Editorial

Time is running out to help workers move up the jobs ladder

The recovery is underway, but millions of workers risk being trapped at the bottom of the economic ladder

The jobs recovery is becoming more widespread and gaining momentum putting unemployment on a declining path in most countries, including those hardest hit by the crisis. However, the recovery is still far from complete and time is running out to prevent millions of workers from being left trapped at the bottom of the economic ladder. Many of the youth who finished their schooling during the crisis years and have struggled to gain a secure toe-hold in the labour market may be approaching the “make or break” point so far as being able to ascend the career ladder. Indeed, one of the striking findings in this edition of the OECD Employment Outlook is that long-term career prospects are largely determined in the first ten years of working life. Some of the experienced workers who have lost their jobs during the crisis are also having a difficult time putting their careers back on track. For example, a number of those who lost jobs in the manufacturing or construction sectors will need to make a career switch to growing service industries and often to adapt their skills if they are to avoid becoming trapped on the margins of the labour market.

The scarring effects of the crisis on the hardest hit groups are compounded by longer-run trends that are making it more difficult for low-skilled workers to move out of precarious, low-paid jobs into jobs that offer opportunities for career advancement. If the missing rungs are not put back into the jobs ladder, the legacy of the crisis is likely to include a further permanent increase in economic inequality above the already record high levels that had been reached before the crisis in many OECD countries. Governments need to take action now if they are to avoid a permanent increase in the number of workers stuck in chronic unemployment or cycling between unemployment and low-paid jobs.

Tackling persistently high unemployment remains a priority

While unemployment is on a downward trajectory in most countries, about one-half of the crisis-related increase in joblessness in the OECD area still persists more than seven years after the crisis began. Around 42 million persons were without work in May 2015 across the OECD, 10 million more than just before the crisis. However, there are sharp differences between countries. Whereas the euro area unemployment rate remains above 11%, unemployment has fallen below 6% in the United States and is under 4% in Japan, Korea and Norway.

Long-term unemployment has peaked in most countries, but it remains a major source of concern as it can lead to skill depreciation, loss of motivation and withdrawal from the labour market. The stigma associated with long spells of joblessness also makes
it more difficult for the affected workers to return to work and climb up the jobs ladder. For the OECD area as a whole, 15.7 million persons – more than one in three of all unemployed – had been out of work for 12 months or more in the fourth quarter of 2014. The size of this group has increased by 77% since 2007 and more than half of this group has been jobless for two years or longer (57%). For countries that saw the biggest increases, including the southern European countries, there is growing evidence that part of what was originally a cyclical increase in unemployment has become structural – either in the form of open unemployment or labour force withdrawal due to discouragement – and will thus be more difficult to reverse during the economic recovery.

Persistently high levels of unemployment – especially long-term unemployment – have knocked out the first rung of the jobs ladder for many young people entering the labour market and also more experienced job losers who have fallen down the ladder. Tackling unemployment where it remains high and driving down long-term unemployment, in particular, represent key policy priorities. However, lowering unemployment should be approached as part of a larger challenge to promote upward mobility at the bottom of the earnings ladder.

Policies to support upward mobility in the labour market are also needed

The Employment Outlook underlies the high social costs resulting from earnings inequality by showing that a substantial portion of the persons who are unemployed or in low-paid jobs at one point in time are at a high risk of becoming trapped at the bottom of the earnings ladder. Policy makers should thus place a high priority on assuring that the crisis does not leave additional workers permanently excluded from work or trapped in low-paying and insecure jobs, thereby ratcheting inequality up another notch.

Concerns about a possible increase in inequality are heightened by the fact that most OECD economies had already become significantly more unequal in the distribution of income during the decades preceding the crisis, reflecting a large rise in earnings inequality. It follows that the challenge to promote upward mobility at the bottom of the jobs ladder is much more than a cyclical issue related to the global crisis. It is also a key to helping all workers to participate successfully in a rapidly evolving economy. Technological change and the digital revolution in particular have been important drivers of this trend by skewing job demands towards high-level skills and putting downward pressure on the pay of less skilled workers. These structural changes in the economy are part of a continuous process of adaptation to new technologies and processes, as well as globalisation. In this context, workers must have the opportunity to build the skills needed by employers, but also to adapt them to changes in labour demand and to use their skills fully on the job. This is of crucial importance to ensure human capital plays its expected role in boosting innovation and productivity, but also to make growth inclusive.

Governments need to begin restoring the missing rungs back in the jobs ladder and help workers to climb them

Three types of policy measures are particularly important for improving the labour market prospects of the workers who are currently stuck at the bottom of the economic ladder. First, effective activation measures are needed that connect jobseekers with suitable jobs. Second, skill deficits in the workforce must be addressed since one of the strongest predictors of poor career outcomes is a low level of skills. Finally, direct measures to raise job quality have an essential role to play, especially in shoring up the earnings of
low-paid workers. The importance of these types of measures has long been apparent, but their importance has been magnified by the crisis and by the increased prevalence of temporary and other atypical jobs in a number of countries. Career advancement opportunities are often limited for workers in these types of jobs.

**Effective activation policies can help connect the unemployed to more job opportunities**

With job creation strengthening in many countries, it becomes imperative to scale up efforts to assist jobseekers and in particular the long-term unemployed back into work. This requires an effective and adequately resourced system of labour market activation measures. In some countries, re-employment and retraining programmes run by public and private employment services have borne too large a share of fiscal consolidation and more resources are required. Often, however, the greatest need is to improve the effectiveness of activation policies.

The Employment Outlook puts forward a new framework for the design of successful activation policies. While activation policies draw on many tools that can be assembled in different ways, the overall package needs to maintain the motivation of job seekers, especially of the long-term unemployed, to actively pursue employment. It is also crucial to improve their employability and expand their opportunities to be placed and retained in appropriate jobs. The implementation of these three elements – motivation, employability and opportunity – has to be managed by effective and efficient labour market institutions and policies, including effective public-private partnerships in placement and training of job seekers.

**Skills policy is key to facilitate upward mobility and reduce overall wage inequality**

A new finding of the Employment Outlook is that a substantial part of the cross-country differences in the level of wage inequality is related to skills differences. Moreover, the association between poor cognitive skills and low earnings tends to increase over time – it is much stronger over a twenty year horizon than in at a point in time, since skills deficiencies are a barrier to upward mobility in the labour market. A new analysis using data from the OECD’s Survey of Adult Skills shows that countries in which the average level of information-processing skills is relatively low can both foster upward mobility and reduce overall inequality by putting policies in place that raise the skills of workers at the lower end of the distribution. Making better use of the skills workers already possess – for example, by better recognising skills workers actually possess and matching workers to jobs that make use of their skills – can also lower inequality while raising efficiency.

**A carefully designed minimum wage that is coordinated with the tax/benefit system can help to raise living standards at the bottom of the earnings ladder**

For workers at the bottom of the earnings ladder, adequate income support is needed to prevent in-work poverty and to make work pay. Mandatory minimum wages, which now exist in 26 OECD countries, 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: i) taking account of differences by region in economic conditions – as applied largely in federal countries;
ii) including lower minima for very young, inexperienced people; and iii) ensuring that adjustments of the level of the minimum wage are considered on a regular schedule and informed by objective assessments of their potential impacts on low-skilled employment and living conditions. The comparative analysis in the Employment Outlook of minimum-wage arrangements also highlights the importance of coordinating minimum wages with other policy instruments, especially the tax/benefit system. For example, social security contributions can be set at a lower level for minimum wage workers, so as to limit disemployment effects. Interactions between the minimum wage and the tax/benefit system also have a large impact on how effectively increases in the minimum wage translate into increased disposable income for the working poor.

**Turning the recovery into an opportunity to promote inclusive growth**

Going forward, more attention should be paid not only to the number of job opportunities available, but also to the quality of these jobs and who requires targeted assistance to access them. In order to promote full recovery from the crisis and help workers to thrive in an ever-changing economy, governments must take action to foster stronger employment growth and improve workers’ access to productive and rewarding jobs. Doing so will help to repair the broken rungs of the jobs ladder and reverse the long-run increase in inequality. It will also strengthen the sustainability of economic growth, another key requirement for promoting inclusive growth.

Stefano Scarpetta  
OECD Director for Employment, Labour and Social Affairs