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Editorial

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Editorial

Both more and better jobs are needed for an inclusive recovery from the crisis

More and better jobs are needed to lower unemployment and improve well-being

Despite recent improvements, further progress in labour market conditions remains largely dependent upon a broader and sustained economic recovery. Although unemployment has declined in response to renewed job creation, large job gaps remain in many countries with deep scars from the crisis both for people with work and those without. The unemployed have borne considerable personal, economic and social costs that may prove to be long-lasting. This is especially true for those who have endured a long spell of joblessness, who are facing a depreciation of their skills and a risk of labour market exclusion. Among those who have kept their jobs, an increasing number of workers and their families have experienced economic hardship as a result of declines in the spending power of their earnings from work. The crisis has also deepened a long-standing issue of poor job quality in advanced and emerging countries alike.

These dual impacts on the unemployed and the employed emphasise the need to foster the creation of not just more jobs but also better jobs – a task that is now the defining challenge for many governments around the world. Meeting this challenge will require a broad range of policy actions; from sound macroeconomic policies to sustain the recovery, to reforms aimed at fostering competition and productivity in the markets for goods and services, facilitating worker mobility towards more productive and rewarding jobs, shoring up incomes of low-paid workers and strengthening worker training and retraining.

Tackling persistently high unemployment remains a priority

Unemployment is finally on a downward path in many countries. After nearly three years of little change, the OECD harmonised unemployment rate fell to 7.3% in June 2014, down from a post-war high of 8.5% in October 2009, but was still significantly higher than before the crisis. Almost 45 million persons are without work in the OECD area, 11.9 million more than just before the crisis. However, there are sharp differences across countries. In the United States, unemployment fell to 6.2% in July 2014; in Japan it has declined since mid-2009 and it reached 3.7% in June 2014; in the euro area, wide differences persist, but thanks to some recent easing also in some of the hard-hit countries, the area-wide unemployment rate declined to 11.5%. According to the most recent OECD economic projections from May 2014, unemployment in the OECD area will continue to decline but will remain well above its pre-crisis level for the rest of this year and throughout 2015.

Long-term unemployment has probably peaked in most countries, but it remains a major source of concern. For the OECD area as a whole, 16.3 million persons – more than one in three of all unemployed – had been out of work for 12 months or more in the first quarter of 2014. The size of this group has increased by 85% since 2007. For countries that saw the biggest increases, there is growing evidence that part of what was originally a cyclical increase in unemployment has become structural and will thus be more difficult to reverse during the economic recovery. Therefore, tackling unemployment where it remains high and driving down long-term unemployment remain key policy priorities.

Wage adjustments have helped the labour market weather the crisis, but cannot on their own restore the labour market to full health

Wage adjustments have played an important role in helping the labour market weather the deep cyclical downturn, reducing job losses in the downturn and promoting employment growth in the recovery. The slowdown in real wage growth was particularly marked in the euro area where it declined from an average annual growth rate of 2.1% at the start of the crisis to -0.1% since 2009; however similar trends were also observed in the United States and Japan. These wage adjustments have contributed to foster external competitiveness, especially in some euro-area countries. Indeed, following the introduction of the euro, labour costs grew considerably faster than labour productivity in several European countries, notably Greece, Portugal, Ireland and Spain, especially when compared with Germany. This gap has been partially reversed during the crisis.

However, stagnant or falling real earnings can have a major impact on household incomes, further contributing to economic hardship, especially among the most disadvantaged. This edition of the *OECD Employment Outlook* shows that, on average across a range of OECD countries, half of all workers saw the real value of their earnings fall in 2010. In one third of these cases, this was because earnings growth was outpaced by inflation; in the other two-thirds, it was because nominal earnings actually fell, not necessarily as a result of wage cuts but more likely because of reduced overtime pay and bonuses. Further downward adjustments in wages in the hardest-hit countries risk being counterproductive: especially in a context of near-zero inflation, it may be difficult to achieve in the first place; or it may do little to create jobs while increasing the risk of poverty and depressing aggregate demand. Other policy measures are required. Macroeconomic policies have still an important role to play but they need to be complemented by structural policy reforms to boost productivity and potential growth.

Enhancing product market competition and labour market policies to promote mobility and inclusion are needed

The *Outlook* finds that the significant wage moderation observed in many countries during the crisis has not been fully translated into lower price dynamics so as to promote competitiveness and strengthen output and employment growth. This is partly explained by the necessary efforts of many troubled firms to restore their profitability. But it could also reflect a lack of competition in markets for goods and services. Therefore, it would be timely to pursue further structural reforms to enhance effective competition in product markets and to ensure that the gains from labour market reforms can fully materialise. Such actions could strengthen productivity and potential output growth and fuel job creation.

It should also be made easier for workers to move between sectors and firms. As the economy recovers, many of the new jobs that are created may be in different firms and sectors and may require different skills than the jobs that have been lost. Programmes facilitating labour mobility and providing training and work-experience are essential to allow countries with persistently large labour market slack to foster job creation. Even though public finances are squeezed in many countries, it is essential to provide funding for such programmes to ensure the economic recovery becomes a jobs recovery. This, in turn, could help reduce both income inequality and poverty.

It is important also to address gaps in employment protection between permanent and temporary workers. The crisis demonstrated that when these gaps are excessive, the impact of a downturn on job losses is greater, especially among those on “atypical” and precarious jobs. They also leave many workers in these jobs with poor and weakened employment prospects. As the *Outlook* shows, temporary or other atypical jobs are not an automatic stepping-stone to permanent work: in Europe, for example, less than half of temporary workers in a given year had full-time permanent contracts three years later; and in several countries, including Korea, those on temporary or other atypical contracts have a much higher probability of moving into inactivity. Workers on these contracts are also less likely to receive the training that could enhance their employment prospects. The gap in effective protection is even larger in emerging economies where informal-sector workers are largely excluded from employment and social protection provisions. Governments should thus seek to narrow gaps in terms of employment protection between permanent and atypical workers so as to tackle labour market segmentation and promote investment in workers’ human capital.

It is encouraging that, often prompted by the crisis, a number of countries have recently undertaken significant reforms in this area. These reforms seek to reduce the gap between permanent and atypical labour contracts, clarify conditions for hiring and separation of workers under different contracts and, in a number of cases, tackle abuses in the use of temporary contracts. In a number of emerging economies, efforts have also been made to strengthen social protection for all workers. These reforms take time to deliver better outcomes and so it is essential that countries stay the course, while at the same time evaluating the impact of these reforms and, if needed, undertaking adjustments to improve their effectiveness in promoting better labour market outcomes.

Policies such as minimum wages, progressive taxation and in-work benefits can help to share more fairly the costs of economic adjustment

Policies must address not just the level of wage adjustment but also its distribution. Low-paid workers and their families are most at risk of severe economic hardship from cuts in the spending power of their wages, but also have the most to gain from measures to ensure the short-term costs of economic adjustment are fairly shared.

Mandatory minimum wages, which now exist – or are being implemented – in 26 OECD countries and a number of emerging economies, can help underpin the wages of low-paid workers. Evidence suggests that, when set at an appropriate level, minimum wages tend to have only a small adverse effect on employment. Sensible minimum-wage design includes: taking account of differences by region according to the average income level, as well as by age in experience and productivity; ensuring that the level and adjustments of the minimum wage involve independent commissions; and reducing social security contributions to lower non-wage labour costs at the minimum wage.

More progressive taxation of income can also help ensure that those doing best in the economy pay their fair share. As earnings (and other sources of income) become more unequally distributed, the case for examining the distributive impact of tax exemptions and allowances becomes even stronger. Moreover, a number of OECD countries have introduced or recently scaled up in-work benefits schemes to support low-paid workers and reduce household income inequality.

Setting an agenda to promote more productive and rewarding jobs

Going forward, more attention should be paid not only to the number of job opportunities available and for whom, but also on the quality of these jobs and their contribution to well-being. After all, most people spend a substantial part of their time at work and work for much of their life. Job quality embraces a range of aspects that matter for well-being. These include the level and distribution of earnings; the risk and the consequence of job loss in terms of lost income; and the extent to which workers have the resources they need to meet the demands of their jobs. Therefore, in responding to the legacy of the crisis, governments must take action to foster the conditions needed for employment growth and improve access to productive and rewarding jobs.

The good news is that the preliminary findings in this *Outlook* suggest that, overall, there is little sign of a trade-off between job quantity and job quality across countries. Thus, policy makers do not have to choose one at the expense of the other. But they do need to pursue a consistent set of policies, including wage-setting arrangements, employment protection legislation, social protection schemes and occupational health and safety requirements – that promote job growth while enhancing job quality. In the long-term, the success of countries in creating more and better jobs will also be largely determined by providing people with the skills they need and by ensuring that they can adapt and improve those skills to face the challenges of a rapidly evolving labour market.



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