

# Challenges in progressing pro-employment reforms

**Prof Gary Banks AO**

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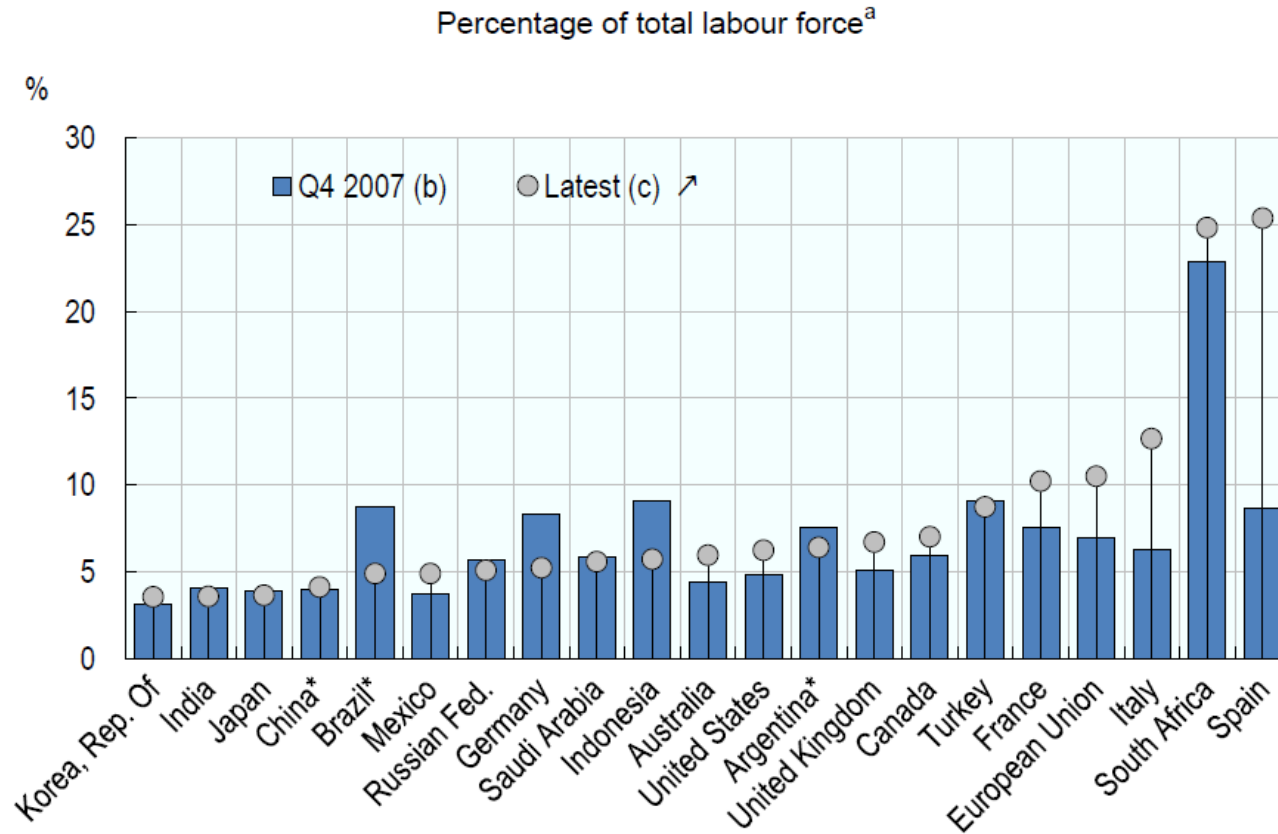
G20 Labour and Employment Ministerial Meeting  
Melbourne, 10 September 2014



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# Unemployment has improved least where it was already high

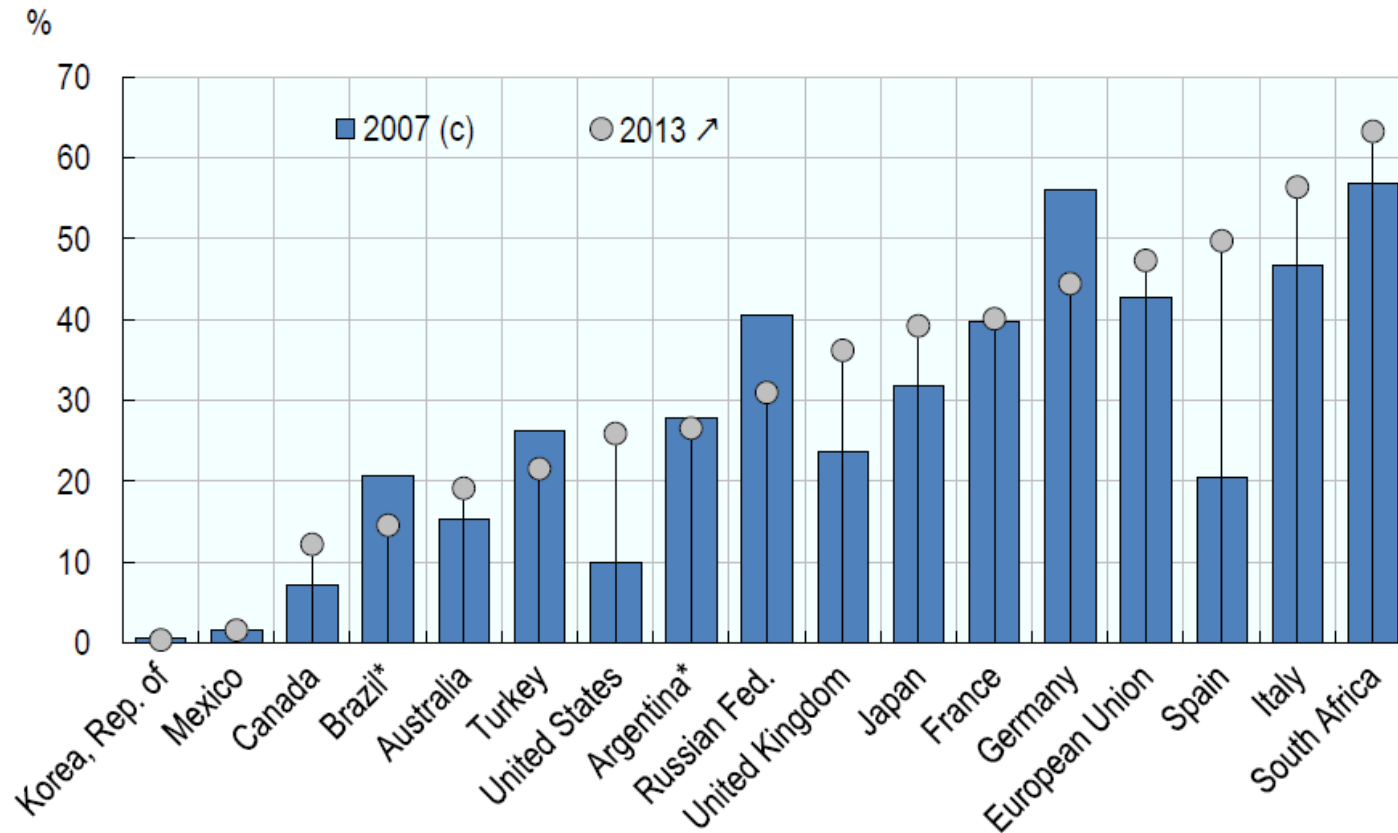
Figure 1. Unemployment remains high



# Long term unemployment has been rising

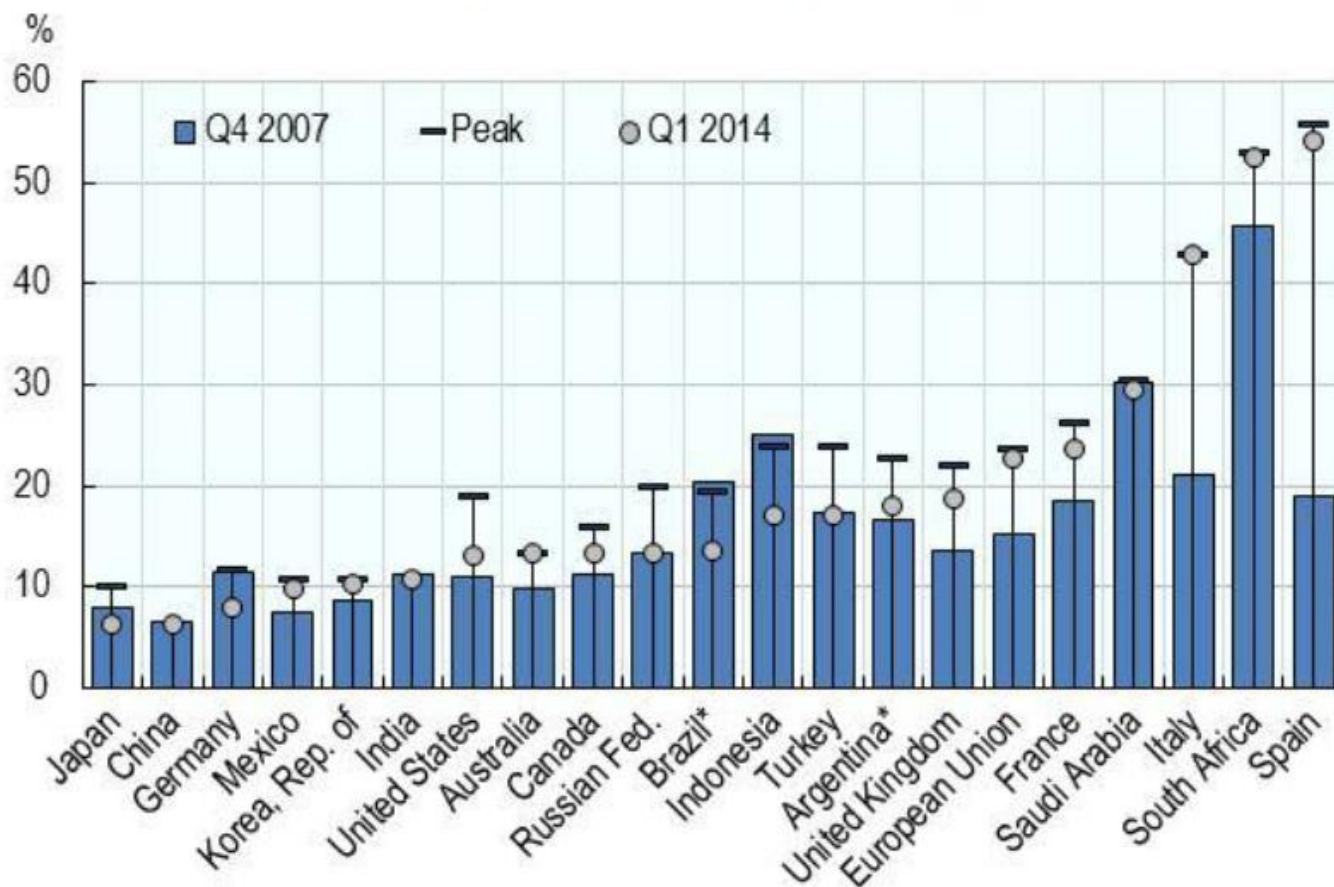
Figure 2. Long-term unemployment is a major concern<sup>a</sup>

Percentage of total unemployment<sup>b</sup> 2007 – 2013



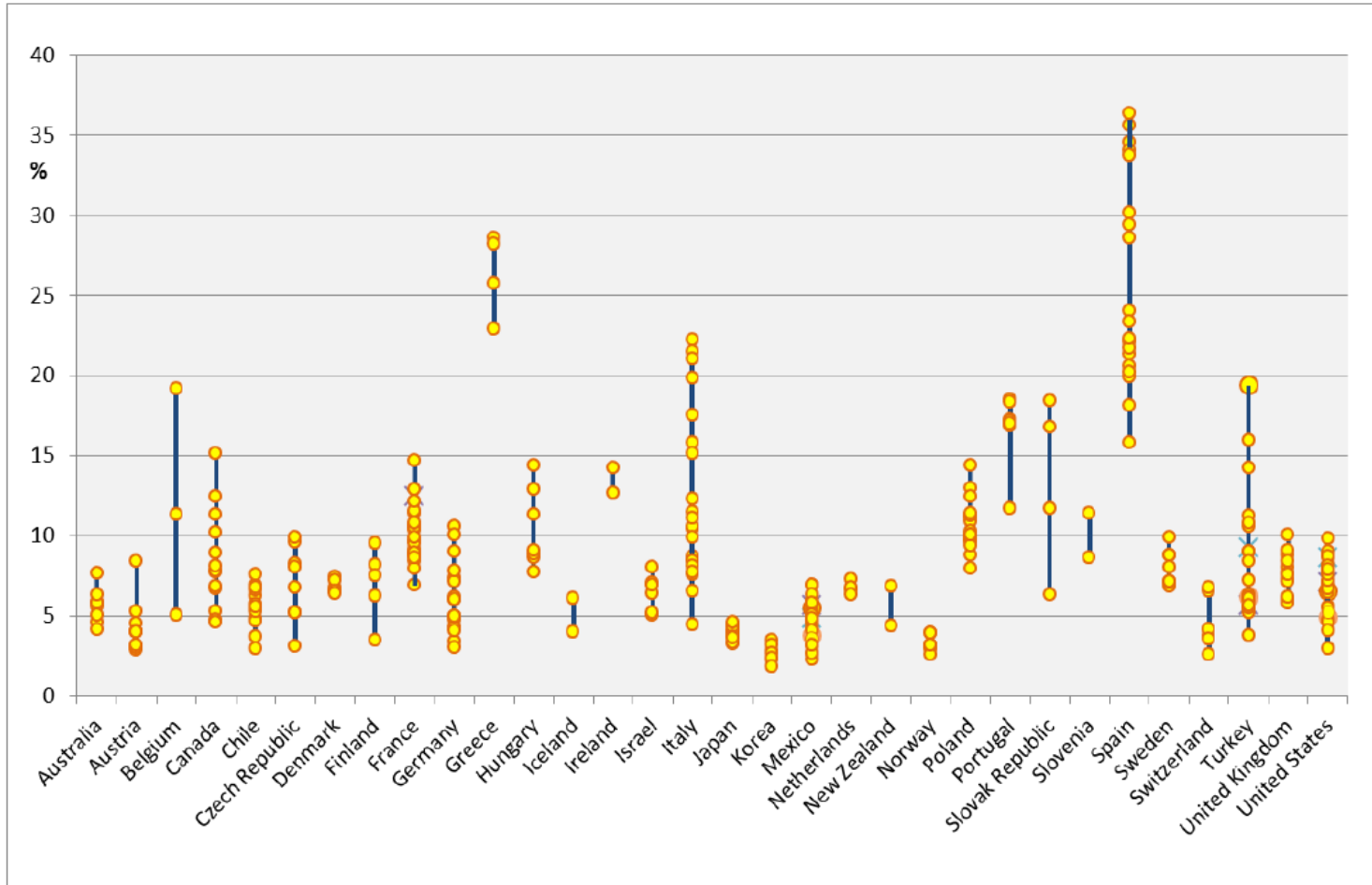
# Youth unemployment is 'very high' (OECD)

Figure 1. **Youth unemployment remains at very high levels in some G20 countries**  
*Percentage of youth (aged 15-24) labour force, Q4 2007<sup>a</sup> - Q1 2014<sup>b</sup>*



# The picture varies greatly within (as well as across) countries

Figure 1. Regional variation in the unemployment rate for OECD, 2013



# G20 Employment Taskforce remit

- Recommendations to
  - *Boost jobs and participation*
  - *Prevent structural (Long-term, youth) unemployment*
  - *Promote better jobs (safety, duration, formal sector)*
- Develop country-specific action plans
  - *Including contribution to growth strategies*

# Macro recovery need not restore lost jobs

- *'Hysteresis'* – an ugly word for progressive loss of work readiness by the unemployed
- *Mismatch* – recovery brings changes in industry composition and skill needs
- *Uncertainty* – taking on the obligations of new employees requires business confidence

# Engagement Group (and other) recommendations to governments

- Spend more (or better)
  - *Training and retraining*
  - *Job search services*
  - *Unemployment benefits*
- Regulate less (or better)
  - *lessen complexity and 'red tape'*
  - *ease constraints on hiring, firing and utilizing employees*
  - *improve workplace safety requirements*



# OECD regulatory recommendations

- Greater product market competition
- 'Job friendlier' social support
- More market-responsive wage regulation
- More 'dynamic' employment protection
- Reduce constraints on 'internal flexibility'
- Remove obstacles to labour mobility
- An 'enabling' regime for job creation

# The age-old reform conundrum

“There is nothing more difficult to carry out ... than to initiate a new order of things. For the reformer has enemies in all who profit from the old order, and only lukewarm defenders in those who would benefit from the new.”

**(Niccolò Machiavelli; *The Prince*, 1513)**

# A skewed political environment

- Reforms involve ‘losers’ as well as ‘winners’
  - costs are usually more ‘concentrated’ within the community and come ahead of the benefits
- Vested interests are therefore better informed and better organised than the rest of the community -- and can block reform
- Government’s own administrative structures can compound the difficulties
  - fragmentation and ‘sponsorship’ lead to focussing on *parts* of the economy, rather than the *whole*

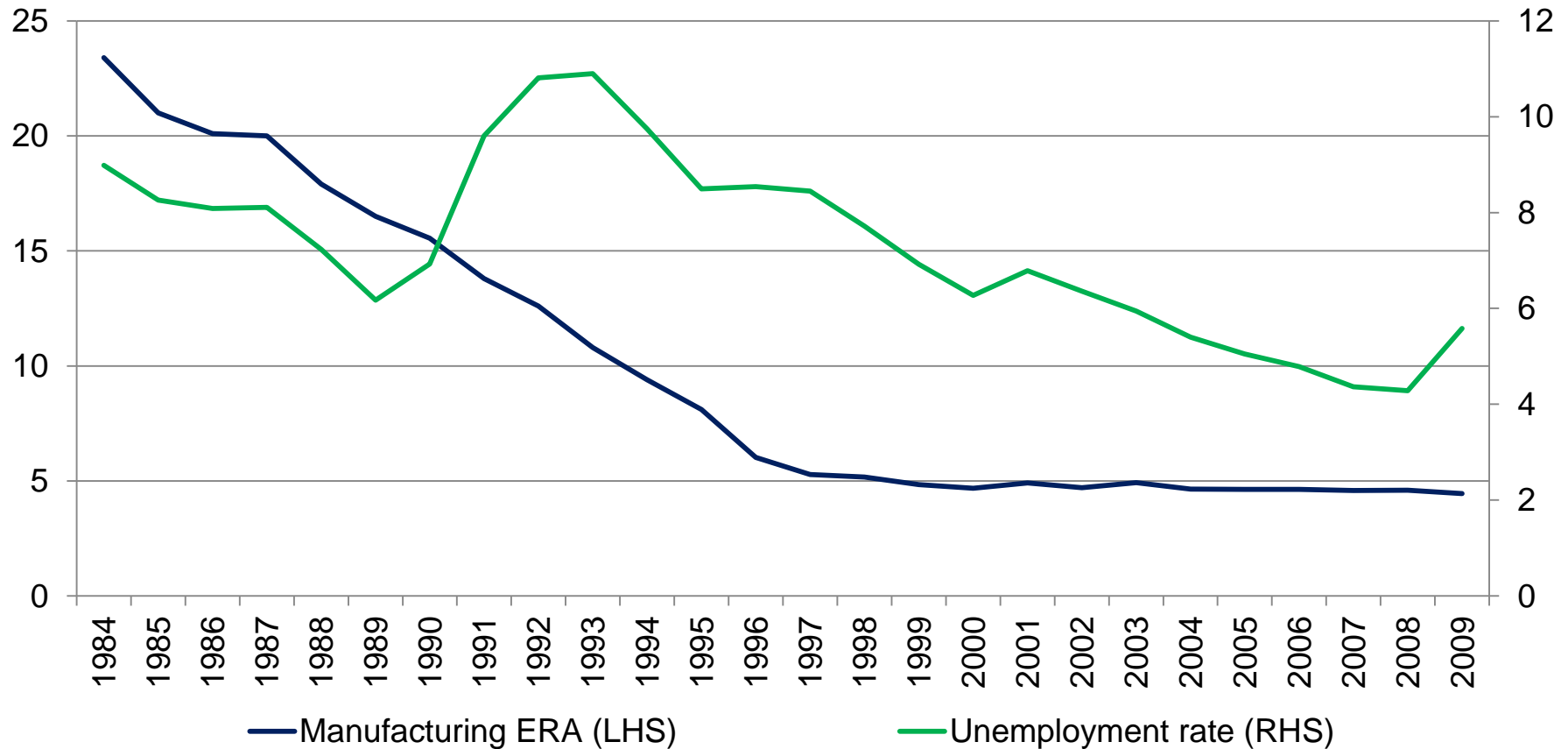
# Labour market reforms are especially challenging

- Perceptions of fair treatment matter greatly
- Historical struggles against ‘sweat shops’
- Established institutions and cultures
- Cause and effect can be hard to ‘prove’
- Labour unions are politically influential, and in some countries (eg Australia) have their own political party.

# Wide-ranging structural reforms

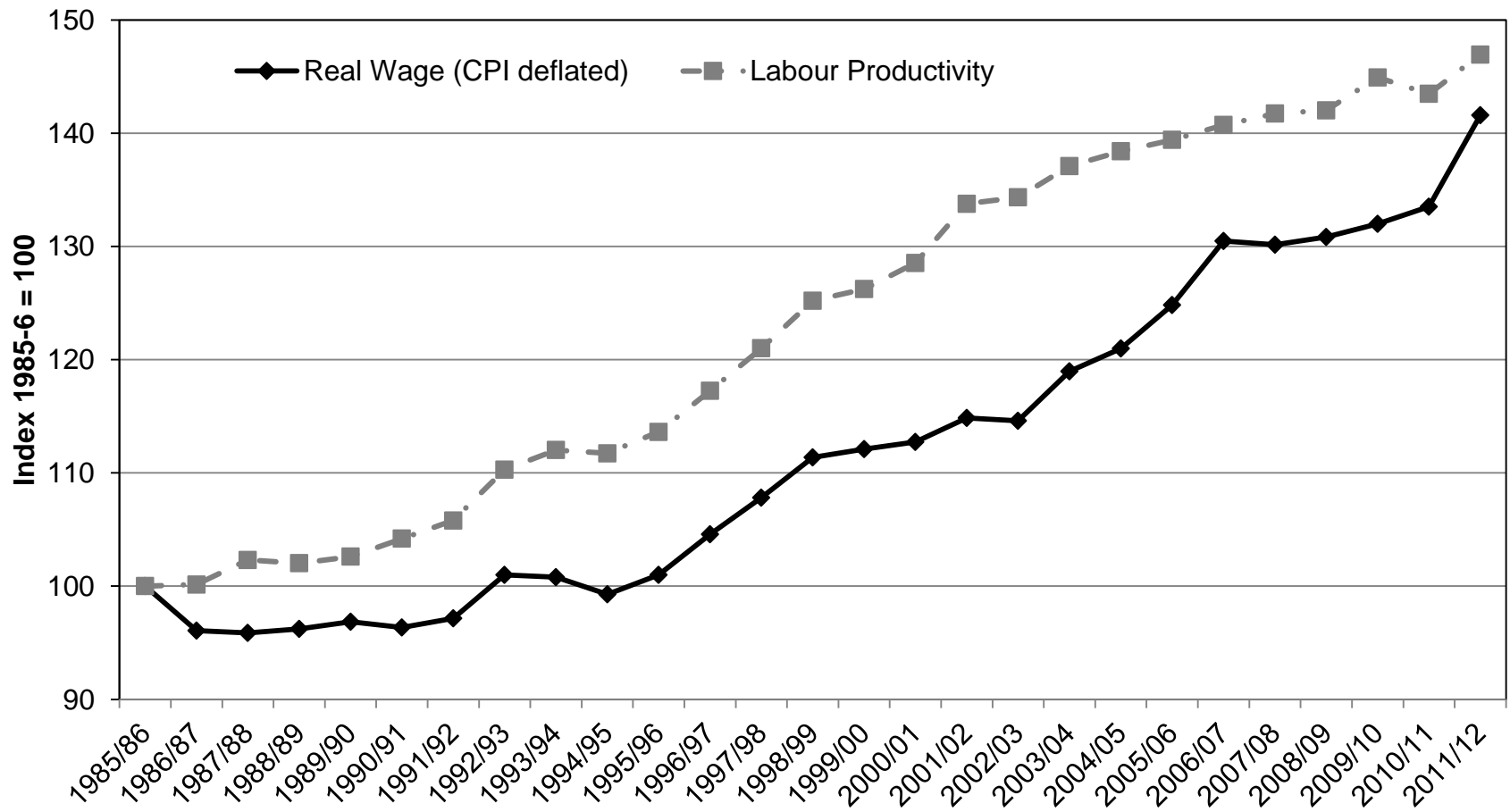
- Trade liberalisation (from early 1980s)
- Capital market liberalisation (from early 1980s)
- Pro-competitive infrastructure reforms (from late 1980s)
- Labour market 'deregulation' (from late 1980s)
- A coordinated 'National Competition Policy' (from 1995)

# Unemployment fell with structural reform



Data source: ABS

# Labour productivity surge supported real wage growth



# Two fundamental prerequisites for 'success'

- 1. Public understanding that there is a problem: one which requires government action
- 2. Broad acceptance that proposed reforms are in the public interest (despite the protestations of interest groups)



# Three key elements in building support

- Credible/authoritative institutions to construct evidence and options
- Effective engagement/consultation processes
- Political leadership that 'got it' and was capable of bringing others along.

# Other (intermittent) success factors

- Attention to prioritisation, sequencing and pace
- Good timing (electoral, business cycle, events)
- A sense of 'crisis' (sometimes more perceived than real)
- 'Supportive' Opposition political parties
- Champions in the media
- Enlightened leadership of key business, union and other 'stakeholder' groups
- Coordination mechanisms among relevant governments
- Attention to adjustment needs

# Implications for G20 agendas?

- Country employment plans need to identify actions with highest potential payoffs, including in ‘sensitive’ regulatory areas.
- Where political support is lacking, provide for review and consultation processes
  - to build evidence and ‘make the case’
  - to enable stakeholder ‘buy in’
  - to inform the public about what is at stake for the economy

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