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Labour market policy convergence? A case study of the OECD Jobs Study.

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1. Introduction

The theoretical and empirical analysis of the international transfer of policy has grown in importance in the comparative politics, public policy and international relations literature in recent years (see, amongst many others, Bennett, 1991; Evans and Davies, 1999; Dolowitz and Marsh, 2000, Drezner, 2001, McBride and Williams, 2001, Stone, 2001, Knill, 2005, the review by Heichel et al, 2005, and Porter and Webb, 2007).

The literature is challenging though because different theoretical approaches are adopted (Heichel et al, 2005), different terminologies are used, including policy transfer, policy diffusion and policy convergence, and empirical studies vary in their rigour with respect to identifying the dimension of policy that is alleged to have been transferred, and whether a dynamic process of convergence has been identified, as opposed to static similarity (Bennett, 1991). The process of policy coordination is becoming increasingly important with the apparent growth of transnational regulatory issues, ranging from environmental pollution to communications policy, which need to be addressed in a consistent manner.

Policy diffusion is defined as the process by which policy innovations are communicated across the international community and voluntarily adopted by a growing number of countries over time (Rogers 2003, p.5; Busch and Jörgens 2005), but Knill (2005, p.767) takes a broader perspective, viewing policy diffusion as driven by a range of causal factors including regulatory competition, international harmonisation and imposition. Policy transfer and policy diffusion tend to focus on process whereas policy convergence focuses on outcomes.

Bennett (1991, p.225) argues that ‘attempts to harmonize policy require not only a coherent group of transnational actors, a broad consonance of motivation and concern and regular opportunities for interaction; they also require authoritative action by responsible inter-governmental organizations.’ Further, a recognition of interdependence, that is a ‘reliance on others for the performance of specific tasks to ensure complete and successful implementation or to avoid troubling inconsistencies’ is also a pre-condition for harmonisation. The development of inter-governmental and supra-national institutions has assisted in the formulation of a common policy framework to address trans-national problems, which also minimises any unintended external consequences of domestic policy.

The role of harmonisation is relatively under-researched within the literature, however, particularly with respect to the role of international governmental organisations (IGOs), such as the Organisation for Economic Co-operation and Development (OECD) that are reliant on the so-called soft regulation of participating members, but see McBride and Williams (2001), Noaksson and Jacobsson (2003) and Porter and Webb (2007).

In response to high and persistent unemployment in Western economies in the early 1990s, member states commissioned the OECD to prepare a report that would provide a policy template to address this issue. The report argued that rising unemployment had resulted from the inability of countries to adapt and innovate in response to economic change, specifically intensified international competition, globalisation and technological progress. Thus unemployment was viewed as largely structural in origin.

The main focus of the Jobs Study report was the removal of supply side impediments to the smooth operation of national economies, that is institutions, rules and regulations, and practices and policies which impact particularly on the operation of labour markets. For example due to state largesse with respect to welfare provision the labour force participation of particular groups may be lower than otherwise. Also state regulation of companies' labour force practices may limit their flexibility. Increased flexibility was alleged to enhance productivity and hence competitiveness in the 'new global economy' (McBride and Williams, 2001). The Jobs Study also concurred with the growing macroeconomic conservatism which emphasised the need for a reduction in structural budget deficits and public sector debt over the medium term and the pursuit of low inflation (Mitchell, 2008). The Jobs Strategy was developed in 1995 to operationalise the Jobs Study, ostensibly according to each country's circumstances.

The long term impact of the Jobs Study recommendations provides an interesting case study of the role of an International Governmental Organisation (IGO) in policy design and implementation and raises important theoretical and empirical research questions which will be addressed in this paper:

1. What insights about policy design and implementation can be gained from the research literature that explores the relationship between policy convergence and globalisation?
2. What was the basis for the OECD's apparent authority in policy design, given the absence of formal sanctions?
3. How closely have the member states followed the OECD policy template?
4. How has the OECD responded to the contradictory empirical evidence about the effectiveness of its policy blueprint?

Overall the public policy literature is unconvinced about the imperative for policy convergence, if not the widespread adoption of neo-liberal policies, in response to the increasing extent of globalisation (see, for example, Drezner, 2001, McBride and Williams, 2001). The conceptualisation of the OECD as an authoritative IGO driving policy convergence is under-developed, with its characterisation as an Epistemic Community being neglected, and there is an over-emphasis on the role of the OECD in the policy formulation process through its publications, as opposed to policy implementation across member states.

The reforms which have been implemented unevenly across countries over more than a decade have had limited success, although the official rate of unemployment has generally declined. Both youth unemployment and general labour underutilisation have remained high, with the latter being driven in part by increased underemployment. Income inequality has persisted. Inflation has been under control due to a combination of tight monetary policy and, in some countries, harsh industrial relations legislation, but this stability is under threat from rising oil prices (Mitchell, 2008).

Also a growing body of rigorous empirical literature now challenges the neo-liberal policy framework articulated in the Jobs Study (see for example, McBride and Williams, 2001; Larsen, 2002; Baker et al, 2004 and Mitchell and Muysken, 2008).2 Despite many OECD reports that took the policy framework as sacrosanct, concessions are now being made about the effectiveness of policy reforms, with the 2006 Employment Outlook being the prime example. OECD (2006b) acknowledges the existence of two successful policy models, namely market reliant and corporatist, which have been adopted by the member states, but the OECD (2008) still recommends contentious components of the original policy blueprint for adoption by member countries.

We first briefly outline the historical evolution of the OECD and its organisational structure. We then trace out the factors leading to the preparation of the Jobs Study and how its recommendations were implemented in Section 3. We then investigate the challenge to the extant theoretical literature posed by the answers to the first two research questions. In the penultimate section we explore the extent of compliance and the empirical challenge to the Jobs Strategy and its consequences for OECD policy recommendations. Section 6 concludes.

2. History and organisational structure

The OECD was one of a number of important international institutions, including the International Monetary Fund (1944), the United Nations (1945), NATO (1949), and the Council of Europe (1949), which were set up immediately after the Second World War. The USA was prepared to assist with economic reconstruction, under the European Recovery Programme (Marshall Plan), but subject to the European countries taking ownership of the process (Bainbridge, 2000).

The OECD in its present form originated at a meeting in Paris in December 1959 attended by political leaders of France, the United States, West Germany and Britain. In the communique they agreed that `virtually all of the industrialised part of the free world' was now able to contribute to `the development of the less developed countries' (Bainbridge, 2000). By September 1961, the new organisation was operational following ratification of the OECD Convention by the signatory states. Countries could maintain their sovereignty and still become full-fledged members of the OECD (Noaksson and Jacobsson, 2003). The OECD Council first met in December 1961.

> ‘The aims of the OECD are to promote policies to secure the highest sustainable economic growth and employment, and thereby a rising standard of living, in member countries; to contribute to the expansion of world trade on a multilateral, non-discriminatory basis; to promote social and economic welfare in the OECD area by coordinating member countries’ policies; and to assist in the ‘sound and harmonious development and good functioning of the world economy by stimulating and harmonising Members' efforts in favour of developing countries’ (Bainbridge, 2000).

The OECD Council which is the governing body is composed of a representative from each of the 30 member states and one from the European Commission. It is chaired by the Secretary General. Decisions are adopted by mutual agreement of all Council members.

The OECD Secretariat, which is led by the Secretary-General is organised into fifteen directorates, ranging from the Development Co-operation, Public Governance and Territorial Development Directorates to the Economics Department. These are assisted by over 200 specialised committees, working and expert groups. About 2,500 agents work in the OECD Secretariat which also prepares analytical studies for which the OECD takes responsibility, so that no member country is formally bound by its content. About 40,000 senior officials from national administrations go to OECD committee meetings each year to request, review and contribute to work undertaken by the Secretariat. The Economic Policy Committee (EPC) and the Economic Development and Review Committee (EDRC) are highly influential and are involved in the preparation of both the Economic Outlook and country based Economic Surveys (Noaksson and Jacobsson, 2003, p.14).

3. The Jobs Study

The OECD's conversion to a neo-liberal reform agenda originated in its response to the inflation breakout after the first oil price shock in the mid-1970s. In 1975 the OECD appointed eight prominent economists to review the causes of stagflation. The McCracken Report followed the policy shift already underway in macroeconomics by arguing for a refocus of policies to fight inflation through demand management, despite its supply side origins, and also reducing government regulation through supply-side reforms (McCracken, 1977). Although the central causes of inflation were viewed as political, social and psychological, the report took a narrow ideological perspective (Keohane, 1978, pp.124-25, reported in Webb and Porter, 2007)). Nevertheless, the McCracken Report contributed to a shift in the shared policy norms in the OECD in favour of more market oriented policies (Henderson, 1993, p.28).

The Jobs Study report in 1994 was in response to higher unemployment in Europe in the early 1990s. The Council of Ministers requested that a comprehensive study of structural issues be undertaken by the OECD, drawing on its inter-disciplinary expertise, despite the likely difficulty of achieving agreement between the directorates about a common set of principles.

The OECD points to a number of developments which had led to a more rapid rate of economic and social change. First, waves of financial and product market deregulation in the 1980s had greatly enhanced the potential efficiency of national economies. Second, there had been an acceleration of the rate of globalisation that is 'an evolving pattern of cross-border activities of firms, involving international investment, trade and collaboration for the purposes of product development, production and sourcing, and marketing' (OECD, 1994). Third, pervasive technological change was occurring, especially via new information technologies.

The inability to adapt to this rapid change was viewed as the fundamental cause of higher levels of unemployment in OECD countries. The OECD approach reflected its essentially economic mandate: that is how, over the long term, to make member countries prosper and innovative in an increasingly integrated and competitive global economy. Similar to the 'Washington Consensus' which was imposed on the developing world, the reforms were founded on the primacy of markets, and the imperative to remove the institutional fetters which allegedly inhibited their operation (LaJeunesse et al, 2006). Thus the cause of high unemployment was seen as structural in origin.

In the Jobs Study the OECD advocated a broad range of policies for its member countries to address the alleged inflexibility, including the adoption of growth enhancing, sustainable macroeconomic policy; the increased flexibility of short-term and lifetime working-time; making wage and labour costs more flexible and responsive to local conditions and individual skill levels, in particular of younger workers; the reform of employment security provisions; the strengthening of the emphasis on active labour market policies; the improvement of labour force skills and competencies; the reform of unemployment and related benefit systems - and their interaction with the tax system; and the enhancement of product market competition so as to reduce monopolistic tendencies and weaken insider-outsider mechanisms. These recommendations were supported by member countries whose ministers committed their countries to implement them. However, even in these circumstances, the OECD had no power to impose sanctions on recalcitrant member states.3

The Economics Department at the OECD became the principal actor in the assessment process, largely because it had the resources to conduct a study of each member country on a 12-18 month cycle (Noaksson and Jacobsson, 2003, p.18). This process of peer review (PR) is claimed to be the systematic, non-adversarial, examination and assessment of the member's performance (OECD 2002, p.4), with the objective of assisting each member country to improve its policy making by the adoption of best practice and compliance with established standards and principles (Pagani, 2002). Strong implicit guidelines had been developed which were shaped by the core belief in the desirability of liberal, market-oriented economic policies (Pagani, 2002; Henderson, 1993, quoted by Porter and Webb, 2007).

The peer review process involves the reviewed country, typically two examining countries and the OECD Secretariat which is responsible for the list of topics for consideration, the provision of expert analysis of the documents and data and the interrogation of officials from the reviewed country and the draft and final reports, after negotiation and possibly compromise with the reviewed country and other member countries. The examining countries also have the opportunity to interrogate officials, who are required to cooperate. Tensions can arise if some previous recommendations have not been followed up, which may have the support of the delegates from the country under review, but not their government. All countries must sign the final report. In the final stage, after unanimous adoption in the EDRC, the economic survey is published (Noaksson and Jacobsson, 2003, pp.27-28).

Multilateral surveillance and peer-review are seen as key strategies to influence policymaking in member countries. The OECD tried to achieve policy convergence through arguments, negotiations and persuasion (Marcussen 2002, reported in Noaksson and Jacobsson, 2003).

Quantitative and qualitative analysis is also undertaken by the OECD and countries are ranked according to their performance in reducing unemployment, lowering the replacement ratio etc. These data and the results of cross-country empirical policy analysis are published in a number of OECD publications, including the annual Employment Outlook. It should be acknowledged that the implementation of the policy blueprint occurred in the context of the later development of the European Employment Strategy4.

4. Theoretical Perspectives

Globalisation and Policy Convergence

In earlier studies policy convergence was argued to arise from increasing homogeneity of societies from industrialisation and modernisation which led to a common post-industrial state. The communication of policies had become easier, and the relaxation of capital controls limited the capacity of countries to exercise independent policy (Drezner, 2001, p.57). Goldthorpe (1984) rejected this view, pointing to the emergence of corporatism in some countries with government, labour and business engaging in inclusive and cooperative bargaining arrangements, whereas other economies became dualistic which enabled management to segment the labour market This would enable the exploitation of differential bargaining power so that the industrially weak would typically receive low rewards. In view of the content of the rest of the paper, this is a prescient argument.

Drezner (2001) identifies two distinct theoretical perspectives concerning the relationship between policy convergence and globalisation, namely the primacy of structural forces as opposed to the power of autonomous agents. Under the former national policy choices are severely constrained by the external environment, giving rise to a unified global policy response. This perspective is consistent with the somewhat unconvincing argument in the Jobs Study that in the presence of mobile capital, non-compliant states will become internationally uncompetitive. This economistic explanation of convergence is most clearly articulated in the race to the bottom (RTB) thesis (Drezner, 2001, p.59).5 There will be capital flight unless states embrace flexibility through neo-liberal policies, in response to the new market realities. These policies will put pressure on welfare provision and environmental regulation, as well as wages and conditions, including occupational health and safety, if industrial relations reform is particularly severe.6

Alternatively a set of beliefs has attracted 'sufficient normative power' for states to alter institutions and regulations because their leaders would appear to be laggards if they failed to embrace similar policies (Drezner, 2001, p.57). In this case, globalisation is considered a cultural or ideological process with the transnational dissemination of values (or hegemony) limiting states' policy options (Cerny, 1996; McBride and Williams, 2001). Structural forces again dominate agency but it is global culture not global economic forces. These structural theories are unable to explain variation in policy convergence outcomes (Drezner, 2001).

To the extent that capital mobility undermines economic security due to more intense market competition, there are likely to be demands for greater welfare support and labour market intervention to protect workers from the vagaries of the global marketplace (Drezner, 2001, p.59, Garrett, 1998, p.788).7 These state interventions may well promote investment by multinational corporations (McBride and Williams, 2001, p.286), due to higher productivity arising from improved physical and human capital (Garrett, 1998, p.801) and also due to a more cohesive and stable domestic economic environment (Alisina and Perotti, 1996). Rodrik (1997) finds evidence of increased welfare expenditures.

Under neo-liberal institutionalism, states exercise some power in their engagement with capital, so while domestic regulation does impose costs on firms, it remains profitable for them to service markets. This approach recognises the role of power relations between states, and the possibility that more powerful states make some concessions to ensure agreement as well, as the operation of international institutions to enforce outcomes (Drezner, 2001, pp.60-61). Within the same theoretical strand, Drezner (2005) explores the forces for convergence of regulatory policy within a game theoretic framework, which highlights the potential benefits to smaller economies of conforming to the regulatory policies of powerful economies with large domestic markets. He argues that state agency has been neglected in the regulation of the global political economy. When great powers recognise their interdependence and act in concert, there will be policy harmonisation through both market power and coercive power being exercised (Drezner, 2005, p.842, Bennett, 1991, p.225). On the other hand, if the large economies do not agree, then convergence will occur at multiple nodes, with powerful countries seeking to enlist as many allies as possible. In this case, policy convergence will occur through competition rather than harmonisation.

The emergence of international governmental organisations facilitates the transmission of new policy models. IGOs create an image of homogeneous states accelerating the spread of common practices. 8 This approach is sometimes defined as the world society view. Convergence occurs allegedly to more regulation, via the operation of new bureaucracies. Other states mimic policy content, but core states would resist policies which upset their domestic norms. Once a dominant model emerges, other models and specifications lose legitimacy. This can lead to institutional isomorphism (Drezner, 2001, p.61).

The elite consensus approach to policy convergence also recognises the role for agency of states and individuals, which makes it consistent with the neoliberal institutionalist perspective. An epistemic community (EC) which is defined as a 'transnational group of actors sharing motivation, expertise and information about a common problem' (Bennett, 1991, p.224) play a key role.

Haas (1992) argues that decision makers are faced by increasingly complex and uncertain policy issues and become reliant on knowledgeable experts, who control and channel information to them, in the sense of how the problem is framed and the alternative policies that are presented. Trans-organisational and trans-national communities of experts can then be formed due to the perception of common international problems. IGOs play a key role in reinforcing epistemic communities through the transmission of norms and values. The elite consensus model has a relational not structural underpinning, so state interdependence must be recognised first. The normative consensus of the epistemic community can guide movement to convergence, but the presence of an EC is not a sufficient condition for policy convergence. The control over information and knowledge is a major source of power and the dissemination of new information can lead to behavioural change which has the potential to contribute to international policy coordination (Haas, 1992, pp.2-3) and policy convergence.9 The treatment of the OECD as an EC does not appear to have been explored in the literature.

After analysing the extent of convergence across a number of policy areas, Drezner (2001) concludes that structural theories lack support, despite the increased international flows. Globalisation cannot be reduced to a set of deterministic forces, so that transnational economic and ideational forces are not as powerful as initially thought. He acknowledges the important role for ideational forces in the rate and location of policy convergence with respect to labour and environmental standards and through the influence of IGOs. He finds similar results for consumer protection and also macroeconomic policy, where domestic institutions, interests and political parties play a key role.

It is important to differentiate between regulatory policy and the conduct of macroeconomic policy. An international regulatory structure to deal with cross-national problems which cannot be constrained within borders, such as climate change, money laundering (or even internet child pornography) needs to be consistent otherwise those subject to regulation will exploit loopholes. On the other hand, some economists argue that the conduct of macroeconomic policy is not similarly constrained, notwithstanding the increased interdependence between countries due to the process of globalisation.10

Authority of the OECD

Following the general survey of the relationship between globalisation and policy convergence, we will now interrogate the extant theoretical literature about the dynamics of policy convergence from a narrower perspective, namely the capacity of the OECD to exercise its authority in persuading the member states to conform to its labour market policy blueprint, even though the economic imperative to achieve (neo-liberal) policy convergence is problematic.11 We locate our theoretical perspective within the Elite Consensus approach, which recognises the role for the agency of states and individuals, as noted above.

Noaksson and Jacobsson (2003, p.10) contrast the OECD and European Union with the former being an expert organisation which acts as a 'truth-seeker' and 'truth-teller' with a dogmatic view of the correctness of orthodox economics and a decontextualised approach to policy which must not be compromised by political considerations. On the other hand, the EU is viewed as a political organisation which adopts a more contextualised strategy negotiated among its wide range of stake-holders. In short, 'the EU attempts to adapt knowledge to fit reality, the OECD attempts to adapt reality to fit existing knowledge. In both cases, knowledge is translated and filtered to fit the overall strategy'.

Noaksson and Jacobsson (2003, p.44) assert that the OECD is an expert organization because it produces expert knowledge and policy advice which ignores concerns about social cohesion. They claim that it was understood that the Jobs Study should not adopt an explicit political or ideological stand. The argument that the advocacy of a free market model is somehow devoid of political and ideological content is at best naïve.

Both Noaksson and Jacobsson (2003) and Porter and Webb (2007) focus on how the OECD produces, translates and disseminates information to its member states and beyond. It also contributes to the ongoing development of a sense of identity for members as it develops policy prescriptions appropriate for modern, liberal-democratic countries that see themselves as world leaders, as well as being market-friendly, and efficient.

This role for the OECD in the creation of its members' identities cannot be understood in the context of rational calculation. i.e. that the OECD is a more efficient institution for mediating state to state interactions than direct contact occurring between them.12 Its construction of social facts that are taken for granted and appear to exist beyond the conscious influence of policy makers are valued due to their links with identity (Porter and Webb, 2007, p.5).

Through its generation of knowledge via its regular reports, the OECD not only contributes to the development of allegedly good policies to deal with the extant reality that reflect a particular ideology and interests of particular groups but also contributes to the construction of that reality. Porter and Webb reject the use of an epistemic community approaches to the generation and interpretation of knowledge, but without any detailed justification.

This identity-shaping role is quite explicit in the OECD's frequently used mechanism of peer review, as well as the fact that they publish information about the degree of compliance of member countries to the blueprint. ‘(M)utual examination by governments, multilateral surveillance and peer pressure to conform or reform are at the heart of OECD effectiveness’ (OECD, 2004b, p.4). This requires that the OECD maintain its independence from the government of the country under review and from its peers, so that the PR process is seen as credible with policies being assessed by widely accepted analytical methods albeit with a market friendly focus (OECD, 2002; Pagani, 2002). As a consequence the OECD exerts considerable influence despite a lack of formal powers (Porter and Webb, 2007).

From a rationalist perspective, it is unclear why a national government would permit criticism from an international organisation in the peer review process (Porter and Webb, 2007; OECD, 2004c). Porter and Webb argue that one possible motive would be to exploit the OECD’s reputation for expert policy advice to shift domestic public opinion in favour of policies preferred by the government (OECD, 2002, p.10)13. Further ‘The OECD’s identity-defining function also helps to explain why member states do not use their power to veto power to eliminate critical recommendations from EDRC reviews, since this would be widely viewed as inappropriate by their peers and, in many cases, domestic public opinion.’ (Porter and Webb, 2007, p.8). There are some instances, however, when states do insist that critical comments be removed. Also Porter and Webb recognise that countries differ in their capacity to influence the implicit criteria underpinning policy assessment and hence the extent of pressure associated with the PR process.

A reasonable inference from Porter and Webb’s somewhat abstract theoretical framework is that, albeit with occasional resistance, there is a general, unproblematic convergence of labour market policies across OECD countries in broad conformity with the OECD policy blueprint, recognising that the form of implementation may vary due to the prevailing institutional arrangements. However, as we shall see, the evidence does not support this claim. The authors have focused on process, rather than policy outcomes, thereby neglecting state and individual agency through the role of country level institutions and politicians in resisting OECD sanctioned reform, despite some of their senior officials being potentially compromised by their interaction with OECD experts and participation on OECD policy committees.

Finally if liberal policies have not led to consistently better labour market performance, the causal chain in the globalisation thesis is broken (McBride and Williams, 2001). McBride and Williams (2001, p.283) conclude that ‘the globalisation thesis concerning labour market policy (as articulated by the OECD ‘Jobs Strategy’) has been excessively deductive and overgeneralised’. We now turn to the issues of compliance and the empirical evidence relating to the wholesale adoption of the OECD policy blueprint.

5. Challenging the OECD Policy Agenda

Compliance

Notwithstanding the role of the EDRC in the Peer Review process, the degree of compliance in the early years after the Jobs Strategy was unimpressive: ‘only a few countries have introduced and sustained policy reforms in a sufficiently wide-ranging and consistent way to achieve such an improvement in labour market performance’ (OECD, 1997a, p.7, quoted in McBride and Williams, 2001). The OECD attributed the ‘slow and sporadic implementation’ of the strategy to member countries’ fears that it would interfere with equity goals; and that it may not be conducive to social cohesion. What constitutes wide-ranging and consistent reform is of course potentially truistic, since this argument can always be made when the resulting labour market outcomes are considered unsatisfactory. Likewise, Rueda and Pontusson (2000, p.381) conclude that there is ‘little evidence of generalised convergence’ in labour market policy, despite increased economic integration. Also outcomes, such as income inequality, continued to correlate quite strongly with the various ‘styles’ of welfare state.

In a later publication, the OECD (1999a, p.41) claimed that successful countries had adopted different approaches to labour and product market reform, depending on their social, cultural and institutional characteristics, but in all cases reforms have followed the main thrust of the Jobs Strategy. Despite the apparent sensitivity of the OECD to these cross country differences, the Jobs Strategy has been criticised for its decontextualised benchmarking by requiring the achievement of perfectly free labour markets (Hemerijck and Visser 2001). Thus countries with so-called rigidities, such as employment protection, strong trade unions and relatively high employment benefits, should engage in reforms to reduce workers rights in order to create jobs (Larsson 1998, p.412 quoted in Noaksson and Jacobsson, p.31), which is potentially difficult if these countries have a tradition of these forms of arrangement which are fiercely defended.

Empirical evidence

McBride and Williams (2001, p.291) present a table showing the number of specific recommendations for policy change for each member state based on Tables 1-9 of OECD (1997b, pp.27–35). The authors note that the Netherlands, with a good labour market performance, was a ‘Jobs Strategy complier’ (OECD, 1997b, pp.12–14), despite receiving a relatively high number of recommendations for further policy action. On the other hand, the OECD noted that the United States, Japan and Norway had prevented high levels of unemployment from occurring, ‘Arguably, … because policies in important respects followed the main thrust of the OECD Jobs Strategy, though with clear differences of emphasis between the countries’ (OECD, 1997b, p.13). McBride and Williams (2001, p.291) point out that these countries represent different economic models, so the claim is dubious. The authors also noted inconsistencies in the OECD’s assessment of Norway and Sweden’s performance with respect to their respective degrees of compliance. McBride and Williams (2001, pp.295-7) found no significant association between compliance and labour market performance.

McBride and Williams (2001, p.287, 290) also note two early examples of OECD research which were at best equivocal about key propositions from the Jobs Strategy. First, OECD (1997b, pp.63–92) found a mild positive correlation between more rigid centralised bargaining systems and both higher employment rates and lower unemployment rates. Second, the Directorate for Education, Employment, Labour and Social Affairs argued that stricter employment protection legislation had little effect on unemployment and employment rates and actually improved the number of ‘stable jobs’ while lowering labour market turnover (OECD, 1999b, pp. 86–8; see also OECD, 1998). These internal conflicts over policy effectiveness impacted on the policy responses of the member states.

OECD claims about the impact of structural impediments on labour market performance have also been challenged by labour economists, including Baker et al (2002, 2004). Baker et al. (2002, p.55) found no correlation across nineteen OECD countries between levels of unemployment and the six most commonly employed institutional variables: the unemployment benefit replacement rate, unemployment benefit duration, employment protection laws, union density, bargaining coordination and tax incidence. Following OECD (1999a), Baker et al (2002) also found no relationship between the extent to which countries pursued the OECD prescription of deregulation and the decline, if any, of structural unemployment (see also the mixed results of Bradley and Stephens, 2007).

In line with the earlier study (OECD, 1999b), Baker et al found that employment protection and unemployment benefits have perverse or weak effects, whereas coordinated bargaining was shown to reduce unemployment. This is at odds with the view that individual contracts, rather than pattern bargaining, represent optimal workplace arrangements. Baker et al (2001) conclude that the other studies examined in their paper lack unanimity in their estimates of the impact of the standard institutional variables on unemployment. Further a number of these papers refer to this lack of robustness of their results across specifications and variable definitions.

Mitchell and Muysken (2004) showed that the structural variables used in most European studies to measure labour market rigidities (for example, the replacement ratio and the tax wedge) are cyclically-sensitive which renders the typical regression analysis used by those sympathetic to the Neo-liberal agenda meaningless.

Many studies have sought to establish the empirical veracity of the neoclassical relationship between unemployment and real wages (and, also minimum wages), and to demonstrate the effectiveness of active labour market programs. Baker et al. (2004) show convincingly that these studies were constructed in ways which were most favourable to the OECD view.

Further it has been contested whether ‘perfectly free labour markets’ are a necessary or sufficient condition for full employment, ever since Keynes wrote The General Theory in 1936, as well as whether real world labour markets can be made to operate according to textbook specifications.

In the face of the mounting criticism and the associated empirical evidence, the OECD has begun to back away from its hardline 1994 Jobs Study position (Watts and Mitchell, 2006). For example, OECD (2004, p.165) admitted that the evidence supporting their view that high real wages cause unemployment ‘is somewhat fragile.’

A major shift occurs in the 2006 Employment Outlook, which is based on a comprehensive econometric study of employment outcomes across 20 OECD countries between 1983 and 2003. OECD (2006a, p.29, p.38) concedes that persistently high unemployment remains a serious problem in some countries, particularly for youth and less skilled workers. Also large cross-regional disparities of unemployment rates persist, particularly in countries with high national unemployment rates, and regional disparities have actually increased in some countries where labour market performance has improved most. Also the incidence of working poverty has stayed high, even in the presence of high employment growth.

In addition, the Employment Outlook (pp.209-216) finds that:

- There is no significant correlation between unemployment and employment protection legislation;

- The level of the minimum wage has no significant direct impact on unemployment; and
- Highly centralised wage bargaining significantly reduces unemployment.[14]

Drawing on research from the 2006 Employment Outlook, the OECD published Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy (OECD, 2006b) with its primary focus being labour markets. The report reaffirmed the importance of sound macroeconomic policy through sound budget balances and the removal of obstacles to participation and job creation through tax-benefit reforms, activation policies, workplace flexibility, lifelong learning and removing obstacles and providing incentives to participation of under-represented groups, including the disabled, women and older workers, but acknowledged the problematic outcomes associated with employment protection legislation.

The OECD (2006b, p.18) also conceded that no single combination of policies and institutions was required to achieve and maintain good labour market performance. It noted that market reliant countries including Australia, Canada, Japan, Korea, New Zealand, Switzerland, UK and USA, combine low welfare benefits and low rates of taxation to fund these benefits (sic), as well as limited employment protection legislation. There are minimal collective agreements. These countries achieve high employment rates (70.9% on average) at a low cost for the public purse (sic) but relatively wide income inequality persists. On the other hand, countries, including Austria, Denmark, Ireland, the Netherlands, Norway and Sweden, emphasise 'coordinated collective bargaining and social dialogue', implement more restrictive employment regulations and offer generous welfare benefits 'but activate jobseekers through the provision of training opportunities and other active labour market programmes'. These countries have achieved a higher employment rate on average (71.9%), lower income inequality but at a higher budgetary cost.15,16 Calmfors and Driffil (1988) first established that countries implementing corporatist policies and those adopting free market policies tended to achieve superior labour market outcomes to those with a mixed system.

In principle, the largest member states, notably United States, Germany, Britain, France, and Japan exercise the greatest influence on the implicit criteria underpinning policy assessment and hence the extent of pressure associated with the PR process, yet none belong to the corporatist group which has resisted the OECD pressure to conform to the Jobs Study blueprint, and only the UK and USA, which are most ideologically aligned with neo-liberalism, belong to the market oriented group.

The OECD (2006b, pp.20-23) then provides a Restated Jobs Strategy in the form of the following four pillars, set appropriate macroeconomic policy; remove impediments to labour market participation as well as job-search; tackle labour- and product-market obstacles to labour demand; and facilitate the development of labour force skills and competencies. Detailed analysis of the Strategy is beyond the scope of this paper, but the following points are important. First, the OECD continues to promote so-called sound macroeconomic policy in which government finances are viewed as a constraint on their expenditure. Second, it recognises that greater emphasis must be given to promoting labour market participation and employment and address concerns about working poverty. Third, the OECD has moderated its attitude to employment protection legislation by arguing that it should contribute to labour-market dynamism and also provide security to workers (see also OECD, 2007).

In 2008, the OECD published Going for Growth which provides an overview of structural policy developments, as well as key policy priorities, for each OECD country. We focus on the 6 countries that are not market reliant, namely Austria, Denmark, Ireland, Norway, Sweden and the Netherlands to check whether the recommendations contradicted the earlier document that acknowledged the existence of two models. Improvements in the incentive to work are recommended for 5 countries; improved competition, particularly in network industries and also (publicly funded) services and retail distribution are recommended for all countries except Sweden; reform to sickness and/or disability benefit arrangements are recommended for 4 countries; reform to the education system, in particular tertiary is advocated for 4 countries and housing reform for 3 countries. The reform of employment protection legislation is suggested for Sweden, despite the inconclusive empirical evidence. Thus, while corporatist countries diverge from the policy blueprint in particular with respect to wage bargaining and welfare provision, they share a commitment to many of the original Jobs Study recommendations, including activation. However, the actual implementation of specific recommendations may exhibit considerable variation across countries.17

The recommendations for the corporatist countries would appear to be relatively innocuous, with the improvement of work incentives and reform of the sickness and disability benefit arrangements justified by the prospect of a reduced overall rate of labour force participation arising from the ageing of the population and the low rates of participation of the sick and disabled and single parents. However, activation policies directed at target groups are counterproductive, if the groups are not provided with adequate support (eg child care services for working single parents), and are churned through endless training programs in the absence of sufficient jobs. Also improvements in product market competitiveness can cause displacement of workers from jobs, and the possibly of the increased dispersion of regional unemployment rates.

The following quotation remains relevant, despite the OECD concessions in the past few years: ‘At present, after 30 years of public expenditure cutbacks and, more recently, increasing government bullying of the jobless, OECD economies generally are not close to achieving full employment. In the midst of the on-going debates about labour market deregulation, scrapping minimum wages, and the necessity of reforms to the taxation and welfare systems, the most salient, empirically robust fact of the last three decades – that actual GDP growth has rarely reached the rate required to maintain, let alone achieve, full employment – has been ignored’ (Mitchell, 2001, 2008).

6. Conclusion

Despite the OECD apparently exercising considerable trans-national authority in policy formulation, its attempts to impose a neo-liberal policy blueprint on member states has not been successful, with six relatively successful countries now being identified with corporatism, rather than market reliance. Even where there appears to be a consensus concerning the efficacy of certain OECD recommendations, implementation practices differ significantly across countries. Whether the concessions made by the OECD (2006b) are significant in terms of its ongoing authority with respect to cross-national policy making is uncertain at this stage, although the OECD policy discourse has only exhibited subtle changes and its macroeconomic policy prescription remains consistent with the Jobs Study. These concessions also confound the structural strands of the public policy literature which attempt to link globalisation to policy convergence. Within the broad literature, the behaviour of IGOs remains under-researched, however, particularly those organisations, including the OECD, which rely on moral suasion, rather than statutory power.

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[1] The author is an Associate Professor at the University of Newcastle, Australia.

[2] Here we are we confine our analysis to the neo-liberal economic policy agenda. Wacquant (2001, p.404) eloquently notes that there are 3 pillars of neo-liberalism. 'Erasing the economic state, dismantling the social state, strengthening the penal state: these three transformations are intimately linked to one another and all three result essentially from the conversion of the ruling classes to neo-liberal ideology.'

[3] By contrast, the World Bank can impose sanctions against developing countries which fail to honour agreements.

[4] The relatively narrow treatment of employment issues in the *Jobs Strategy* was a factor in the creation of the *European Employment Strategy* (EES) in 1997, which placed a greater emphasis on economic security, in the context of achieving full employment. On the other hand, the Jobs Study was underpinned by the NAIRU, the non-accelerating inflation rate of unemployment, so the focus was inflation control, rather than full employment, as traditionally defined. Also by advocating a reduction in welfare support, the OECD took a 'sticks', rather than 'carrots' approach to employment. Further discussion of the EES is beyond the scope of this paper but see Noaksson and Jacobsson (2003).

[5] Unfortunately Drezner (2001, pp.59-60) compromises the argument somewhat, by alluding to financing constraints facing national governments, which do not exist if they operate with a fiat currency.

[6] For example the Howard government in Australia introduced the punitive Workchoices legislation in 2006, which attracted significant criticism (see, for example, LaJeunesse et al, 2006). This industrial relations reform was a major contributory factor to the Howard government losing power in late 2007.

[7] On the other hand, the OECD would argue that that labour market rigidities such as employment protection legislation, and financial benefits which cushioned workers from changing market conditions (unemployment benefits, early retirement schemes, and social programmes generally) served ultimately to reduce employment and harm the workers they were intended to help (Kuhn, 1997).

[8] Drezner (2001) suggests that IGOs do not play a role in the RTB model, which has a deterministic view of globalisation driving policy convergence. The presence or absence of ECs would be largely irrelevant.

[9] The influence of epistemic communities may also be associated with promotion of less strict regulation, if, for example, they are dominated by neo-liberal economists (Drezner, 2001), which is clearly the case in the OECD.

[10] Advocates of the Job Guarantee (see, for example, Mitchell, 1998; Mitchell and Muysken, 2008) would argue that a prerequisite for the capacity to run independent macroeconomic policy and hence to pursue sustained full employment is a fiat currency and a flexible exchange rate. For a more orthodox

economic analysis which challenges the claim that globalisation forces economic policy convergence, see Garrett (1998).

[11] Given that in the case of labour market policy there is also ample evidence of international moral suasion (in the form of the *Jobs Strategy*), which could also explain convergence, policy convergence itself would not represent prima facie evidence in support of the economistic globalisation thesis.

[12] In rationalist models of international cooperation, international negotiations entail strategic interaction among actors who are trying to maximize exogenously-determined interests (March and Olsen, 1998).

[13] During the Howard era, the Australian government was keen to trumpet the accolades bestowed on it by the OECD for its policy reforms.

[14] Likewise, the World Bank is now more cautious in its policy analysis, arguing that countries with highly-coordinated collective bargaining tend to be associated with lower and less persistent unemployment, lower earnings inequality, and fewer and shorter strikes than uncoordinated ones (World Bank, 2003).

[15] An increasingly influential macroeconomics literature challenges this interpretation of budgetary cost, and issues of so-called financing, see, for example, Mitchell (1998) and Mitchell and Muysken (2008).

[16] Corporatist countries are not immune from criticism. The macroeconomic policy failures of OECD countries are mainly responsible for high rates of labour underutilisation. When budget deficits should have been used to generate jobs for all those wanting work, various restrictions have been placed on fiscal policy. Monetary policy has also become restrictive, with inflation targeting – either directly or indirectly – pursued by increasingly independent and vigilant central banks (Mitchell, 2008).

[17] For example, OECD (2007) examines the implementation of activation policies. They note variation across OECD countries according to i) when benefits commence; ii) frequency of required reporting by the unemployed; iii) the use of active labour market programs (ALMPs) for the long term unemployed; and iv) whether attendance at AMPs is compulsory.