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TUAC

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Launch of the OECD Revised Jobs Strategy

GOOD ON OBJECTIVES, AMBIGUOUS ON POLICY

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Executive Summary

The new Jobs Strategy launched today has the advantage of broadening the OECD's approach. Its focus is no longer only on quantity, but also on the quality of jobs and on more equal outcomes. Besides providing helpful messages on macro-economic demand-side policy, the OECD now explicitly recognises the value and benefits of labour market institutions such as minimum wages, collective bargaining, job protection and unemployment benefit systems.

At the same time, however, other parts of the new Jobs Strategy retain the traditional view of favouring labour market flexibility and policies that shift labour market risk from employers to workers, from collective to individual. Despite positive changes made at the level of objectives and general principles, some of its policy recommendations thus run contrary to the stated objectives of better job quality and less inequality. This concerns, in particular, some recommendations on minimum wages and collective bargaining. Overall, this makes the new Jobs Strategy to some extent ambiguous, enabling policy-makers to 'pick and choose' the type of policy orientation as they see fit.

TUAC and its affiliates will closely follow the implementation of the new Jobs Strategy in order to advance a policy agenda that brings excessive labour market flexibility back under control and rebalances the worker-employer relationship, after decades-long weakening of the bargaining position of labour. Among others, this will aim at:

- Stressing the key role that coordination of collective bargaining plays in bringing wage dynamics in line with macro-economic objectives, such as achieving more resilience, avoiding a price stability conflict with central banks, and triggering a wage-led recovery. Coordination of collective bargaining, not more wage flexibility through pure company level bargaining, provides the way ahead;

- Promoting the role of robust minimum wages and collective bargaining in lowering inequalities and in incentivising employers to invest in productive workplaces;

- Stressing that flexibility of labour contracts has often gone too far and harms rather than supports innovation;

- Highlighting the beneficial effects that job protection systems offer by promoting stable employment relationships; and

- Pushing for countercyclical macro-economic policy and flexible rules in fiscal policy-making to smooth demand and mitigate the impact of economic downturns on jobs.
- Addressing the governance of companies to ensure long-term business models that observe and promote workers' right to information and consultation.

Summary of the OECD's key messages

The new OECD Jobs Strategy is organised around three broad objectives : (i) promote an environment where high-quality jobs can flourish (ii) prevent labour market exclusion and protect individuals against labour market risk (iii) prepare for a rapidly changing labour market.

To promote an environment for high-quality jobs, the Jobs Strategy recommends policies that:

- Allow for a forceful counter-cyclical macroeconomic policy during downturns;
- Create an entrepreneurship-friendly environment;
- Ensure employment protection legislation is not overly restrictive while protecting workers against abuses and limiting excessive turnover;
- Facilitate flexible working-time arrangements including short-time work schemes;
- Reduce non-wage labour costs, especially for low-wage workers;
- Consider moderate minimum wages while avoiding pricing workers out of a job;
- Promote inclusive collective bargaining systems while providing flexibility for firms;
- Foster suitable skills for labour market needs.

To prevent labour market exclusion and provide protection, the Jobs Strategy aims to:

- Promote equal opportunities by ensuring access to education and adequate skills;
- Combine out-of-work benefits with activation policy;
- Adopt specific policy for underrepresented and disadvantaged groups;
- Implement policy to address regional inequalities.

To prepare for future challenges, the Jobs Strategy wants to:

- Promote the reallocation of workers while minimizing post-displacement costs and supporting displaced workers;
- Accompany innovation in new forms of work with policies to safeguard job quality by avoiding abuse, creating a level playing field and providing adequate protection for all workers regardless of employment contract;

- Ensure a regulatory environment that allows effective forms of worker representation to emerge so that both workers and firms can benefit from the flexibility offered by non-standard forms of work (# 87);
- Ensure all relevant stakeholders are involved.

TUAC on the revised Jobs Strategy: Good on objectives, ambiguous on policy

Good on objectives and general principles.

The Narrative of the revised Jobs Strategy, which has been submitted for approval to the 2018 OECD Ministerial Council Meeting, takes a much broader approach than was previously the case. Policy objectives are no longer limited to the quantity of jobs but have been expanded to include their quality and inclusiveness. Moreover, the Narrative recognises that there is no necessary trade-off between the quantity of jobs on the one hand, and quality and inclusiveness on the other.

Importantly, the OECD now concedes that flexibility has been over-rated in view of "new evidence that shows that countries with policies and institutions that promote job quality, job quantity and greater inclusiveness perform better than countries where the focus of policy is predominantly on enhancing market flexibility".

As TUAC has been arguing for many years, flexibility shifting labour market risks from employers to workers does not create more jobs but instead drives out good jobs in favour of jobs that are insecure, unstable and low-paid. The OECD's more critical approach towards flexibility, even if somewhat overdue, is therefore to be welcomed.

Improvement in several labour market policy recommendations.

The OECD's more nuanced approach to flexibility is on occasions reflected in some shifts in its policy recommendations. The OECD now recognises that institutional arrangements, such as job protection systems, unemployment benefits, minimum wages, and collective bargaining systems also have benefits. Specifically, TUAC supports the fact that the OECD's new Jobs Strategy is calling for:

- **A balance in employment flexibility and job stability**. A certain degree of job protection is now seen by the OECD as improving the stability of the job relationship, thus fostering learning and innovation (page 15, third bullet point). By requiring firms to pay the social cost of dismissing workers, job protection preserves viable job matches which otherwise would have been lost in times of crisis (pages 70 and 85). Moreover, job protection in the form of advance notification of dismissal allows for support for displaced workers to be provided in a timely way (page 86). Here, the OECD probably has in mind the example of Swedish Job Security Councils, which are financed and managed by the social partners and provide workers that have been notified of dismissal with immediate assistance. The OECD is thus – implicitly – recognising the usefulness of tools such as sectoral collective bargaining agreements and robust notification periods.

- **Unemployment benefit systems that have 'large coverage' and provide 'moderately generous' benefits** (pages 17 and 76). The OECD argues that such unemployment benefit systems enable employment services to keep contact with jobless people so that they can be offered active re-employment services and assistance.

- **Establishment of short-time work schemes that can be rapidly scaled up in a downturn.** The OECD now supports the idea that short-time work schemes allow jobs to be preserved in times of crisis, thus increasing resilience against temporary shocks (pages 15, first bullet point and 85);

- **Consideration of using minimum wages as a tool to increase wages at the bottom of the wage ladder.** According to the OECD, '[M]minimum wages can help ensure that workers at the bottom of the wage ladder also benefit from growing economic prosperity (main policy recommendation # 6 page 21 and page 72);

- **Promoting the coverage of collective bargaining systems, either through social partner organisations with a broad membership base or, in the absence of such, through administrative extension of sectoral agreements.** According to the OECD, increasing the coverage of collective bargaining systems including through the administrative extension of sectoral agreements, will help to achieve a broad sharing of productivity gains (Main policy recommendation #7 page 21 and page 72).

However, other recommendations remain trapped in the traditional "Flexibility narrative".

At the same time, other recommendations remain trapped in the 'old' flexibility narrative:

- **Minimum wages and jobs.** By expressing concern about minimum wages pricing workers out of a job, the OECD's initial recommendation to consider minimum wages as a tool to improve wage at the bottom gets transformed into a call for transferring the cost of higher minimum wages from employers to the public purse and into a recommendation to have sub-par minimum wages for vulnerable ('lower- productive') workers and in less prosperous regions. Such a view does not accurately reflect the empirical findings from the literature, including recent research using new estimation techniques[i] or focussing on youth employment[ii]. The conclusion from this literature is that, while the impact on employment tends to be small, minimum wages increases are able to raise wages at the bottom significantly, thus improving the material situation for lower income households in a substantial way. The failure to draw such a conclusion is a major shortcoming of the revised Jobs Strategy.

- **Administrative extension of sector-level bargaining systems.** The Jobs Strategy now holds a favourable view of administrative extension as a way to achieve higher collective bargaining coverage. This recommendation however comes with a number of serious conditions that work to weaken the extension or introduce elements of decentralised bargaining: representativeness criteria, restrictive "public interest" tests, exemptions, opt-outs and opening clauses. The IMF and the Troika used some, if not all, of these measures have recently imposed many, during the recent Eurozone-crisis, with the aim of squeezing wages down.

This did not only bring wages down, but also coverage rates: sectoral employer organisations, fearing that non-member firms would be able to undercut the sector agreement in the absence of a binding extension, became reluctant to sign new collective agreements. Moreover, the OECD needs to take into account the principles of ILO Recommendation no 91 on Collective Agreements, particularly with respect to the definition of public interest[iii].

There is again little or no evidence for this presumed superiority of flexible decentralised collective bargaining over sector-level bargaining. A 2015 OECD paper[iv] finds that 'excessive coverage' through administrative extension reduces employment rates, but on closer inspection this result disappears when Germany, New Zealand, or Spain are excluded from the sample. Research from the IMF[v] is also unable to find statistically significant negative evidence. Finally, the recent Employment Outlook of the OECD[vi] itself shows that what matters most is not the flexibility but the coordination of collective bargaining: Any system of coordinated bargaining, whether that system is centralised or grants some leeway for individual companies to set particular working conditions, performs much better than fully decentralised bargaining in terms of overall employment rates, employment rates for vulnerable workers, and inequality.

In other words, the OECD's quest to submit administrative extension to all sorts of conditions carries with it the risk of further weakening collective bargaining coverage, without the OECD showing convincing evidence of the benefits of doing so.

- **Non-standard work and adaptability.** The OECD's more positive message on the benefits of stable jobs and stable employment relationships is not taken on board, as it should be in the dashboard on indicators for resilience and adaptability. Instead, by arguing that non-standard work provides flexibility and therefore allows labour markets to adapt to challenges of the future of work, the OECD actually puts forward the opposite view that increasing the share of own account self-employed and temporary workers is desirable, thus pushing for more non-standard work practices (even when adding that this 'may' raise 'challenges' with job quality and inclusiveness).

The view that an innovative and learning economy needs unstable, insecure and/or even precarious work practices does not only seem far-fetched, but is not supported by the evidence. Recent research, based on firm-level data in European industries, shows that the use of temporary contracts inhibits innovation at company level and that the negative relationship is even more pronounced in high-tech industries.[vii]

- **Technology as the driver of declining labour shares.** Parts of the Strategy continue to adhere to the assumption that the labour market functions as a fully competitive market where employers have no power to set wages and where wages, provided labour is perfectly mobile, automatically equal (marginal) productivity. Collective bargaining and minimum wages are then seen as a market-distorting rigidity or as a second-best solution for redistributing product market rents from monopoly capital to labour.

This view disregards the reality of the labour market. There is increasing evidence of the existence of labour market monopsony and of the capacity of employers to set wages to a certain degree. Collective bargaining and minimum wages should therefore not be seen as 'rigidity' but as a necessary and desirable correction for market failure. The new Jobs Strategy unfortunately misses the opportunity to present them as such.

4. Improvement on macro-economic policy but failure to reinstate the objective of 'full employment'. Finally, the OECD has learned lessons from the failure of austerity during the crisis. While fiscal sustainability is defined as one of the pillars of a sound macro-economic policy framework, the OECD is at the same time suggesting that in times of a downturn the former is to be over-ruled by the need to allow for a forceful anti-cyclical monetary and fiscal policy response. Fiscal policy rules, in other words, need to be 'sufficiently flexible'. At the same time, TUAC regrets that the OECD has refrained from restoring 'full employment' as the key objective of demand-side macroeconomic policy.

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[i] Cengiz, Dube, Lindner, Zipperer (2017) the effect of minimum wages on the total number of jobs: Evidence from the US using a bunching estimator, mimeo.

[ii] O'Higgins, Moscariello (2017) Labour Market Institutions and youth labour markets: Minimum Wages and youth employment revisited, ILO Employment Working paper no 223.

[iii] Recommendation no 91 recognises that there are labour market situations where it is very difficult to organise workers and to ensure full representativeness but where the absence of a binding agreement has severe consequences on wages and working conditions. In such situations, policy makers should be able to decide in favour of extension on the basis of the public interest concern of ensuring fair and decent work. This implies that, given the rise of precarious work practices and the increasing mobility of low paid labour across borders, the use of administrative extension should get more and not less leeway.

[iv] Gal and Theising (2015) "The Macro Economic Impact of Structural Policies on labour market outcomes in OECD countries: A Reassessment" OECD Economics department Working Paper 1271.

[v] http://unassumingeconomist.com/2018/01/growth-equity-trade-offs-in-structural-reforms/

[vi] OECD Employment Outlook 2018

[vii] Cetrulo, Cirillo, Guarascio (2017) Innovation and Temporary Employment: A Test in European Industries, mimeo.