Chapter 5. Implementing reforms

To provide more concrete support for countries it is important to accompany the general policy principles of the new Jobs Strategy with concrete guidance for: i) identifying reform priorities and developing country-specific recommendations; ii) building support for successful reforms and iii) evaluating the effectiveness of reforms. These issues are developed in more detail in Part V of the Volume.

Introduction

This chapter goes beyond the general policy principles of the new OECD Jobs Strategy by providing concrete guidance for their implementation and evaluation. More specifically, Section 5.1 makes use of the Jobs Strategy dashboard to identify countries with the same challenges based on their relative scores for the different dimensions of labour market performance and sets out the factors that need to be taken into account when developing country-specific recommendations. To assist countries with their implementation, Section 5.2 outlines some key elements that can help build support for reforms. Section 5.3 briefly discusses the importance of evaluating reforms.

5.1. Identifying policy priorities and country-specific recommendations

Developing country-specific recommendations requires identifying policy priorities based on labour market performance, while taking account of a country's specific economic and social circumstances and starting point in terms of existing policy and institutional settings.

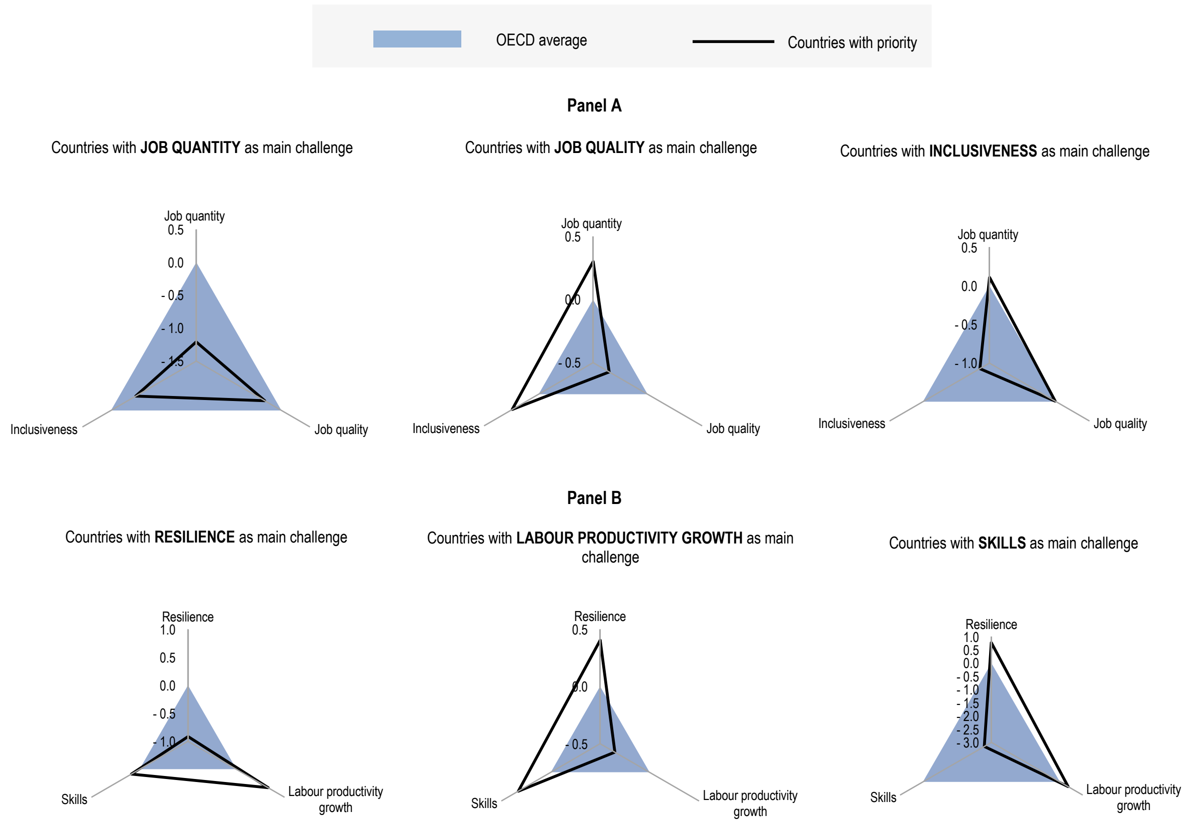
Identifying policy priorities

Apart from assessing labour market performance, the OECD Jobs Strategy dashboard can also be used to identify policy challenges based on *relative* performance (a given country's performance on one outcome *relative* to other outcomes). As discussed in more detail in Chapter 17, identifying priorities based on *relative* performance allows setting policy priorities for all countries. Even when a given country tends to perform well or poorly across all/most dimensions of the dashboard, it is possible to identify one or several outcomes for which performance is weak relative to other outcomes.

As an illustration, in Figure 5.1 countries are grouped according to their relative performance on labour market outcomes (Panel A of the dashboard, job quantity, job quality, inclusiveness) and on framework conditions (Panel B, resilience, labour productivity growth and skills). For simplicity, one main challenge is chosen for each of the two areas. It should be stressed that while this procedure allows establishing performance challenges for all countries, there may be large differences in *absolute* performance even among countries sharing the same challenge. For instance, countries with job quantity as the main challenge may include countries with below-average performance in job quantity as well as countries with above-average performance (if they are performing even better on job quality and inclusiveness).

On average, countries with job quantity as the main challenge also do worse than the OECD average in terms of job quality and inclusiveness (Figure 5.1). Countries with inclusiveness as the main challenge perform around the OECD average in terms of job quantity and job quality, whereas countries with job quality as the main challenge typically outperform the OECD average in job quantity and inclusiveness. Regarding the performance areas of Panel B, countries with weak *relative* performance in one area tend to outperform the OECD average in other areas.

Figure 5.1. Broad performance challenges



Note: The blue triangle indicates the average performance of OECD countries (see Chapter 3, Table 3.1 for details on the indicators). The black line indicates the average performance of countries with the same performance challenge. All indicators have been standardised and rescaled so that a higher score indicates better outcomes.
Source: Chapter 17.

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Developing country-specific recommendations

Once countries have identified their main broad performance challenges, the development of specific policy priorities requires taking account of countries' specific challenges, institutional capacity and reform preferences. This acknowledges not only that countries differ in terms of their starting points but also that improving labour market performance is necessarily a gradual process and one that can take different forms in different countries.

Country-specific policy recommendations should reflect global good practices as well as the country's level of institutional capacity. For example, in emerging economies, where the institutional capacity of the state tends to be relatively weak and informal work is widespread, providing effective social protection is a major challenge. In these countries, a mandatory system of self-insurance based on individual savings accounts for unemployment complemented with a small collective component for those without sufficient savings may be an appropriate first step to improve coverage and effectiveness of social protection. More generally, where social capital is low and administrative capacity lacking, policy action should aim at being particularly simple, transparent and easily accountable. Its implementation would require combining further investment in civil servants' skills with the definition of a rigorously-applied code of conduct and the setting up of independent bodies for internal control and audit that have enforcement powers.

Policy recommendations may also differ across countries depending on the degree of interventionism of social systems. More market-reliant countries may want to place more emphasis on measures to prevent labour market exclusion and poverty by promoting equality of opportunity – for example, by improving equal access to quality education – relative to measures that seek to promote equality of outcomes ex post– for example, by enhancing the redistribution role of the tax and benefits system. This allows taking some account of reform preferences without calling into question the importance of inclusiveness as a policy objective or compromising in terms of policy effectiveness.

Finally, policy challenges will differ significantly across countries with different demographic developments even when performance gaps are similar. Countries with rapidly ageing populations may need to prioritise policies promoting working at older age and female labour force participation, whereas countries with younger populations may need to prioritise initial training and the school-to-work transition. Similarly, in a number of countries, the labour market integration of migrants may require specific policies.

5.2. Implementing reforms

Broad-based support for welfare-enhancing reforms may be low because their benefits often take time to materialise and may not be equally distributed. In most cases, the benefits of reforms materialise gradually through firm entry, hiring and productivity growth. By contrast, negative effects in terms of job and income losses may be immediate. For example, reforms reducing dismissal costs, while encouraging hiring in viable jobs in the long-run, would make it convenient to swiftly terminate inefficient positions. In some cases, specific groups of workers may lose from the reforms even if most people gain. For example, trade liberalisation, while benefiting consumers through more and better products at lower prices, often induces downsizing in unskilled-labour intensive sectors and regions.

By combining policy reforms into coherent packages, it is possible to broaden support and make reforms more successful. Coherent reform packages can be used to strengthen the long-term benefits by exploiting synergies, minimise the short-term costs and foster a more equal sharing of long-term gains and short-term burden across a large number of stakeholders. This implies that reforms with potential short-term or distributional costs could be accompanied by complementary actions in terms of macroeconomic and other structural policies. If job losses are concentrated in specific regions, policies at the national level need to be coordinated with policies at the regional level to be effective. This requires coordination across levels of government and a fiscal system that can compensate for revenue shortfalls that regional governments are likely to suffer during times of crisis.

Macroeconomic policy can offset the short-term costs of structural reforms. Monetary policy would typically react to a fall in aggregate demand and inflation expectations and stabilise the economy. However, room to intervene may be limited when interest rates are already very low. Resorting to unconventional monetary policy for prolonged periods of time raises issues of effectiveness, financial stability and possibly an inefficient allocation of credit. In such cases, a growth-enhancing fiscal initiative can offset the short-term costs of structural reform if there is sufficient fiscal space. Depending on country specificities, such an initiative could take the form of an increase in productive public investment or a reduction in taxes that are most harmful to economic growth.

Other structural policies can help minimising short-term costs. The recent experience of reforming countries suggests that short-term adverse effects of costly structural reforms can be reduced if they are accompanied by changes in collective bargaining, policy actions to enhance firm-level flexibility or, in some cases, designing reforms in ways to preserve acquired workers' rights. For example, recent experiences suggest that, in countries with national, regional or branch-level collective bargaining, allowing scope for individual firms to adapt wages and working conditions to their individual situation can limit any short-term job losses resulting from the relaxation of dismissal regulations. More flexibility in working conditions and wage setting allows firms to make use of variables other than employment when adjusting to the required restructuring. Alternatively, more flexible dismissal legislation could be introduced and applied only to new hires. There is evidence that such "grandfather clauses" more than offset short-term employment costs of reforms of dismissal legislation.

Sequencing reforms in effective ways – advancing those that are pre-requisite for the success of others – can play a key role in ensuring reform success. For example, short-term costs of some structural reforms tend to be smaller in countries with an effective activation strategy to support jobseekers. Yet, if efficient programmes are not already in place, there are limits to how rapidly active labour market policies can be scaled up when unemployment rises, since fine-tuning of these institutions typically takes several years. This suggests that building up an effective activation strategy should precede reforms that likely involve short-term labour market side effects. Similarly, product market and employment protection reforms are less costly in the short term when the former precede the latter. This is because when barriers to entry are lowered in industries with dominant incumbents, the latter react to the reform by reorganising and downsizing to deter entry of potential competitors, but this reaction is less likely when dismissals are more costly. On the other hand, greater competition and greater entry accelerates the positive effect of reforms reducing dismissal costs on hiring, thereby improving the net short-term effects induced by such a reform. Last but not least, undertaking reforms when the fiscal position is sound makes it easier to accompany them with an expansionary macroeconomic policy stance.

Reforms are most often successful when governments are able to build support for them. Evidence suggests that this typically implies: i) winning an electoral mandate for the reform; ii) effective communication of the reform rationale and the consequences of inaction based on rigorous evidence; and iii) intensive tripartite discussions involving the government and the social partners, provided that the government has a strong bargaining position and that negotiations take place in a spirit of trust and cooperation. This typically occurs in the presence of strong government cohesion and the willingness to exchange support for the reforms against action aimed at minimising the short-term and distributional costs, including boosting aggregate demand (e.g. by enhancing productive public investment) or compensating losers.

5.3. Evaluating reforms

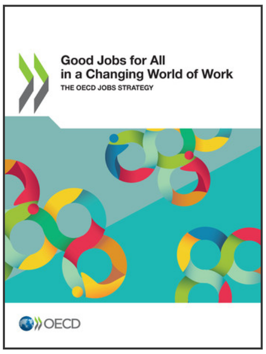
While existing good practices provide evidence-based guidance for action, country specificities make each reform unique. For this reason, new policies and programmes need to be assessed regularly and rigorously and inefficient ones need to be swiftly adjusted or terminated. This requires investing in data collection to allow monitoring programme participation and the outcomes of firms and workers over time, including by mobilising administrative data in a way that respects confidentiality. It also requires building evaluation mechanisms into the design of policy reforms. In particular, small-scale experimentation of new measures – where possible based on a random-assignment design – before implementing them on a large scale could represent an effective tool to avoid mistakes and/or build up the evidence base required to win consensus.

Conclusions

This chapter has provided some general guidelines for the implementation of the new OECD Jobs Strategy and the evaluation of reforms, all of which are developed in more detail in Part V of the Volume. In particular, it has explained how policy challenges can be identified using the new Jobs Strategy dashboard based on *relative* performance. However, specific policy recommendations need to take account of the challenges faced by individual countries, the means available and national reform preferences. Policy measures may also vary with the degree of intervention of social systems and demographic developments.

The chapter also found that reforms are more successful if they benefit from broad support and identified key elements that can help build such support. These include combining policy reforms into coherent packages, which exploit synergies, minimise the short-term costs and foster a more equal sharing of the long-term gains and short-term burden across a large number of stakeholders. An effective sequencing of reforms, a clear electoral mandate for policies, the effective communication of their rationale and of the consequences of inaction, as well as constructive negotiations with stakeholders are further vital ingredients for successful reforms.

Reforms should be evaluated rigorously, so that inefficient policies can be swiftly adjusted or ended. Investments in data collection and building evaluation mechanisms into programmes are essential to monitor their success. It can also be useful to test new measures on a small scale before implementing them more widely.



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