Editorial

Wageless growth: Is this time different?

For the first time since the onset of the global financial crisis in 2008, there are more people with a job in the OECD area than before the crisis. Unemployment rates are below, or close to, pre-crisis levels in almost all countries. Job vacancies have reached record highs in the euro area, the United States and Australia. A growing number of them remain unfilled for many months as labour market conditions get tighter.

Yet, wage growth is still missing in action. As highlighted in this edition of the *Employment Outlook*, OECD countries are now a long way into the growth cycle, but wage growth remains remarkably more sluggish than before the crisis (Chapter 1). At the end of 2017, nominal wage growth in the OECD area was only half of what it was just before the Great Recession for comparable levels of unemployment. And even when inflation is taken into account, real wage growth is a long way off pre-crisis trends. True, in some countries with a long-standing recovery, a few wage agreements entailing significant pay increases have been signed recently, but these remain sparse.

Even more worrisome, this unprecedented wage stagnation is not evenly distributed across workers. Real labour incomes of the top 1% of income earners have increased much faster than those of median full-time workers in recent years, reinforcing a long-standing trend. This, in turn, is contributing to a growing dissatisfaction by many about the nature, if not the strength, of the recovery: while jobs are finally back, only some fortunate few at the top are also enjoying improvements in earnings and job quality.

As labour market tightens up and a growing number of vacancies remain unfilled, why is wage pressure not increasing?

A first answer lies in the slowdown in productivity growth. All else equal, low productivity growth puts a brake on wage growth. While in the years before the crisis hourly labour productivity was growing at 2.3% per year on average in the OECD area, it slumped during the recession. And the chasm, which opened in the early years of the global financial crisis, has not been filled yet: productivity growth levelled off at 1.2% on average over the past five years, and at less than 1% in several countries, including France, Italy, Japan, the United Kingdom and the United States.

While the reason behind this slowdown is currently one of the most hotly debated issues in macroeconomics, productivity trajectories have however been very heterogeneous across firms. Leading firms, at the technological frontier, have enjoyed strong productivity growth similar to that of the pre-crisis period, but follower firms have experienced sluggish productivity growth, widening the gap from the top performers. In other words, productivity growth has become even more concentrated, with limited spillovers from the frontier to follower firms. Aggregate productivity gains are now led by highly-technological, innovative firms that enjoy increasingly large market shares due to their competitive advantage. Even though these dominant positions tend to be temporary, as firms at the technological frontier are continually being challenged by new and better innovators, this process drives down the labour share – the share of national income going to labour. Frontier companies invest massively in capital-intensive technologies and thus tend to have lower labour shares, while reallocation of market shares towards these "superstar" firms further contributes to a lower part of value added that goes to workers (Chapter 2).

The second answer relates to the changing nature of skills demand and its relationship to the skills available in the workforce. The jobs destroyed during the crisis are not the same as those created in the recovery. Leading firms are in great demand of highly-qualified personnel, with high-level cognitive skills – such as complex problem solving, critical thinking and creativity – and social intelligence – social perceptiveness needed when persuading, negotiating and caring for others. These skills are in short supply in many countries and people who possess them have been the main beneficiaries of wage growth. However, many workers are not well equipped to meet the emerging demand for these high-level skills. According to the *Survey of Adult Skills*, almost one-in-four adults lack even basic information-processing skills (digital skills) and can only do simple tasks on computers, which prevents them from accessing jobs in which pay is increasing.

As a result, recent wage developments have not been the same for everybody, with significant differences not only across countries but also within countries, and within firms. While returns to high-level skills have been rising, there is evidence that the number of lower paid jobs is on the rise. For example, involuntary part-time employment has risen significantly in a number of countries since the crisis, and this has been accompanied by a deterioration in the relative earnings of part-time workers.

Declining coverage of unemployment benefits in many countries and mounting long-term unemployment in the aftermath of the crisis (Chapter 5) may also have contributed to low wage growth. Jobseekers may have become less selective when nearing exhaustion of their benefit rights and may tend to accept jobs not matching their expectations in terms of hours worked contractual arrangements and, especially, wage levels. In a number of OECD countries, particularly those hit hard by the financial crisis and then by the sovereign debt crisis, the overall annual growth of real monthly wages would have indeed been higher had the number of those newly hired after an unemployment spell not increased so much and their wage evolved along the lines of other workers. For example, in Spain average real wages would have been 3.1% higher by 2014 had average wages grown at the same rate as the wages of those continuously employed since 2007. Many of the workers who lose their jobs for economic reasons typically face structural challenges that put them at risk of long-term unemployment, unless skills profiling, re-training and counselling are provided early enough (Chapter 4).

In this context, it is crucial that countries develop high-quality education and training systems that provide learning opportunities throughout the life course. Children and youth need to acquire valuable job-specific skills and develop their creativity, problem solving and social perceptiveness, as well as the ability and interest to learn new things. But learning opportunities cannot stop at school and university. Adults must be given continuous opportunities to develop, maintain and upgrade skills at all ages, with a view to preventing as much as addressing skills obsolescence and depreciation. Yet, workforce groups at greater risk of labour market disadvantage receive less training, both formal and informal, which compounds their disadvantage. Across all OECD countries, the low skilled have indeed a probability of being involved in training which is only one-third of that of the high skilled. More needs to be done to overcome this gap, with better targeted training measures but also greater involvement of employers, especially in small and medium-sized enterprises that struggle to offer training.

More generally, in a world where technologies and employers' needs are changing rapidly, the challenge for policy is to ensure that current and future skill demands are well identified. Systems and tools to produce this information exist in most countries. They usually provide reliable evidence that can be used to address skill imbalances but their predictions are rarely well-integrated into policy and practice. Doing so requires good co-operation and co-ordination between key stakeholders in several different areas ranging from employment to education and training to migration policy.

Co-operation and co-ordination among social partners have a key role to play in addressing these challenges, but this requires addressing the long-term trend decline in union membership and eroding role of collective bargaining in a number of countries. Social dialogue makes it easier to anticipate future needs and opportunities, find solutions and manage change proactively, but to be effective social partners should work together in a spirit of co-operation and mutual trust. New evidence provided in this *Outlook* clearly shows that co-ordinated collective bargaining systems, with strong and self-regulated social partners and effective mediation bodies, contribute to high levels of employment, better quality of the work environment, including more training opportunities, and greater resilience of the labour market to shocks (Chapter 3). In a rapidly changing labour market, there is even more need for effective social dialogue. Social partners can and should play an important role in ensuring that the provision of training is consistent with current and future demand for skills, achieving an equitable distribution of productivity gains and supporting individuals who lose their job as a result of technological change or trade.

To sum up, the persistent overall degree of wage moderation masks large differences between workers, but also reflects structural changes in our economies that the global financial crisis has deepened and accelerated. Some stronger wage rises are expected as the labour market tightens further. But the earnings prospects of many workers may well remain meagre as they struggle to adapt to a rapidly evolving world of work. Well-targeted policy measures and closer collaboration with the social partners can and should help these workers address their growing disadvantages by providing them with training and retraining opportunities as well as career guidance and information to foster mobility.

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