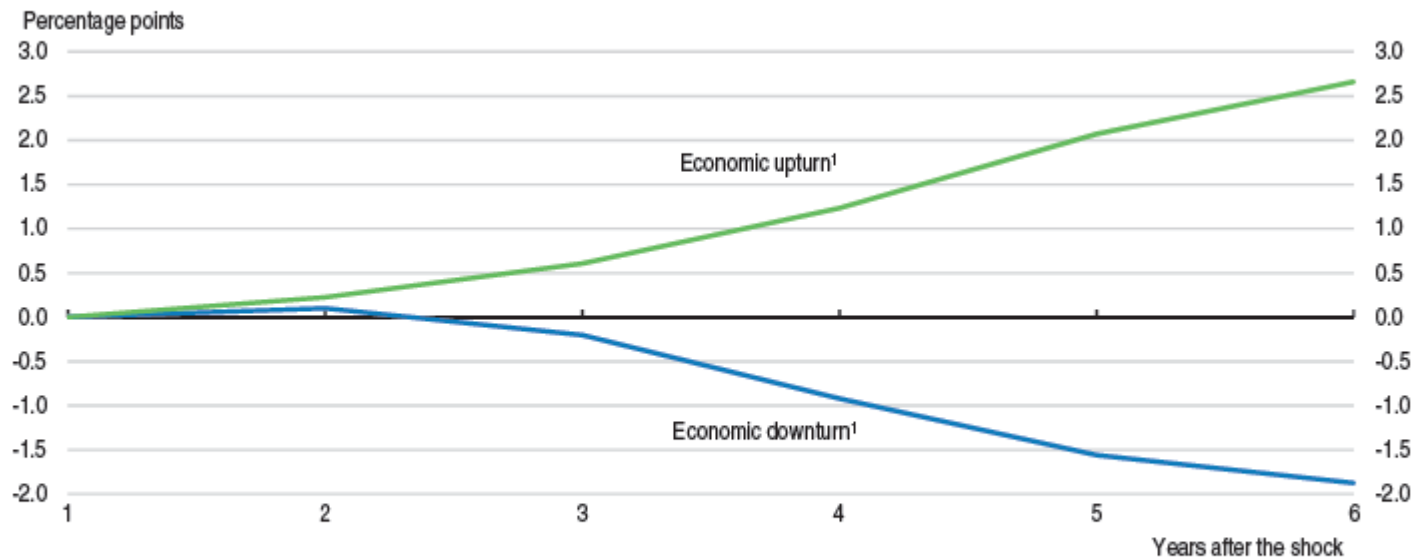
EFFECT OF REFORMS WHEN DEMAND IS WEAK

- OECD recognising openly that channels transforming supply side policy into more jobs are weak or do no longer work when there is lack of demand
- What channels? Lack of confidence, liquidity constraints, zero nominal interest rate bound, global downturn prohibiting export-led demand strategy.
- Source: Going for Growth February 2016, June Economic Outlook, ECO – working paper 21 April 2016.



Reducing benefit « generosity »

Figure 2.1. The gains in employment of an unemployment benefit reform can turn negative during a downturn

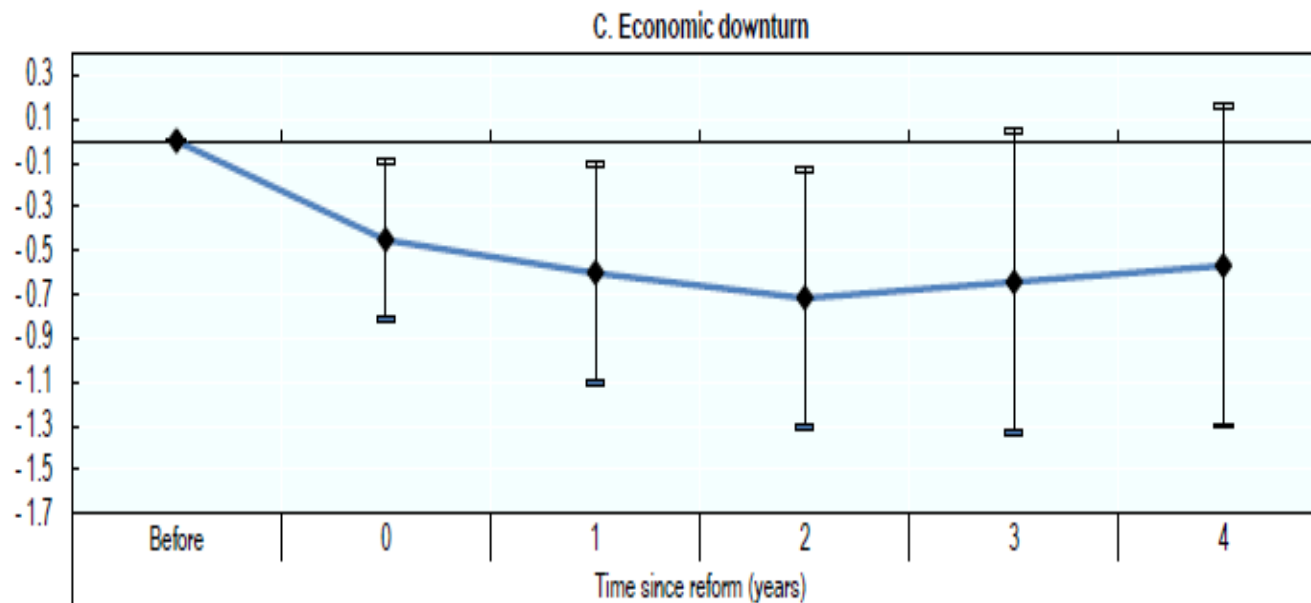


1. The lower (upper) line corresponds to the impact of the reduction in the initial unemployment benefit replacement rate during economic downturn (upturn), where the economic cycle is measured through the level of the pre-reform unemployment gap (i.e. the difference between the structural unemployment rate and the unemployment rate). The economic downturn (upturn) corresponds to the case where the unemployment gap is set to the minimum (maximum) value within the sample.

Source: Bouis et al. (2012).

Cutting job protection for regular workers in a downturn

Estimated cumulated change of business sector employment after a flexibility-enhancing EPL reform (Employment Outlook 2016)



Key OECD conclusion

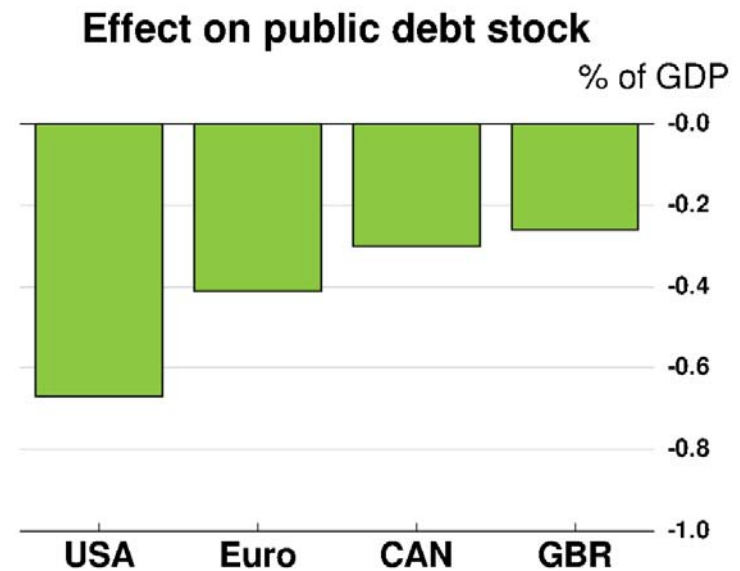
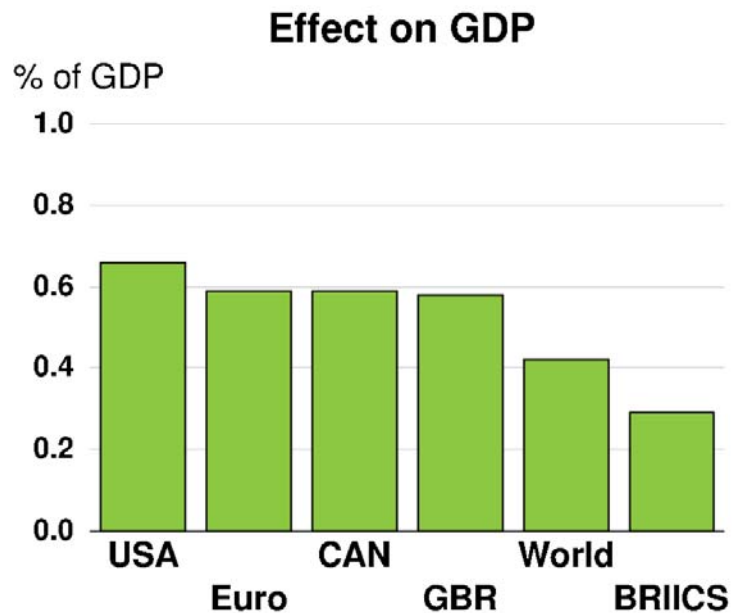
- Reforms that initially put downward pressure on wages (EPL, minimum wages, collective bargaining) risk deepening a deficit in aggregate demand.
- Tentative hierarchy of reforms (in case of demand deficit):
 - Invest in Knowledge Based Capital (infrastructure)
 - Help unemployed to find jobs



OECD also calling for collective fiscal action

1st year effects of a ½ per cent of GDP public investment stimulus by all OECD economies

Change from baseline



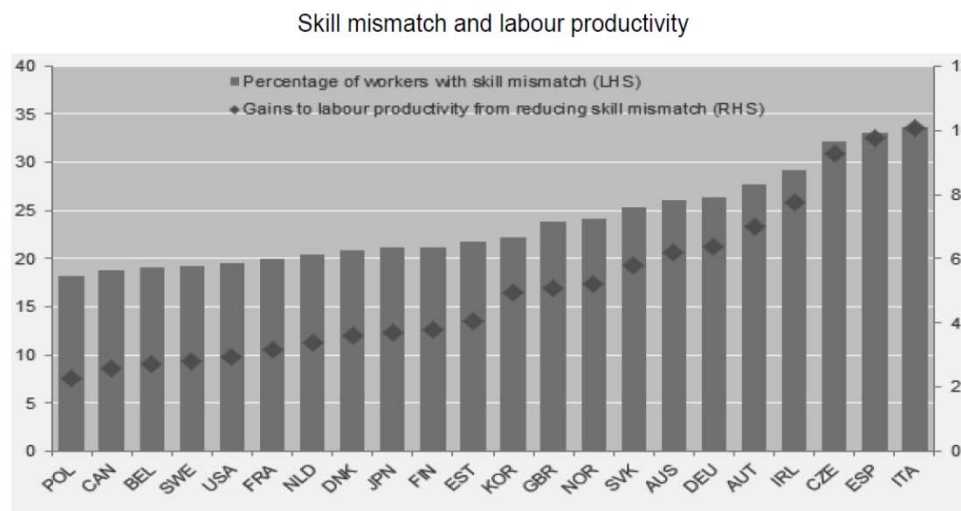
IS THERE A NEW OECD ?

- Adherence to Schumpeterian idea of « creative destruction » through flexible markets is still well anchored inside OECD
- Two pieces of research of particular interest for trade unions (in Europe)

JOB PROTECTION IS BAD FOR PRODUCTIVITY

The argument: Job protection keeps workers “bottled” up in jobs that do not make good use of workers’ skills, holds back job creation by more productive firms

Figure 4.2. There is plenty of scope to boost productivity by reducing skill mismatch

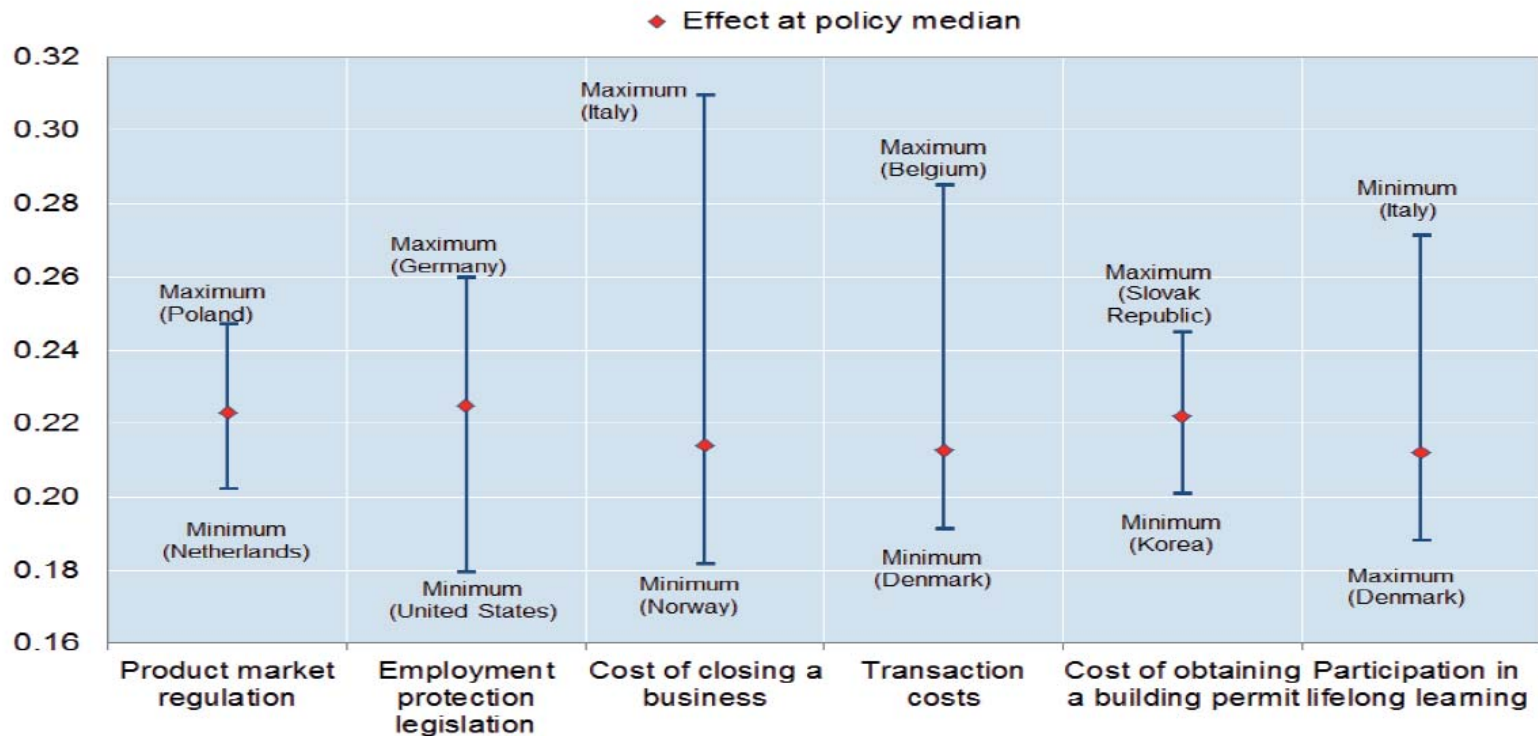


The figure shows the percentage of workers who are either over or under-skilled, and the simulated gains to allocative efficiency from reducing skill mismatch in each country to the lowest level of mismatch. Under - (over-) skilled workers refer to the percentage of workers whose scores are higher than that of the min (max) skills required to do the job, defined as the 10th (90th) percentile of the scores of the well-matched workers in each occupation and country. Source: Adalet McGowan and Andrews (2015a).



JOB PROTECTION IS BAD FOR PRODUCTIVITY (ECO 2015/28)

The probability of skill mismatches and selected policies

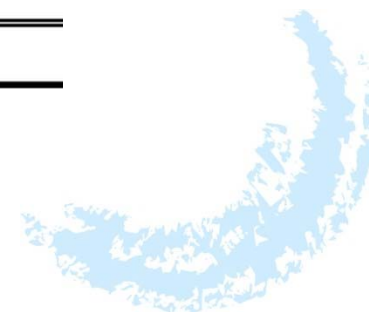


EXTENSION IS BAD FOR JOBS (ECO 2015/89)

Table 9: Comparing the gains in employment rates across reform areas

Measured in percentage points

Policy areas	(i) Size of a "typical reform" *	(ii) Effect of a "typical reform" *	Effect of moving towards better performing countries	
			(iii) from worst stance to OECD average	(iv) from OECD average to best stance
Unemployment benefit replacement rates	-2.7	0.5	2.6	3.2
ALMP spending	6.7	0.4	0.9	1.8
Tax wedge	-2.6	0.5	2.4	2.7
Excess coverage of wage bargaining	-3.1	0.3	4.2	3.1
ETCR ⁽¹⁾	-0.7	0.8	0.8	0.7
Total		2.5	11.0	11.5



MANDATE TO REVIEW OECD JOBS STRATEGY

- Look at policy which simultaneously:
 - Increases quantity of jobs
 - Improves quality of jobs
 - Builds more resilient and adaptable labour markets
 - Promotes a fair distribution of outcomes
 - (Added by OECD secretariat: « Sustains productivity growth »)
 - **2018: Moment of truth ?**