

| Book Review

Policies Towards Full Employment, Organisation for Economic Co-Operation and Development, Paris, 2000, 219 pp.

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In January 2000 the OECD and the European Commission, with the co-operation of the Finnish government, held an international conference in Helsinki. The conference both took stock of progress on reducing unemployment since the launching of the OECD Jobs Strategy in 1994 and discussed the best ways to implement relatively new policy measures such as active labour market policies, policies to reduce disincentives to work such as high effective marginal tax rates (making work pay) and preventive approaches against labour market exclusion. In addition to officials of the OECD and the European Commission and public servants from European countries, a small number of academics participated: Tor Eriksson from Denmark, Robert Gordon from USA, Edmond Malinvaud from France and Tsutomu Tanaka from Japan. The book under review contains eleven papers given at the conference, the opening address by the Prime Minister of Finland and an overview paper summarizing several papers and discussion on policies to make work pay. There are also included a number of extended comments of which that by Malinvaud is, in my view, the most weighty. The introductory chapter also reports on short comments made by others.

Papers given after the opening session are divided into five sections: Assessing International Strategies, Experiences in Selected Countries, Making Work Pay, Preventive Approaches Against Labour Market Exclusion and Active Labour Market Policies. There are three country studies: Gordon on the United States, Tanaka on Japan and Sorsa on Finland. Other paper givers use illustrations from various countries in making their points.

Some major conclusions can be drawn from the conference proceedings. The first is the important role of monetary and fiscal policy in reducing unemployment. An incomes policy is also of great assistance if an effective one can be implemented. Malinvaud argues that publications of both the European Commission and the OECD neglect macroeconomic policy and overstate the benefits of structural reform (i.e. neo-liberal market oriented

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reforms). While agreeing that structural reform probably has a role to play, Malinvaud believes that the European Commission and the OECD have the emphasis back to front. He emphasises the word probably, stating that “empirical proofs of the detrimental medium and long-run effects of labour market rigidities are still today weak” (p. 53; all page numbers refer to the book under review). In response, Elmeskov, from the OECD Economics Department, maintains that his differences with Malinvaud are more ones of language than substance, but that macro-economic conditions had noticeably improved in the 1990s reducing the need for macro-economic policies to reduce unemployment. Gordon argues that both structural and macro-economic policies are important, but in his country paper he stresses the importance of macro-economic policy for labour markets. “In the United States, monetary policy makers have been willing to defy risks of overheating, and the resulting tight labour markets have proved effective in creating jobs for many individuals previously considered to be unemployable” (p. 17). As Lonnroth says it is obvious “that higher aggregate demand and sustained growth are the best employment policy” (p. 179).

A second conclusion is the important, but limited role of active labour market policies. The meaning attached to this phrase has changed over the years. It can now be defined as “policies and programmes targeted to unemployed, the inactive and those who are excluded from the labour market with the aim of enhancing their employability and participation in the world of work” (p. 176). Both Lonnroth and Martin emphasise the importance of “soft” supply side measures “such as counselling, advice, job-search support, as well as tailor-made individual action plans for the unemployed” (p. 178, see also p. 203). Martin’s paper is an update of the one given at the 1998 Reserve Bank of Australia conference. While stressing in-depth counselling and job-finding incentives, it also points out that traditional training programs have a role to play in helping woman re-entrants to the labour market but training programs should be kept “small in scale and well targeted to the specific needs of both job seekers and local employers” (p. 203). Also he notes that subsidies to employment help the long-term unemployed (p. 217). Lannroth points to the importance of active labour market policies in complementing macro-economic policy by increasing the effective labour supply and reducing the size of the non-accelerating-inflation rate of unemployment (p. 181).

The emphasis in Australian active labour market policies on job search assistance and counselling is on the right track. However, in-depth counselling is expensive and Australia does not spend enough to provide adequate counselling for the more disadvantaged among the unemployed.

European Union countries, on average, allocate 1.1 per cent of their gross domestic product to active labour market programs. In Australia the figure is 0.5 of one per cent.

No general conclusions emerge from the large section on “making work pay” policies. However, there are important insights on the advantages and disadvantages of various policies and when each is more likely to succeed. One observation, relevant to current discussion in Australia, relates to earned income tax credits. These work best in a country where the minimum wage rate is relatively low, the earnings distribution is dispersed and both social security benefits and tax rates are low. In these circumstances it is possible to have earned income tax credits of significant size that can be withdrawn slowly without any credit being granted to workers in a particularly dense part of the earnings distribution (p. 139). Thus earned income tax credits are likely to be a more appropriate policy in the United States than in Australia.

Does any overall message emerge from the Conference proceedings? Certainly, there is a strong negative one: there is no single policy that can be relied on to move economies much closer to full employment. In this policy area silver bullets do not exist. There is also agreement that the role of active labour market policies is both important and limited. They can help the unemployed become more attractive as potential employees and increase the efficiency with which they search for jobs, but they do not create new jobs. Similarly policies to make work pay may well be necessary to improve incentives to shift from the world of welfare to the world of work, but they too do not create jobs. Other policies are necessary to do this.

In conference proceedings, as in the economics profession at large, there was not agreement on the right mix of policies to increase overall employment. Neo-liberal reforms are given more weight by some and expansionary macroeconomic policies by others. As Malinvaud pointed out, the econometric evidence about the effectiveness of neo-liberal reforms is such that different economists interpret the same studies as supporting opposite conclusions (p. 56). Regrettably, as is often the case in economics, inconclusive empirical evidence results in economists reaching their conclusions on the basis of their overall view of how an economy functions and in particular whether they believe that the massive market failure that results in substantial unemployment is the result of over-regulation or more fundamental Keynesian type flaws in the functioning of a modern capitalist economies.