



Launch of the 2008 OECD Employment Outlook

**Remarks by Angel Gurría
Secretary-General
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Paris, 2 July 2008

Ladies and gentlemen,

It is a great pleasure for me to present the 26th edition of one of our flagship publications, the *2008 OECD Employment Outlook*.

Let me start with the good news. OECD labour markets are overall in good shape. In 2007, the average unemployment rate was 5.6% in the OECD area, the lowest rate since 1980. And there has been a strong increase in job opportunities: on average, two thirds of the working-age population now has a job, more than ever before in the post-war era.

But there are clouds on the horizon. The OECD's most recent economic projections see weaker near-term prospects for global growth. In some countries, unemployment is now rising, most notably in the United States, but also in Ireland and Spain. Overall, the number of unemployed persons in the OECD area is expected to increase by 1 million persons this year and by another 2 million in 2009, resulting in an OECD unemployment rate of 6%.

Looking beyond the current cyclical weakness, this year's *OECD Employment Outlook* focuses on how to build a more inclusive labour market and ensure equality of job opportunities for all. Labour market reforms in OECD countries have increased participation but barriers remain. Women and ethnic minorities are still facing discrimination. People with disabilities, and in particular those with mental health problems, are often excluded. Some groups among the youth face difficult transitions from school to work. And a number of OECD countries are still struggling with a broader problem of labour market inclusion as many workers are finding it difficult to move from the informal sector into formal jobs.

These challenges occur in a context of population ageing which will require active mobilisation of human resources in the labour market. We must get better at helping members of under-represented groups to find jobs.

Labour market discrimination is still a big obstacle. Many workplaces not only have a glass ceiling but also a glass door, which keeps out women and ethnic minorities. The numbers are telling. Women are on average 20% less likely to have a job than men and, when they have a job, they earn about 17% less, on average. There are many factors at work here, but the analysis in the *OECD Employment Outlook* shows that at least 8% of the gender gap in employment rates and 30% of the gap in wages results from discrimination.

In some OECD countries, ethnic minorities have to spend up to 50% more time looking for work than other job seekers with the same qualifications. And even when they manage to get a job, they are paid less than workers from majority-groups.

Governments can do a lot to combat discrimination. Growth-enhancing reforms – such as those promoting competition and product market deregulation – can effectively kill two birds with one stone. Boosting growth raises the number of available jobs for all. More competition will discourage managers from hiring and promoting on the basis of prejudice: they will be under greater pressure to hire the best person, regardless of gender or ethnicity.

Economic growth alone, however, will not solve the problem. Anti-discrimination laws are also important. All OECD countries now have such laws. But victims of discrimination often need help to make their case. Proving a discrimination claim is intrinsically difficult for the claimant: legal action in courts is costly, while the benefits are often small and uncertain.

We also need to better enforce anti-discrimination laws. Specialised agencies should regularly review companies' policies to ensure compliance with such laws. Finally, we need to inform our citizens better. Recent surveys show that only less than half of all citizens know that it is illegal to discriminate on the basis of gender or ethnicity when hiring employees.

Let me now move to another group that faces many obstacles in the labour market: persons of working age who receive long-term sickness or disability benefits, but are capable and

willing to work. In the Outlook, we focus on mental illness as a barrier to employment. Mental illness has become the most important driver of the rising rates of disability benefit receipt among the working age population.

Why are mental illnesses, such as burn-out, nervous break-downs and depression, on the rise? Part of the explanation is certainly improved diagnosis and better public awareness of mental problems. But work-related stress has also become more widespread: more and more workers hold temporary jobs, report an intense work pace, regularly work after hours, or do shift work. And workers are feeling the strain: About one in five European workers reports suffering from job-related stress and fatigue.

The Outlook suggests that workers who have mental health problems should be assisted to maintain a foothold in, or be brought back to, the labour market if they are capable of working. This requires prevention and rehabilitation measures -- including training -- lest a worker with mental health problems drifts into long-term sickness and disability. Employers have a role to play too. In particular, they can adjust working conditions – for example by reducing working hours.

The report also shows that moving into employment typically leads to improvement of mental health, while being unemployed or inactive tends to have a stronger negative impact on mental health than many other stressful life changes.

Informal employment is an additional example of the lack of inclusiveness in some labour markets. Informal and undeclared workers have less social protection and are usually facing precarious working conditions that are not conducive to skills improvement. The associated loss in tax and social security revenues makes it more difficult for governments to deliver high quality public services.

The Outlook presents analysis for seven OECD countries: Czech Republic, Hungary, Korea, Mexico, Poland, Slovak Republic, and Turkey. Informal employment is most widespread in Mexico and Turkey, where 40-60% of the workforce is employed without social security coverage, or runs its own business. Tax evasion is common, even in medium and large firms of the formal sector. In the Czech and Slovak Republics, very few workers are completely informal, but up to 10% of the workforce has under-declared income. These are primarily middle-aged workers with medium to high levels of education, which suggests that evading taxes and regulations is the primary motive of informality, rather than survival.

The policies to address informality vary strongly depending on the individual country context, and the report offers a number of recommendations for each case. In broad terms, governments can improve the incentives to employ workers formally by reducing labour costs when they are very high and by increasing flexibility where employment protection legislation is very stringent. Social protection systems should also be designed in ways that encourage workers to join. More efforts in enforcing tax, social security and labour rules are also important.

The second main theme of this year's *Employment Outlook* deals with the impact of globalisation on workers. Foreign direct investment (FDI) has increased particularly into developing countries. This has raised expectations about the potential contribution of foreign investors to development, for example, through the creation of high-quality jobs. But the activities of multinational enterprises in developing countries have also triggered controversial debates around the question of whether they do, in fact, benefit workers in these countries.

The Outlook confirms that multinational enterprises and the firms that are part of their supply chains tend to offer higher pay and also provide more training than domestic firms. Much of the benefits go to new employees who are offered better job opportunities, rather than to

workers who stay in firms that have been acquired by foreign-based multinational enterprises. In the longer term, however, one would expect the positive effects to spread across the entire workforce.

This suggests that there is a role for policies to promote FDI, for example by removing specific regulatory obstacles. By contrast, lowering core labour standards with the aim of providing a more competitive environment for potential investors can backfire. It can in fact discourage investment from multinational enterprises who respect core labour standards throughout their operations.

Promoting responsible business conduct among multinational enterprises can go a long way in this respect. The *OECD Guidelines for Multinational Enterprises* provide a good example of a government-backed initiative to advance in this front, as was discussed at a major OECD-ILO Conference on corporate social responsibility here in Paris last week.

In closing, let me say that the *2008 OECD Employment Outlook* offers a wealth of evidence and a wide range of conclusions on how to make our labour markets more inclusive and how to ensure that workers all around the world reap the full benefits of globalisation.

My colleagues and I look forward to your questions and comments.