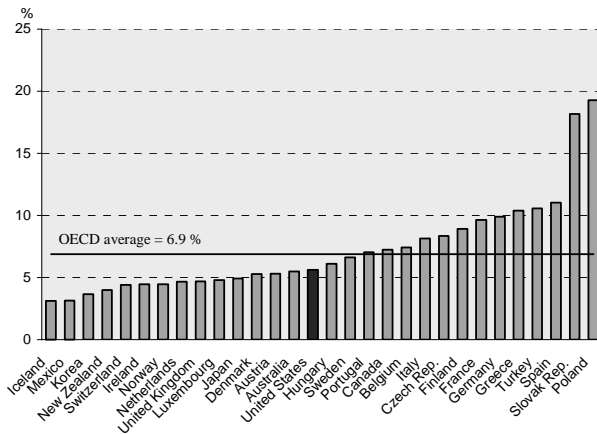


Employment Outlook 2005

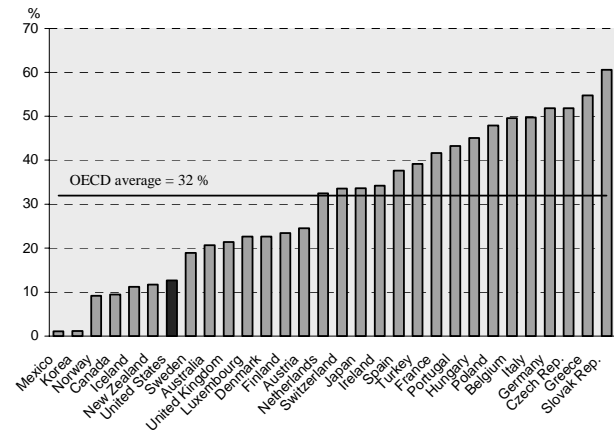
How does the United States compare?

Unemployment remains relatively low in the United States by comparison with other highly industrialised countries: the US unemployment rate was 5.6% in 2004, as compared to an average of 6.9% for all 30 OECD countries and 9.2% for OECD Europe (chart). One reason that the American unemployment rate is lower is that persons becoming unemployed find new jobs more rapidly in the United States than in most OECD countries. The share of the unemployed who have been out of work for 1 year or longer in the United States, at 13%, is only about one-third of the corresponding share for the rest of the OECD area. Nonetheless, this share has doubled since 2001, suggesting that a growing minority of American job losers are finding it more difficult to get another job.

Unemployment rate, 2004
Persons aged 15-64 years (percentages)



Long-term unemployment rate, 2004
Percentage of total unemployment



Source: OECD (2005), *Employment Outlook*, OECD, Paris

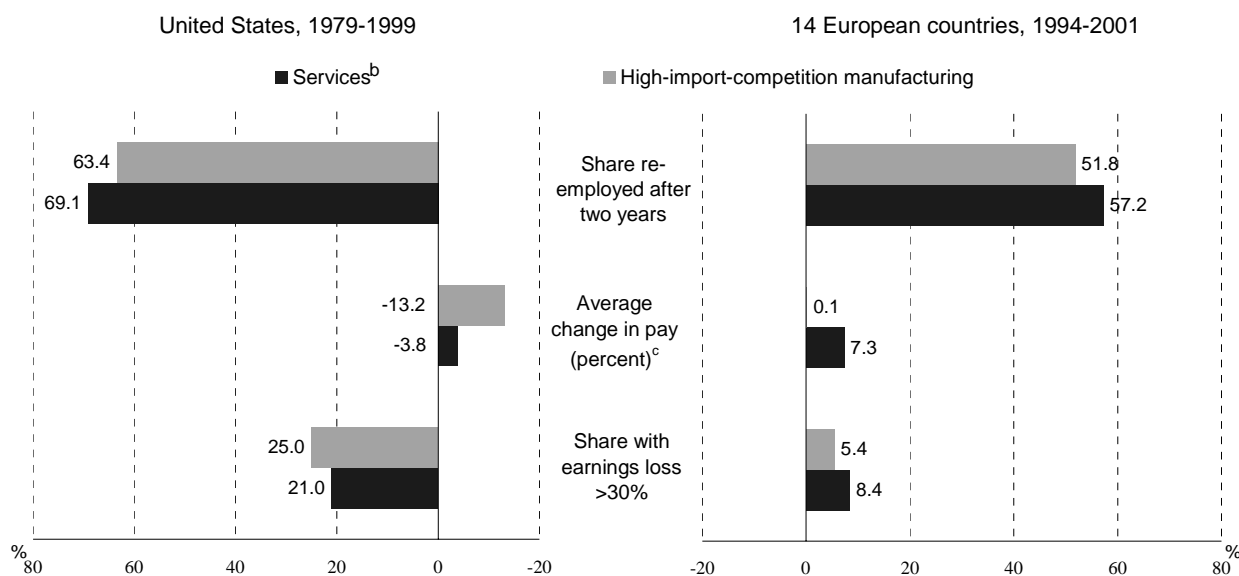
Greater difficulties on the part of some of the unemployed to get back to work, combined with the sluggish response of US employment to the expansion, have reinforced anxieties about “globalisation”. Workers’ apprehensions also appear to have been heightened by the apparent increase in “offshoring” of white-collar jobs and the rapid integration of China and India, with their huge pools of low-wage labour, into the world trading system.

The *OECD Employment Outlook 2005* argues that the worst of the fears about the impact of globalised labour markets on workers are unlikely to be realised, since growing international trade and foreign direct investment also create jobs via exports and tend to raise overall productivity. Nonetheless, job losses in some sectors are an inevitable accompaniment of the process of globalisation. The challenge is to ensure that the adjustment process involved in matching available workers with new job openings works as smoothly as possible.

This is not an easy challenge, since workers who lose their jobs in sectors hit by competition from imports often find it hard to get new jobs and may have to accept big pay cuts. In many cases, they are older and less educated than other job seekers, with skills that no longer correspond to current employer needs.

In both the United States and Europe, workers laid off from jobs in high-international-competition manufacturing industries are slower to become re-employed than job losers in the service sector (where domestic factors account for most layoffs) and they more often become re-employed in new jobs that pay less than the lost jobs (see chart). A striking difference between Europe and the United States is that large pay cuts on the new job are much rarer in Europe, whereas the risk of long-term unemployment is lower in the United States. Quicker re-employment of trade-displaced workers in the United States than in Europe probably reflects a greater capacity of American labour markets to shift workers from declining to expanding sectors. However, this flexibility imposes high costs on the considerable number of job losers who must accept large pay cuts to become re-employed. Trade-displaced workers in the United States are under greater pressure than their EU counterparts to become re-employed quickly, because unemployment benefits are less generous and layoffs may also result in a loss of health insurance coverage.

Adjustment costs are higher for trade-displaced workers than for other job losers, but the biggest source of earnings losses differs between Europe and the United States^a



a) Workers displaced from high-import-competition manufacturing serve as a proxy for trade-displaced workers.

b) Services and utilities for the United States.

c) Mean change in log wage (x100) between old and new jobs.

Source: OECD Employment Outlook, 2005, Chapter 1.

The two most important types of assistance that OECD governments provide to trade-displaced workers are unemployment benefits and “active” labour market programmes, such as job-search assistance and retraining. While similar types of assistance are provided in most countries, the United States is exceptional in having set up a special programme for trade-displaced workers, namely, Trade Adjustment Assistance (TAA). Workers who are certified by the US Department of Labor as being eligible for TAA qualify for income-support payments and training programmes that are additional to those provided by conventional unemployment insurance and state public employment services. By contrast, all other OECD countries rely upon general unemployment benefit systems and employment programmes to assist this group.

Targeted programmes, such as TAA, have the disadvantage that it is difficult to differentiate between trade-displaced workers and other job losers, a considerable number of whom have income support and re-employment assistance needs that are similar to those of trade-displaced workers. This suggests that it is preferable to use general programmes to assist trade-displaced workers, rather than setting up a targeted programme, at least when this choice is considered from a strictly economic point of view. However, equity-based arguments can be advanced for the American approach, such as the idea that trade-displaced workers have a particular claim to public assistance on the grounds that their situation results from a deliberate policy decision to liberalise trade and investment flows which yields real income gains to society as a whole. A closely related argument is that special assistance programmes for trade-displaced workers represent a necessary quid pro quo for generating political support for an open trading system. These non-economic arguments may carry particular weight in the US context, because overall public assistance for job losers is low relative to that provided in most other OECD countries.

All governments should work to improve the effectiveness of the assistance that is offered to unemployed persons, including trade-displaced workers. The *OECD Employment Outlook 2005* identifies a number of reform strategies that have demonstrated the potential to lower unemployment by speeding the return to work, while continuing to cushion the impact of unemployment on family incomes.

A first principle is to ensure that jobseekers have a financial incentive to go back to work. Benefit payments tend to reduce these financial incentives, almost by definition, but it is possible to counteract this through tax-benefit reform (rather than cutting benefit levels). In particular, the study finds that the provision of re-employment bonuses or benefits conditional on accepting a job can be effective. The experimental wage insurance scheme that was added to TAA in 2002 represents a creative application of this approach. Trade-displaced workers (aged 50 years and over) becoming re-employed within six months in a new jobs paying less than the lost jobs, qualify for wage supplements making up half of the difference (subject to some limitations). France and Germany have recently introduced similar schemes.

It is also critical to provide jobseekers intensive counselling, job-search support and participation in re-employment programmes after a certain period of unemployment. Such “activation” policies have to be seen as the counterpart for the payment of benefits – i.e. this is a “mutual obligations” approach. The higher the level and duration of benefits, the more important should be the activation component of the approach. Indeed, such a strategy lies at the heart of the success in reducing unemployment, and in particular long-term unemployment, in countries like Denmark, the United Kingdom and (until recently) the Netherlands. Welfare caseloads in the United States have fallen by more than half since a “work-first” approach emphasising activation was adopted in 1996.

OECD Employment Outlook 2005 is available to journalists on the password protected web site or on request from the Media Relations Division. For further comment on the United States, journalists are invited to contact Paul Swaim (tel: +33 1 45 24 19 77 or e-mail: paul.swaim@oecd.org) in the OECD’s Employment Analysis and Policy Division.