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The OECD and the world economy

Contribution
Social, Health and Family Affairs Committee
Rapporteur: Ms Maria de Belém ROSEIRA, Portugal, Socialist Group

1. First of all, the rapporteur wishes to congratulate Mrs Anna Lilliehook on her excellent report on the OECD and the world economy. The rapporteur is aware that it is difficult to cover the whole range of the OECD's activities. In her contribution, she wishes to focus on social and welfare issues, which form an important part of OECD activities.

The globalisation paradox

2. The rapporteur very much agrees with the approach advocated by the latest *OECD Employment Outlook* that debate about the social impact of globalisation is characterised by a paradox. On the one hand, most economists highlight the lessons from economic history, namely that more open markets tend to be associated with greater prosperity. Indeed, freer trade and foreign direct investment help realise the welfare gains associated with exploiting comparative advantage. On the other hand, however, there is concern in the public opinion in many OECD countries about the risks that globalisation may entail in terms of jobs and wages.

3. The rapporteur believes that this paradox can be explained, first of all, by the unprecedented scale of globalisation. The range of countries that participate in globalisation is much broader than was the case in earlier episodes of international economic integration. In particular, Brazil, the Russian Federation, India and China (the so-called BRICs in the terminology of the OECD) are becoming major trade and investment partners. This development has entailed a major increase in the number of workers whose outputs compete on world markets – it is significant that these four countries account today for 45% of the world labour supply, compared with less than one fifth for OECD countries as a whole.

4. At the same time, technological advances have contributed to heightened income inequality and changed the nature of globalisation itself, most vividly demonstrated by the rapid growth of off-shoring of business services that were previously non-tradable. New technology and declining transportation costs facilitate the fragmentation of the production of both goods and services, and offshoring of certain tasks to other countries.

5. Thus, a major factor explaining the globalisation paradox is that economic integration is occurring in the context of wider earnings inequality and perceptions of job insecurity. The latest *OECD Employment Outlook* has indeed shown that trade deepening and off-shoring is a potential source of vulnerability for workers. An analysis covering trade and labour market developments since 1980 indicates that jobs and wages have become more vulnerable to external shocks.

6. The rapporteur feels that it is crucial to address these concerns: public support for furthering international economic integration (and the structural reform agenda more broadly) could wane if the perception that many workers do not benefit from it takes root.

7. In this respect, it is fundamental for policy makers to realise that they can play a major role in making the most from globalisation and reducing workforce adjustment difficulties. In other words, the rapporteur believes that "globalisation begins at home", which means that national policies and actions still matter. Establishing a code of good economic and social governance in enterprises and public policies is vital at the national level; it is a prerequisite for successfully addressing the globalisation paradox.

8. The rapporteur wishes to stress in this context the importance of the "decent work agenda" of the International Labour Organization (ILO). This concept refers to more than mere dignity. It involves four objectives: minimum standards of work, the minimum wage, social security and social dialogue between workers' representatives and employers. The decent work agenda indeed encompasses the "core labour standards" that set the minimum basis of social rights established by the international community. As an international legal framework on social standards, it aims to ensure a level playing field in the global economy.

9. The OECD strategy has four pillars: set appropriate macroeconomic policies; remove impediments to labour market participation and job-search; tackle labour- and product-market obstacles to labour demand; and facilitate the development of labour force skills and competencies.

10. In terms of labour market policies, the leitmotif of the OECD strategy is the need to improve labour market flexibility to reduce high and persistent unemployment, while strengthening social safety nets and other activation policies to ease transitions back to employment. It emphasises that this is best done through active labour market policies to strengthen incentives rather than through passive income support measures that may dull incentives.

11. In this context, it appears that in Europe a consensus could be obtained among politicians and social partners in favour of flexibility that respected the balance between demands of the market and those of social protection for workers (which is the essence of the so-called "flexicurity debate"). In this respect, the rapporteur wishes to underline the importance of the so-called "good faith principle" in the discussion of flexicurity tools so that the adaptability of enterprises and the social protection of workers could be effective.

12. Social inclusion is not just a social policy objective in the human rights context: by preventing crime it also has positive economic consequences. The rapporteur also wishes to underline the essential role of social partners. They are ideally placed to identify new ways of working. Many of the solutions linked to improving flexibility and security in the workplace lie at business or branch level and depend largely on good co-operation between the two sides of industry. The discussions will not be easy, but the full backing of the social partners is vital. A joint contribution from them on the issue of flexicurity would be a very important step forward in Europe's quest for more and better jobs.

13. Finally, the rapporteur agrees with the general conclusion of the OECD study that well-designed domestic policies are instrumental for enhancing the benefits from globalisation while addressing the adjustment and inequality concerns. These policies would also help strengthen public support for freer trade and investment policies, and promote perceptions that globalisation is an opportunity for all.

Fighting discrimination in the labour market

14. The rapporteur welcomes the fact that OECD labour markets have shown significant improvements over the past decade. The average unemployment rate dropped to 5.6% in the OECD area in 2007, the lowest rate since 1980. Employment has also increased significantly and, on average, two thirds of the working-age population now have a job, an unprecedented achievement in the post-war era.

15. This is welcome news, but no grounds for complacency. Labour market conditions remain difficult for some groups, and downside risks in the global economic environment loom large with possible negative effects on the labour market. Looking beyond the current cyclical weakness, the main labour market challenge in OECD countries is how to promote further improvements in living standards in the context of population ageing.

16. Population ageing should be seen as offering job opportunities: in particular, the health and social welfare systems open the door to employment not only in the more sophisticated professions but also in those that call upon the basic competences that the general public need.

17. The reassessed OECD jobs strategy provides a comprehensive policy framework for boosting jobs and incomes. It highlights the fact that assisting potential workers from under-represented groups to find jobs is a key policy priority; in many countries, women, youth, older people and disabled people have relatively low employment rates. Yet, assistance with finding a job is insufficient; major efforts are also needed to ensure that all individuals have access to the same job opportunities. A significant part of the employment growth in

many OECD countries over the past two decades has come through increasing the share of workers holding precarious and/or low-paid jobs, whence the importance of the generalised adoption of “codes of good governance”.

18. The rapporteur is convinced that policy actions to raise labour force participation will have limited success if labour demand for under-represented groups does not follow. Promoting equality of opportunities in the labour market requires long-term investment in education and training, as well as policy interventions to promote access to productive and rewarding jobs.

19. Fighting discrimination in the labour market should also go beyond the repression of unwanted behaviour and the compensation of victims. It also demands interventions that promote cultural changes and redefine socially acceptable practices. Enacting simple, consolidated laws and promoting codes of conduct and of good governance can help employers avoid discriminatory actions in the first place. And, perhaps more importantly, governments can develop incentive schemes to elicit virtuous behaviours, such as labels for non-discriminatory practices and financial incentives for specific positive actions.

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