

Executive summary

The labour market recovery in the OECD area remains incomplete

Unemployment remains well above its pre-crisis levels in many OECD countries despite a recovery in job growth. Modest declines in unemployment are projected over the rest of 2014 and in 2015. The persistence of high levels of unemployment has been translated into a rise in structural unemployment in some countries, which may not be automatically reversed by a pick-up in economic growth, as it has led to a loss in human capital and motivation to find work, especially among the long-term unemployed. For the OECD area as a whole, 16.3 million people – over one in three of the unemployed – had been out of work for 12 months or more in the first quarter of 2014, almost twice the number in 2007. Given these developments, promoting demand should remain a key policy objective where the recovery has been less robust, accompanied by reinforced measures to combat structural unemployment. Priority should be given to employment and training measures for the long-term unemployed who typically face significant barriers to finding work and are most likely to quit the labour force.

Real wage growth has slowed substantially

Many of those who kept their jobs have seen their real earnings grow more slowly or even fall because of the crisis. A persistent increase in unemployment in many OECD countries has exerted considerable downward pressure on real wage growth. This has helped to curb unit labour costs and thus promote external competitiveness in a number of countries, particularly in the euro area. Further wage adjustment, especially given low inflation, would require painful wage cuts and could increase the number of working poor. A range of policies are needed to promote competitiveness, growth and job creation. In addition to sound macroeconomic policies to promote the recovery, these include: reforms to increase competition in the markets for goods and services; helping displaced workers shift to new areas of employment; and shoring up incomes of low-paid workers.

Better job quality should be promoted

Labour market performance should be assessed in terms of both the number and quality of job opportunities, i.e. policies should seek to promote more and better jobs. A new conceptual and operational framework has been developed to measure job quality via three dimensions: the level and distribution of earnings; labour market security; and the quality of the work environment. There are large differences across countries in each of these dimensions but there does not appear to be any major trade-off between job quality and job quantity: some countries manage to do well on both counts. There are also considerable differences in job quality between socioeconomic groups within countries. Youth, low-skilled workers and those with temporary jobs appear to cumulate many

disadvantages. In contrast, high-skilled workers not only obtain access to more jobs, but also to the best quality jobs. The level and distribution of earnings depend on the role of growth-promoting policies, the accessibility and quality of education, the nature of wage-setting institutions (e.g. minimum wages, collective bargaining), and the design of the tax and benefits systems. Labour market security is determined by the interplay of employment protection, unemployment compensation systems (unemployment benefits and severance pay) and active labour market policies. The quality of the work environment is largely determined by the effectiveness of occupational health and safety regulations to prevent work-related health problems, but also by social dialogue and the degree of employer social responsibility.

Overreliance on temporary work is damaging to individuals and the economy

Non-regular employment – that is all forms of employment that do not benefit from a permanent or open-ended contract – can provide flexibility for firms to adjust their workforce in changing economic circumstances. They can also be a voluntary choice for workers who prefer the flexibility associated with these types of contract. However, extensive use of non-regular contracts can have an adverse impact on both equity and efficiency. Workers on these contracts often face a higher degree of job insecurity than employees on regular contracts. And firms tend to invest less in non-regular workers, which in turn may depress their productivity and human capital development. Over the two decades prior to the global financial crisis, non-regular work expanded in many countries as governments sought to promote flexibility in the labour market largely by easing regulations on non-regular contracts while leaving in place relatively stricter conditions for those on regular contracts. Policy options to reduce the labour market divide between regular and non-regular workers include regulating more strictly the use of temporary contracts while relaxing regulations on dismissal of permanent workers. Going further, convergence of termination costs across contracts could be obtained by introducing a single or unified contract. Each of these options involves overcoming implementation difficulties and requires complementary reforms to be effective.

Both qualifications and skills matter for early labour market outcomes and beyond

The OECD's international Survey of Adult Skills provides new insights on the contribution of educational qualifications and a range of skills to two key labour market outcomes for young people aged 16 to 29 years: the risk of being out of school and out of work; and, if in work, the level of hourly wages. The findings underscore the importance of promoting higher educational attainment, but also of enhancing literacy, numeracy and problem-solving skills and improving the information available to young people when choosing their field of study. Work experience also positively affects wages early on as well as generic skills. Nevertheless, in several countries, few youth appear to combine work and study, and most students who work do so outside of formal programmes involving work experience such as vocational education and training (VET) courses or apprenticeships. This suggests that, in order to familiarise students more closely with the labour market, not only should work-based modules in VET and apprenticeship schemes be introduced or expanded, but measures that make it easier for all students to gain work experience should be strengthened. Such measures could include removing barriers for firms to take on part-time workers and possibly introducing tax incentives for students working up to a certain number of hours.