

A modern approach for fair, inclusive, pro-active LABOUR MARKET POLICIES - *Lessons learned from Austrian experiences!*

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Throughout the course of history, there were several so call *labour market models* in western societies: the United States, Sweden, Denmark, the Netherlands, and more recently Germany and, maybe, Austria. In terms of a well functioning labour market, most of them were successful for a certain period in history but failed in others. Look at unemployment rates, for example, and compare the US and the Austrian rates for a longer period, let's say 1960 to 2012: With the exception of only one year (2006; see AMECO database), unemployment was lower at any time in the "highly regulated, Social Partnership-driven" economy compared to the truly free market society!

So what lessons can be learned from all these debates, e. g. in the OECD framework of the Jobs Study or the EU Employment Strategy, regarding well balanced labour market policies in the era of globalisation?

1. Policies matter – put them into place in a coordinated way

It might sound old-fashioned but: It is of crucial importance that societies act with all policies at hand on the basis of a broad consensus immediately when unemployment starts to rise in downturns. This is particularly true for youth unemployment with its long-lasting scarring effects. And it is not correct to say: Nothing can be done in times of globalisation and fierce international competition!

2. Macroeconomic Policies are key for the labour market performance

The OECD, the EU Commission and many other international institutions (maybe with the exception of the ILO) stressed the importance of structural problems in the labour market for decades; they consider all kind of rigidities in the area of wage determination, employment protection, etc. the true causes for unemployment; therefore, supply side measures offer the only way out. This approach is to a large extent wrong! On the contrary, if you have a growth supportive monetary policy where the central banks aim actively for growth and price stability at the same time; if you let the automatic stabilizers work in recessions and try to reduce your budget deficits in upturns only via growth policies; and if you strike a balance in wage policies between fostering private consumption and international competitiveness (stick to the obvious and simple rule for the medium to long term perspective: increases in real wages=increases in overall productivity) – then smoothing your cycle with higher employment and lower unemployment on average is within reach. Or to put it differently: If you have growth rates of some 3% you will get jobs even for the most vulnerable groups on the labour market. Therefore, good old demand management is still relevant because labour market policies can create jobs only on a very limited scale.

3. Muddling through – trial and error

Abstain from making the great plan! You can reduce the consequences of your policy errors for society on the whole if you engage in piecemeal engineering; and if you try and allow failures and try again and adapt your policies constantly to new circumstances. Doesn't sound very attractive from a theoretical point of view but it turned out to be a very effective strategy for good labour market performance.

4. Innovation, Protection, Coordination

For a small-open economy export-led growth is a good thing to aim for – mainly because it brings innovation into the economic system. There are, of course, other ways to reach this goal. In any case, this is an essential ingredient in a society where the work force is highly protected (which is a good thing) and the system with strong Social Partners doesn't come up with innovations by itself. If you want the employers and employees to be risk-takers you need to provide a certain degree of protection. Use the carrot AND the stick. For example: If you have low employment protection (employees can be made redundant without giving any cause, only a notice period of several weeks and severance payment have to be taken into account) you will get high labour and jobs turnover; but then you have to make sure that replacement rates in the unemployment insurance are high enough! Beyond that it is a good thing to have both interest groups on the labour market, namely representatives of employers and trade unionists, on the table where a wide range of issues in economic policies are negotiated.

5. Rights and duties – activation approach in labour market policies

For the Public Employment Services, the unemployed should be seen as their clients who have rights and duties; not as persons who primarily are interested in welfare fraud! They have the right to be treated in a fair and decent way. They are entitled to get their unemployment benefits. But they also have to look actively for jobs and take part in active programmes. Sounds reasonable, but cannot be taken for granted! As work done by the OECD has shown, in this area the legal regulations are important but their concrete implementation is even more important.

6. Active and passive labour market policies

It is no problem to have, for example, replacement rates of 80-90% and in principle indefinite benefit durations if you follow a true activation principle, where you start to work actively with the unemployed after a period of no longer than 3 months. But for this you need money which is very unevenly distributed between countries: While, for example, UK and the US spend 0,7% and 0,9% of GDP for active and passive measures, Belgium (3,75%) and Denmark (3,43%) have 4 to 5 times higher expenditures levels (this is true even if you correct for different unemployment levels). There is of course a case for the efficient use of resources! Not all programme evaluations show good results for every measure - sometimes the programmes do not work for any participant compared to matched control groups (get rid of these measures), sometimes strong effect heterogeneity is at work which means that there are positive effects e.g. for older women but not for younger persons with migrant background.

7. The only “natural” resources of advanced industrial countries are an educated workforce and research and development

Most labour market problems have their origin at school. So start with pre-school education in the kindergarten at an age of three. Do not leave anybody behind in school as long as everybody has at least an upper secondary degree. OECD countries can compete with the BRICS (Brasilia, Russia, India, China and South Africa) only if they are innovative and produce high-quality products and services.

8. Do not aim for a large deregulated low-wage sector

This is not a future-oriented option: a large low-wage sector hampers innovation, competitiveness and social inclusion. Coordinated wage increases with overall (NOT sector specific) productivity gains

as the relevant benchmark have a strong structural effect against the least productive sectors. Therefore they foster structural changes and competitiveness. Beyond that, up-skilling is the right answer to high unemployment rates of the low skilled, not wage restraint.

9. Labour market policies in times of crisis

Compare two very different stories since 2008: Germany and Greece. The largest economy in the EU had to face a very short, V-shaped downturn in 2009, but recovered immediately in 2010 and 2011. Internal flexibility with a sharp increase in the take-up of short term work schemes, a reduction of overtime deposits, etc. were the answer to this unusual situation. By contrast, Greece is in the fourth year of recession, GDP has shrunk by some 20% since Lehman. Labour market policies are of very limited use in such circumstances. You can train the low skilled and keep them in touch with the labour market. You can provide public employment, too. And you can try to bring the skilled (youth) into the labour market and keep them there with generous wage subsidies.

The author writes in a strictly personal capacity