OECD urges more dynamic employment policies as response to globalisation

Efficient policies to encourage employment and combat unemployment are essential if countries are to reap the full benefits of globalisation and avoid a backlash against open trade, the OECD tells the governments of its 30 member states in the latest edition of its annual Employment Outlook.

“Job losses in some sectors, along with new job opportunities in other sectors, are an inevitable accompaniment of the process of globalisation,” the OECD says. “The challenge is to ensure that the adjustment process involved in matching available workers with new job openings works as smoothly as possible.”

Specifically, the OECD urges governments to:

• Ensure that working is more rewarding financially than living off welfare, if necessary through in-work benefits that supplement wages.

• Provide adequate income support in the event of job loss and help job-seekers find new jobs quickly by providing effective counselling, training and other re-employment assistance.

• Ensure that employment services are managed effectively in order to provide as much individualised support to job-seekers as possible.

• Ensure that firms facing lay-offs give their employees sufficient advance notice, and that effective re-employment services are provided during the period of advance notice, for instance by despatching employment agency staff on-site.

The OECD’s call to action is the latest in a series urging the need for reforms in its member countries in order to withstand competition from emerging economies. Employment levels are picking up slowly in OECD countries, it notes. On current trends, however, OECD countries will still have around 36 million job-seekers in 2006 (or 6.4% of the labour force), compared with 37 million in 2004 (or 6.7% of the labour force): about 35% of people of working age are without a job, and there are few signs of a significant improvement in the next two years.

Rising imports, outflows of foreign direct investment (sometimes tied directly to the relocation of production) and inflows of immigrants all contribute to rising job insecurity in OECD countries. The rapid integration into the world trading system of China and India, with their huge pools of low-wage labour, and the recent enlargement of the European Union have fuelled fears of job losses and wage cuts.
While anxieties about globalisation, though widespread, may not always be justified, the OECD acknowledges that adjustment to these new conditions “is neither automatic nor painless.”

On the one hand, “only a fraction of job losses recorded in OECD countries is likely to be directly attributable to trade and investment liberalisation,” it states. “Claims that globalisation is the main cause of the labour market problems experienced by OECD countries are exaggerated.”

On the other hand, workers that lose their jobs in sectors hit by competition from imports often find it harder to get new jobs and may have to accept big pay cuts. In many cases, they are older and less educated than other job-seekers, with skills that no longer correspond to current needs.

Under these circumstances, the OECD concludes, “ensuring that labour markets are dynamic and that people of working-age have opportunities and incentives to work is more important than ever.” The alternative, it warns, could be a damaging opposition to change. “Failure to acknowledge the worker adjustment challenges of globalisation, and to implement much-needed reforms, may erode public support for open trade policies.”

Country notes on Canada, France, Germany, Italy, Japan, Mexico, Spain, United Kingdom and United States are available at www.oecd.org/els/employmentoutlook.

The 2005 edition of the OECD’s Employment Outlook is available to journalists from the OECD’s Media Relations Division (tel. 33 1 45 24 97 00 or news.contact@oecd.org).

For further comment, journalists are invited to contact Raymond Torres in the OECD’s Directorate for Employment, Labour and Social Affairs (tel. +33 1 4524 9153 or raymond.torres@oecd.org).
Chart 1. Non-employment rate, 2004
Proportion of persons of working age (15-64) who don’t have a job


Chart 2
Adjustment costs are higher for trade-displaced workers than for other job losers, but the biggest source of earnings losses differs between Europe and the United Statesa)

United States, 1979-1999
- Servicesb
- High-import-competition manufacturing

14 European countries, 1994-2001
- Share re-employed after two years
- Average change in pay (percent)c
- Share with earnings loss >30%

a) Workers displaced from high-import-competition manufacturing serve as a proxy for trade-displaced workers.
b) Services and utilities for the United States.
c) Mean change in log wage (x100) between old and new jobs.
Source: OECD (2005), OECD Employment Outlook, Chapter 1, Paris.
Chart 3
Within-country regional disparities in unemployment rates, 2003
Unemployment rates in the region where it highest and in the region where it is lowest

a) 2000 for Japan, Korea, New Zealand and Switzerland.