Workforce Must Expand and Invest in Skills or Future Economic Growth Threatened, Warns OECD

Governments must do more to improve the job opportunities for women, older workers, people with disabilities and the low-skilled, says the OECD’s latest Employment Outlook. Without more and better jobs for such groups who are under-represented in the workforce, the prospects for economic growth in many countries will be undermined as the population ages, the study warns.

A higher proportion of the adult population in work would ease the burden on public finances and would improve social exclusion, it says. The OECD estimates that unless action is taken to encourage more people into employment and remove existing barriers to job creation, the annual growth of the workforce in its 30 member countries will slow from an average 1.3% over the past 30 years to 0.3% over the next 30. In some countries such as Italy and Japan, the labour force will decline.

Similarly, on current trends, the ratio of the over 65-year-olds to the total workforce will rise from 27% in 2000 to 47% in 2030, straining current pension schemes and threatening living standards.

Reforms must therefore not just target the unemployed – those who are seeking work – but also the much larger group of the “non-employed”. These the Outlook defines as people of working age who have distanced themselves from the labour market but who would still be interested in work. Women make up a large proportion of the non-employed but these also include a range of other groups such those dependent on benefit payments, early retirees, lone parents and people with disabilities.

A key incentive for people to find jobs is to make work pay. The study assesses the range of schemes introduced by some governments to encourage the jobless to find work. Schemes in which in-work benefits such as tax reductions are conditional on employment and those in which employers are exempt from social security charges if they recruit the low-skilled have been successful when properly targeted, says the study.

But financial incentives are not enough. Subsidising child care services, promoting flexibility for workers with family responsibilities and expanding part-time work can be effective ways of facilitating access to employment, notably among women. Improving job prospects for older workers, meanwhile, requires a range of co-ordinated measures, most crucially, the removal of incentives to early retirement.

Greater efforts to assist beneficiaries of unemployment and other non-employment benefits to move into jobs are also needed. In the 1990s, dependency on unemployment benefits fell sharply in some countries, partly reflecting an increased use of activation policies which encourage recipients to search actively for a job or take steps to improve their employability. At the same time, however, the proportion of the working-age
population receiving income-replacement benefits, particularly old age, disability, lone-parent and social assistance benefits, continued to increase. Governments are now looking for ways to make the benefit system as a whole more effective in promoting employment.

Job-related training should play a central role in the strategy. Once in jobs, some workers may fall into low-wage traps, and on-the-job training can reduce this risk by helping them realise their productivity and earnings potential. Yet, as the Outlook shows, under-represented groups receive relatively little training.

The study adds that, although unemployment is on the rise again, structural changes over the past decade in North America, the European Union, Australia and New Zealand have led to a subdued rise in labour costs. As a result, unemployment has so far risen more slowly during the current economic downturn than in previous slumps. And with the recovery currently underway in the United States, leading the way for a broader recovery throughout the OECD area, the labour market could improve in 2004.

The OECD’s Employment Outlook 2003 is available to journalists on the OECD’s password-protected website. For further information and to obtain a password or printed copy of the report, journalists are invited to contact the OECD’s Media Relations Division (tel. [33] 1 4524 97 00 or news.contact@oecd.org). For further comment, journalists are invited to contact Raymond Torres, of the OECD’s Employment, Labour and Social Affairs Directorate (tel. [33] 1 45 24 91 53 or raymond.torres@oecd.org)