

OECD Employment Outlook - 2008 Edition

Summary in English

- OECD Employment Outlook is the OECD's annual report on the state of labour markets and employment across the OECD area.
- The 2008 edition reports that employment rates in OECD countries have never been higher, with two-thirds of working-age people now in work.
- But some groups still lag behind: Women are 20% less likely to be in work than men, while ethnic minorities face a much longer job search than other people.
- Past reforms have helped level the playing field, but more needs to be done, including the enforcement of existing anti-discrimination laws and the introduction of policies that encourage non-discriminatory hiring.

Ensuring equality of job opportunities for all

Labour market performance has improved and ensuring equality of opportunities for all is now the challenge ahead

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. 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 (see the *OECD Economic Outlook* No. 83 for a discussion).

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. 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. But 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.

Labour market reforms have fostered participation ...

Labour market reforms, implemented by a number of OECD countries, have fostered labour market participation of under-represented groups. These include the implementation of “activation/mutual obligation” strategies, where effective re-employment services are combined with strong job-search incentives; tax/benefit reforms aimed at reducing the tax wedge and making work pay, particularly for low-paid workers; and removal of disincentives to continued work in old-age pension systems and early retirement schemes. For women, they also include flexible working arrangements, adequate parental leave and good quality, affordable child-care.

... but these reforms will be insufficient if barriers limiting access to jobs, such as discrimination, are not properly addressed

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. A persistent mismatch between the skills acquired by individuals and those required by firms to navigate in a globalised and more competitive environment still represents a barrier to the employability of certain groups.

In addition, in many countries, labour market discrimination – *i.e.* the unequal treatment of equally productive individuals only because they belong to a specific group – is still a crucial factor inflating disparities in employment and the quality of job opportunities. For example, while female employment rates have expanded considerably and the gender employment and wage gaps have narrowed virtually everywhere, women still have 20% less chance to have a job than men, on average, and they are paid 17% less than their male counterparts. Evidence presented in this edition of the *Employment Outlook* suggests that about 8% of the variation in gender employment gaps and 30% of the variation in gender wage gaps across OECD countries can be explained by discriminatory practices in the labour market. At the same time, workers from ethnic minorities have to search 40% to 50% longer than individuals having the same characteristics but belonging to majority groups before they receive a job offer, which renders them much more vulnerable to the risk of long-term unemployment. And, if employed, the average wages of native-born ethnic minorities in a number of countries are more than 10% less than those of their majority-group counterparts.

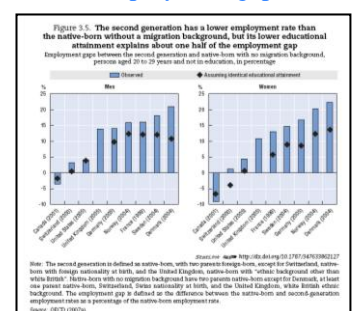
Structural reforms can help reducing discrimination ...

Structural reforms, *per se*, are likely to improve the employment prospects of underrepresented groups by reducing the scope of discriminatory behaviours. Indeed, by implementing competition-enhancing reforms of product markets in the past two decades, many OECD countries have killed two birds with one stone. On the one hand, they have promoted a better allocation of resources and stronger and more sustainable economic growth, thereby boosting labour demand. On the other hand, by reducing market rents, stronger competition has also weakened the ability of employers to cover the costs of their prejudices in hiring and promoting. In addition, reductions in the expected costs of hiring low-productive workers, relaxation of employment protection legislation where it is overly strict, moderation

Figure 3.1. The gender employment gap has narrowed over time and converge towards countries with low gap



Figure 3.5. The second generation has a lower employment rate than the native-born without a migration background, but its lower educational attainment explains about one half of the employment gap



in minimum wage increases and compression of the tax wedge on lowpaid workers all have the potential to weaken discrimination in hiring, when the latter is based on prior beliefs or stereotypes about average group performance.

... but effective enforcement of the legal prohibition to discriminate is crucial ...

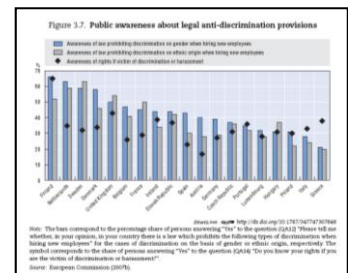
But specific anti-discrimination legislation and other policies are also needed to combat discrimination effectively. Moreover, legal prohibition of discriminatory behaviour can only be effective if it is enforced. And herein lies a major problem: in all OECD countries, enforcement essentially relies on the victims' willingness to assert their claims. But many people are not even aware of their legal rights regarding discrimination in the workplace. And even if they are, proving a discrimination claim is intrinsically difficult for the claimant and legal action in courts is a costly process, whose benefits down the road are often small and uncertain. All this discourages victims from lodging complaints. Countries that effectively tackle this issue provide adequate institutional support to plaintiffs. They also specify in their anti-discrimination legislation well-identifiable compensatory damages, and make available alternative simplified procedures for dispute resolution.

Legal rules, however, will have more impact if the enforcement is not exclusively dependent on individual action. Many OECD countries have put in place specialised antidiscrimination agencies. But in only a few of them are these agencies effectively empowered, in the absence of individual complaints, to investigate companies, take actions against employers suspected of operating discriminatory practices, and sanction them when they find evidence of discrimination.

... as are specific incentives for non-discriminatory behaviour and positive actions

Fighting discrimination in the labour market should also go beyond the repression of unwanted behaviours 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 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.

Figure 3.7. Public awareness about legal anti-discrimination provisions



Promoting equality of job opportunities for all requires a combination of structural reforms and direct anti-discrimination measures

The *Reassessed OECD Jobs Strategy* has proven to be a useful framework for a comprehensive policy to promote more and better jobs. The good news is that this reform agenda can also contribute to reducing discrimination in the labour market. But direct measures to prevent discrimination are also required. Otherwise, a level playing field cannot be assured for all workers.

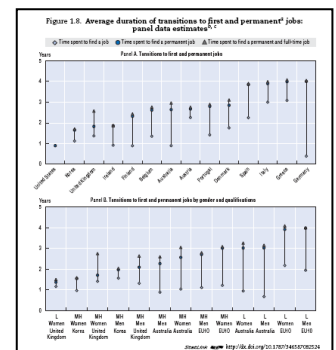
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This year's *Employment Outlook* also looks at other policy issues, including how to promote more and better employment opportunities for young people, people employed in the informal sector and workers with mental health problems. It also assesses pay and working conditions in foreign affiliates of multinationals and how policy can promote foreign direct investment and responsible business conduct.

Off to a Good Start? Youth Labour Market Transitions in OECD Countries

The chapter first provides an overview of youth labour market performance over the past decade. It then presents evidence on the sensitivity of teen and young adult unemployment to the business cycle and the increased prominence of temporary and part-time jobs as modes of entry into work. Several indicators of the pace and modality of the school-to-work transition following completion of initial education are then presented and the quality of youth jobs is analysed, including the extent to which temporary and low-paid jobs serve as stepping stones to better jobs. Lastly, the chapter underlines the difficulty of moving out of non-employment for some school leavers – especially those who did not successfully complete secondary schooling – despite the overall fluidity of the youth labour market.

Figure 1.8 Average duration of transitions to first and permanent jobs: panel data estimates¹⁾



Declaring Work or Staying Underground: Informal Employment in Seven OECD Countries

Informal employment and undeclared work is a significant labour market problem for some lower- and middle-income OECD countries,

prompting concerns about worker protection, making it difficult for governments to deliver high quality public services and hindering productivity and growth. Strong economic growth does not, per se, appear to guarantee a reduction in informal employment. What policies can countries adopt to address informal employment? The answer differs from country to country. Depending on the situation in each of them, incentives for employing workers formally may be improved by a combination of reducing labour costs when they are excessive, increasing flexibility in countries with stringent employment protection legislation and improving the design of social protection schemes to increase the benefits of affiliation to workers. Better incentives should be complemented by enhanced tax, social security and labour enforcement efforts. Improved governance standards would also encourage voluntary compliance.

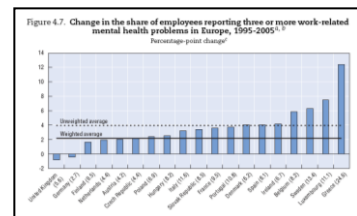
Table 2.1. Alternative measures of informal employment and undeclared work

	Employees in informal jobs		One account workers	Unpaid family workers	Multiple job holders	Undeclared income	
	Employees not registered for mandatory social security	Employees without social security	% of non-employees	% of non-employees	% of total employment	% of employees typically not reported for tax purposes ^a	% of employees receiving regular cash-in-hand ^b
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Czech Republic	1.8	11.4	8.7	3.1	10	5	5
Hungary	18.4	2.5	5.4	8.3	5.9	5	8
Italy	28.8	21.1	4.7	1.7	7	7	7
Mexico	31.5	38.5	20.8	5.1	5.3	11	11
Poland	4.5	7.9	9.7	7.5	11	11	11
Slovak Republic	2.2	9.2	5.1	1.2	8	8	7
Turkey	21.7	16.8	3.8	3.1	28	28	28

Are All Jobs Good for Your Health? The Impact of Work Status and Working Conditions on Mental Health

This chapter presents new evidence on the evolution of work-related mental illness in OECD countries and on the role that new work patterns have played in affecting it. Despite the steep rise in disability benefit receipt for mental illness in many countries, available indicators do not suggest an overall increase in mental health problems among the working-age population across the OECD area. However, mental health appears to have worsened in certain countries and for certain workforce groups, while the reported incidence of certain potentially stressful working conditions has increased in Europe. Longitudinal analysis for individual workers in five countries shows that non-employment generally is worse for mental health than working and that the mental-health payoff to employment varies depending on the type of job contract and working conditions, and pre-existing mental health problems. In particular, the mental health benefits for inactive individuals who obtain a “non-standard” job appear to be smaller than for those moving into standard employment arrangements, especially for persons with preexisting mental health problems.

Figure 4.7. Change in the share of employees reporting three or more work-related mental health problems in Europe, 1995-2005
Percentage-point change

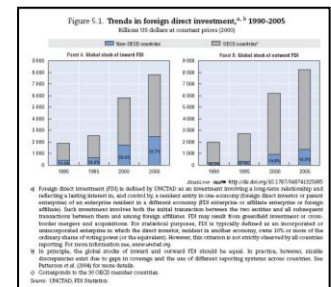


Do Multinationals Promote Better Pay and Working Conditions?

Foreign direct investment (FDI) by OECD-based multinational enterprises (MNEs) in developing and emerging economies has increased dramatically over the past two decades. While generally perceived as beneficial for local development, it has also raised concerns about unfair competition and the protection of workers' rights

in host countries. This chapter assesses the effects of FDI on wages and working conditions for workers of foreign affiliates of MNEs and those of their independent supplier firms. The evidence suggests that MNEs tend to provide better pay than their domestic counterparts, especially when they operate in developing and emerging economies, but not necessarily better non-wage working conditions. The effects on wages may also spread to the foreign suppliers of MNEs, but those spillover effects are small.

Figure 5.1. Trends in foreign direct investment, 1990-2005



The full report can be accessed on www.oecd.org/employment/outlook

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