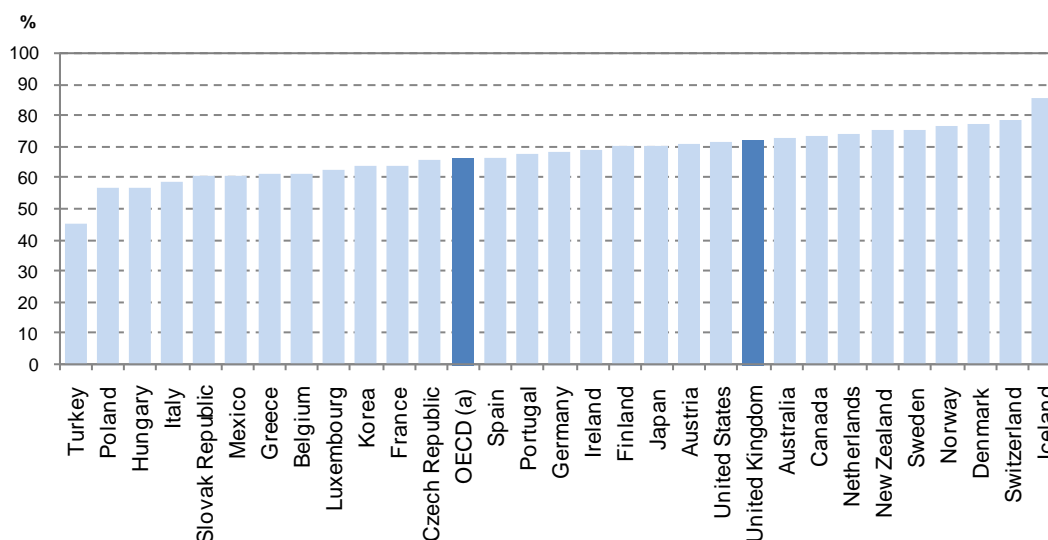


Employment Outlook 2008 – How does the UNITED KINGDOM compare?

Labour market performance in the UK continues to be strong. In 2007, the employment rate, or the proportion of people of working age who are employed, stood at 72%, substantially higher than the OECD average of 67% (see Figure 1). Likewise, the unemployment rate in 2007 is below the OECD average: 5.4% compared to an OECD average of 5.6%. However, labour market performance may be adversely affected in the coming years as a result of the financial market turmoil sparked by the US mortgage subprime crisis, developments in the housing market and high commodity prices. Projections published in the *OECD Economic Outlook 2008* indicate that unemployment will rise slightly to 5.5% in 2008 and 5.8% in 2009.

Figure 1. **Proportion of people of working age who are employed**
 Employment as a percent of population aged 15-64, 2007



a) Weighted average of OECD countries.

Source: OECD (2008), *OECD Employment Outlook*, Paris.

Employment opportunities are far from being evenly distributed among the various socio-demographic groups. About 15% fewer prime-age women than prime-age men have a job despite having attained similar levels of education, and they earn, on average, about 20% less. Similarly, employment chances are 17% lower for ethnic minorities than for the rest of the population and they also earn less. True, differences in educational attainment are part of the story. But only part, and the *OECD Employment Outlook* points out that labour market discrimination is also likely to be a factor, despite the fact that the UK has one of the most comprehensive legislative and institutional frameworks to fight discrimination in OECD countries.

Low public awareness of anti-discrimination provisions constitutes a strong barrier to their effective enforcement. Only one half of the population claims to know that discrimination on the basis of gender or ethnic origin when hiring new employees is unlawful. And only 45% of British citizens claim to know

their rights, should they be a victim of discrimination. This lack of public awareness constitutes a strong barrier to the effective enforcement of legal rules, since discrimination can be investigated, proved and sanctioned, only if individuals deprived of their rights are willing to take legal actions. Information and education campaigns to induce cultural change should probably be reinforced.

The legislative framework for equality is overly complicated and could be made more visible and accessible through the adoption of a single Equality Act. At present the legislative framework consists of a multitude of provisions across various acts and regulations making it little transparent. In this respect, the establishment in 2007 of the Equality and Human Rights Commission, a single body that combines the responsibilities and powers of the three previous equality commissions, goes in the right direction. However, a visible and accessible framework for equality would ideally be based on a single Equality Act. Such a proposition is included in the Government's Draft Legislative Programme for 2008/2009, and is welcomed.

Recent trends in employment patterns and working conditions do not explain the steep rise in disability inflows for mental reasons in the UK. The share of inflows into disability due to mental illnesses has risen from 31% in 2000 to 34% in 2005. While labour market transitions into sickness-related inactivity and unemployment can have important implications for mental health, these are unlikely to account for the rise in mental health-related disability inflows given the strong labour market performance in recent years. Working conditions related to the type of contract, the length of the working week and job security may also affect mental health. However, the available indicators do not show a general deterioration in working conditions in the UK.

The role of foreign multinationals in the UK economy has increased rapidly during recent decades. The stock of inward FDI has increased from 21% of GDP in 1990 to 37% in 2005. This trend has typically been welcomed as FDI is expected to bring significant benefits to the economy through the creation of high-quality jobs and the introduction of new production techniques.

Foreign multinational enterprises (MNEs) offer higher wages than their domestic counterparts. Although foreign takeovers of UK firms have no impact on the wages of workers employed in those firms, individuals who move from UK firms to foreign MNEs experience substantial wage gains. These amount to around 6% in the short-term. In the longer term, one would expect the positive effects to spread across the entire workforce, as large pay disparities between new and old workers within firms are unlikely to be sustainable.

The increase in FDI into the UK may also have contributed to the declining role of trade unions. New evidence from the *OECD Employment Outlook* suggests that foreign takeovers of domestic firms reduce union bargaining power. This may reflect the fear on the part of trade unions that excessive wage demands are more likely to result in the relocation of production to other countries.

OECD Employment Outlook 2008 is available to journalists on the password protected web site or on request from the Media Relations Division. For further comments on the UK, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Alexander Hijzen (tel: +33 1 45 24 92 61 or e-mail: alexander.hijzen@oecd.org) from the OECD Employment Analysis and Policy Division.