

## Better coordination of economic, employment and social policies

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Introduction to Working Group 4 on 'Governance'

In the 'Jobs, Jobs, Jobs' report the 'governance' part is divided into three issues: mobilising our society to support reforms; delivering reforms, and using the EU instruments (like OMC and structural funds) more effectively. I limit myself to the first issue.

Under 'mobilising our societies to support reform' the report observes that the suggested action on employment overlaps with the wider Lisbon agenda on structural reform, competitiveness, innovation and social cohesion. Hence, a successful employment policy depends on a consistent macroeconomic policy and efforts to modernise social protection systems in, for example, the fields of child- and eldercare, health and pensions. The report also stresses the need for improved coordination and communication, and the desirability of reform partnerships, in which different stakeholders participate 'by balancing concessions and advantages in the fields of competitiveness, employment, social protection and other relevant policies' (p. 56).

This recommendation is in agreement with much of the literature on Social Pacts and with the observation that 'broad packages that encompass several measures tend to be required' (see Lars Calmfors and Per Skedinger, 'The Political Economy of Labour Market Reform', *Swedish Economic Policy Review*, 1998/2). Although the timing of such comprehensive reform packages is problematic (they usually require a deep crisis and sense of urgency) they tend to do better than isolated measures in terms of mobilising support and isolating the opposition of insiders and vested interests

What, then, is a "good" policy mix?

The core objective is the achievement of a competitive, employment-friendly and equitable welfare state. This requires a policy mix that may be thought to have three parts: macroeconomic; distributional and structural.

The first requirement is a robust macroeconomic policy, in other words a policy that is predictable and stable over the medium term, a policy that underpins low inflation and a steady growth of aggregate output.

The second element is distributional. This includes not only the evolution of wages and earnings, but also taxation, public finances and the main areas of public provision and social welfare

- "There must be an evolution of incomes which ensures continued improvement in competitiveness, which handles distributional conflict in a way which does not

- disrupt the functioning of the economy and which is fair” (National Economic and Social Council, *An Investment in Quality*, Dublin 2003, 61)
- Wage setting institutions should produce moderate growth and be responsive to changing conditions, by allowing rapid adjustment (High Level Group on Industrial Relations and Industrial Change, 2002, p. 18)
  - This can be achieved through:
    - 1) A shared understanding of key economic and social mechanisms and problems (soft coordination appears to be more important than centralisation or decentralisation of bargaining decisions or institutions);
    - 2) Institutional support through encompassing organisations and policies
      - a. without supportive institutions, even altruistic wage bargainers can find themselves drawn inexorably into a zero-sum conflict or even a negative-sum situation
      - b. purely centralised bargaining (national level) is unsustainable, for reasons of developments in markets, organisations and technology; but decentralisation is more efficient and less prone to distributional conflict when embedded in wider institutional structure, with stable partners who trust each other
    - 3) Differentiation across sectors and, if it improves mobility, across regions can improve the responsiveness of wage bargaining.

The third set of policies is structural, i.e. a set of complementary policies which facilitate and promote structural change in order to maintain and improve competitiveness and productivity, eliminate barriers to participation, and achieve social cohesion.

- There are several elements, i.e. supply side policies that aim to improve the quality, quantity and allocation of resources and capabilities
- Rapid economic and societal change tends to require a greater adaptability and more flexibility, but this requires security in other areas (flexicurity, with a redistribution of rights and training provisions promoting the ‘subscription’ to the labour market and decreasing the risks of dependency and rewards of non-participation.
- Tax systems that facilitate economic growth, innovation and employment creation, and, in particular, do not act as disincentive to those on low incomes or welfare to take up employment; that are fair and equitable (across different sources) and as comprehensive as possible; and that do not, on balance, make it more difficult for firms to compete internationally.
- Reforms seeking the improvement of the quantity, quality and allocation of public services (care, education, housing and transport) helps the functioning of labour markets and can serve to achieve more flexibility and moderation in wage bargaining, directly through national agreements or pacts, or indirectly through changing expectations and cost structures.