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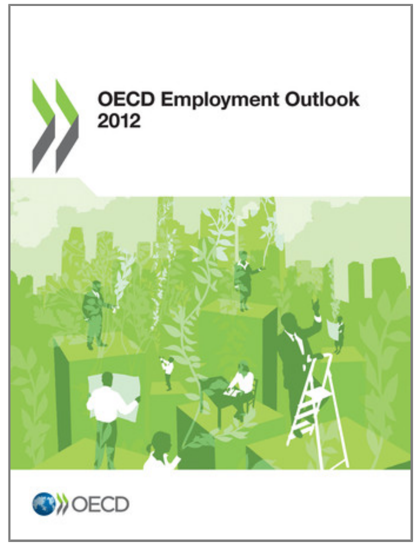
OECD Employment Outlook 2012

Summary in English



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- This 30th edition of the OECD Employment Outlook examines recent labour market trends and short-term prospects in OECD countries. It finds that the recovery from the recent economic and financial crisis has been slow and uneven. Unemployment remains unacceptably high in many countries and long-term unemployment has risen, increasing the risk of higher unemployment becoming entrenched.
- An analysis of how labour markets weather economic shocks shows that policies to lower structural unemployment also help to dampen the adverse effects of economic downturns on unemployment, earnings losses and earnings inequality. The report documents the decline in the labour share of national income that has been occurring in many OECD countries, primarily as a result of globalisation and technological change. Enhanced investment in education and better targeted tax and transfer programmes can help to ensure that the fruits of economic growth are more broadly shared.
- Finally, the impact of climate-change mitigation policies on the labour market is examined. Some sectors could experience large employment changes even if the impact on the overall level of employment may only be small. As for other structural shocks, policies should be put in place to facilitate labour market mobility.

OECD labour markets in the wake of the crisis

Unemployment across the OECD countries remains just below its post-war peak of 8.5% and looks likely to remain high over the next year or so. Roughly 48 million people are out of work: about 14.5 million more than when the financial crisis started in late 2007. Since the recovery began almost three years ago, growth has been too weak and uneven to provoke more than a small decrease in the cyclical rise in OECD-wide unemployment.

At the same time, there have been enormous cross-country variations in unemployment and the social costs associated with the economic downturn. The unemployment rate has remained below 5.5% in nine OECD countries – Australia, Austria, Japan, Korea, Luxembourg, Mexico, Netherlands, Norway and Switzerland, while nine countries still have double-digit unemployment rates – Estonia, France, Greece, Hungary, Ireland, Italy, Portugal, the Slovak Republic and Spain.

In many countries, the weakness of the recovery has led to an increasing marginalisation of the jobless. The long-term unemployed – people out of work and looking for a job for more than a year – now constitute more than a third of total OECD unemployment. The proportion of discouraged jobseekers leaving the labour force has also risen significantly. And youth unemployment has reached dangerously high levels in some countries: more than 50% in Greece and Spain (but only 8% in Germany).

Beyond the immediate damage to the lives of individuals and families unable to find work, there is a growing possibility that part of the cyclical increase in unemployment may become structural, with permanently higher levels of unemployment in those countries where the increase in unemployment has been worst. This threatens to reduce future labour supply and undermine the very recovery that can deliver jobs.

Active policies to tackle unemployment

How should policy makers respond? In the short term, they must act on at least four fronts: promoting job creation in general; tackling the growing numbers in long-term unemployment; improving the employment prospects of young people; and ensuring that as few as possible of the jobless are lost to the labour force forever. The longer-term challenge is to strengthen the resilience of the labour market, making it better able to weather future downturns with limited social costs.

To a large extent, labour market recovery depends on the broader economic recovery, around which there are considerable uncertainties, notably in the Euro area. Policies to stimulate demand would help to boost economic growth and job creation. Placing more emphasis on structural reforms in product and labour markets will be key to the recovery, given the constraints on doing more via monetary and fiscal policy in most OECD countries.

The threat of rising structural unemployment also demands a well-designed package of active labour market policies to get the unemployed back to work as quickly as possible and help those at risk of long-term unemployment to maintain their skills through temporary work opportunities. Measures most likely to be effective include targeted employment subsidies as well as job search assistance, such as face-to-face interviews, individual action plans and job clubs.

Active labour market programmes can also be remedial. These might focus on structural obstacles that prevent employers from filling job openings and hinder the unemployed from finding work, perhaps because their skills have become obsolete as a result of prolonged joblessness. This requires identifying as early as possible any emerging skill shortages and specific groups of jobless people with inappropriate skills, and then providing training and work experience programmes to help them get back into work.

But have sufficient resources been made available for these active policies? Although the rise in spending in this downturn has been considerably larger than in previous recessions, it has still been insufficient to sustain the value of resources available per jobseeker. This may reflect governments being unconvinced that extra investments will be cost-effective. It may also reflect difficulties in quickly recruiting and training skilled case managers and expanding the number of training slots while maintaining quality.

There is a risk that fiscal consolidation in many countries will further squeeze the resources available for active labour market policies. However, cutting these programmes may be unwise, since this could aggravate difficult labour market conditions and jeopardise long-term growth.

Labour market resilience

It is clear that differences in policies and institutions account for a substantial part of the variations across OECD countries in the impact of the downturn on unemployment, labour income and earnings inequality. Policy can make labour markets more resilient, both by moderating the labour market effects of a downturn and by mitigating the impact of reduced earnings on households. For example, tax-benefit systems can play a major role in mitigating the social costs of downturns.

Policies and institutions that are good for labour market resilience also tend to favour good structural labour market outcomes. In general, countries with low levels of structural unemployment experience less of an increase in joblessness as a result of downturns. This implies that many of the recommendations in the Reassessed OECD Jobs Strategy of 2006 for achieving good structural labour market outcomes are also likely to contribute to labour market resilience.

Institutions for co-ordinated wage bargaining tend to help both structural labour market performance and labour market resilience; while institutions that favour the intensive use of temporary contracts, such as stringent employment protection provisions for regular workers, reduce labour market resilience.

Labour share of income and green growth

Two other longer-term concerns about the labour market raise questions for policy makers. First, the share of wages, salaries and benefits in total national income has been declining in almost all OECD countries. The second, overshadowed by the crisis but likely to re-emerge, is how to achieve “green growth” and what the transition to a low-carbon economy means for the labour market.

The declining share of labour in national income primarily reflects the worsening position of the low skilled and least educated due to the rise in domestic and international competition, and to information and communication technologies replacing workers with machines for certain types of jobs, notably those involving routine tasks.

Should policy respond to the declining income share of labour? Slowing down the forces of technological progress and globalisation is hardly a viable option. But governments can equip their labour force to compete more effectively in what has been called the “race against the machine”. Greater investment in human capital – and ensuring a better match between the skills taught in school and the skills that employers are looking for – could go a long way towards tackling the decline in the labour share.

Policy makers are likely to turn again to the challenge of making a fast, efficient and fair transition to a low-carbon and resource-efficient economy once the recovery is firmly established. The transition to green growth is best thought of as a driver of structural economic change, in which labour market policy, including policies on education and skills, should play an active role in helping workers and employers to make the necessary adjustments.

The policies identified in the Reassessed OECD Jobs Strategy provide the essential framework for successfully managing such structural changes. In adapting these general policies for the transition to green growth, the focus might include support for “eco-innovation” and the diffusion of green technologies. Improved education and vocational training would be one route, as would ensuring that overly strict employment protection and product market regulations do not blunt the incentive to innovate.

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