OECD EMPLOYMENT OUTLOOK

The attached release contains a summary of, and tables from, the OECD Employment Outlook, July 1992.

A press conference on the "OECD Employment Outlook"
will be held in Room 5, OECD New Building,
19 rue de Franqueville, Paris 16e, at 10.45 a.m.,
on Tuesday 21st July 1992. The proceedings of the conference will,
like the publication itself, be under embargo until
Wednesday 22nd July, 00h01 Hours Paris Time.

This year’s OECD Employment Outlook projects that unemployment in OECD countries will rise to about 30 million in 1992, the highest level since 1983 (Chapter 1). An appreciable fall in unemployment is unlikely to occur before well into 1993. Fighting unemployment has, therefore, become a top priority. The Editorial makes the case for determined action now in pressing ahead with structural reform of labour markets. Progress in implementing such a programme needs to be monitored and reviewed regularly and here the OECD has a role to play. Two of the chapters monitor labour market developments across Member countries (Chapter 2) and give an in-depth review of the Public Employment Services (PES) in Japan, Norway, Spain and the United Kingdom (Chapter 3). Other chapters are devoted to analysing developments in self-employment (Chapter 4), labour market participation and retirement of older workers (Chapter 5), and unemployment and labour market reforms in Central and Eastern Europe (Chapter 6). Key findings include:

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-- continuing high "non-employment" rates, averaging almost 50 per cent for women and 25 per cent for men over the 1980s, representing a considerable waste of employment potential;

-- some progress -- but not yet enough -- in shifting the focus of labour market policies to active measures;

-- the success of Public Employment Services in securing a high share of vacancies and placements is not necessarily dependent on whether or not they enjoy a monopoly position. Co-ordination of their three basic functions -- job notifying and placement, management of unemployment benefits and provision of training and other labour market programmes -- is especially important;

-- after a long-term decline, self-employment has grown to one in eight of the non-agricultural workforce, reflecting not only the development of entrepreneurship but also structural changes in labour markets;

-- a sharp decline in the labour force participation of the over 55's, representing an increasing waste in labour potential. Pension and retirement policy, and social security arrangements should be reviewed, in order to give older people greater flexibility, and help them remain in contact with the labour market;

-- the pursuit of active labour market policies in Central and Eastern Europe is constrained by a continuing steep rise in unemployment, putting financial pressure on labour ministries and impeding structural reform of labour markets.
Fighting Unemployment: Action on Labour Market Reforms

1. Fighting unemployment has climbed to the top of the political agenda. In many Member countries, eight years of sustained expansion failed to lower the unemployment rate significantly. Long-term unemployment reached historically high levels and, after some improvement at the end of the 1980s, is rising again and will continue to grow in the aftermath of the recession. There has been little improvement in the situation of the most vulnerable groups in the labour market. Among the new jobs, a high proportion have been in non-standard forms of employment, many of which are less advantageous than permanent, full-time jobs. Technological change, shorter production cycles, rapid changes in demand patterns, and shifting comparative advantage among countries all engender uncertainty about the source and nature of new employment openings.

2. In response to the challenge to ensure satisfactory levels of sustained employment growth, the OECD has developed a set of guidelines for labour market policy, known as the "New Framework". Recognising that labour market problems are fundamentally structural in origin, the Framework advocates a medium-term shift away from measures that risk generating dependency to those that mobilise labour supply, develop employment-related skills and improve the functioning of the labour market. Policy measures designed solely to address short-term problems are often self-defeating in the longer-term: they tend to postpone necessary adjustments and may even create new rigidities.

3. Since the causes of high unemployment are diverse, it is increasingly recognised that they can be tackled effectively only by a coherent package of policies -- one where each plays its part and reinforces others. The implementation of such a programme needs to be informed by a broadly-based system of monitoring and policy analysis. Peer reviews can help greatly in this process and this edition of the Employment Outlook contains in-depth country reviews of the Public Employment Services (PES) in Japan, Norway, Spain and the United Kingdom as well as a chapter on monitoring labour market developments across countries.

Recent Labour Market Developments and Prospects (Chapter 1)

4. Unemployment in the OECD area has risen rapidly over the last two years with an additional 5.0 million job-seekers expected to swell the total to around 30 million in 1992 -- its highest level since 1983. With around 7.0 per cent of the OECD labour force projected to be unemployed in 1992, the rise of just under 1.0 percentage points since 1990 is less severe than that following the second oil-price shock in 1979, but still represents a disappointing reversal following several years of falling unemployment. With the modest recovery in economic activity expected this year -- led by the North American economy -- unemployment is projected to record a small decline in 1993 (Table 1.3).
Partly reflecting the growing importance of white-collar work, the recent recession has been characterised by a broadening of employment losses to sectors outside the traditionally sensitive areas of manufacturing, construction and trade, although labour shedding in those sectors has also been quite rapid. Finance and banking and white-collar jobs in general have been hit harder than in the past and this appears to have been associated with a marked reduction in regional unemployment rate differentials -- unprecedented in a recession (Chart 1.1, Table 1.7).

Despite a long period of economic expansion in the 1980s, unemployment rates in a number of (European) countries were still much higher in 1990 than at a similar peak in economic activity in 1979. At the same time, job vacancies reached record levels, signalling a fundamental problem of skills mismatch which may limit the strength and durability of the current upturn. However, accurately assessing trends in mismatch is currently hampered by the lack of reliable and internationally comparable indicators of labour demand.

Unemployment is not the only way that human resources are under-utilised. Chapter 2 looks at the whole of the group of people not employed -- i.e. either unemployed or not participating in the labour market -- to see what labour resources are not yet mobilised effectively: this "non-employment" averaged almost 25 per cent for men of working age and 50 per cent for women over the 1980s. The analysis reveals a particularly high rate of under-utilisation of the employment potential of people in the older age ranges (see also Chapter 5) and of women in general. Indeed, even in work, women's skills are often under-utilised, as revealed by continuing occupational segregation and salary differentials between the sexes. In the 15 to 24 age-group, education is the main reason for non-employment, but there are also significant numbers of young people who participate neither in the labour force nor in education and are exposed to the risk of social and economic exclusion (Tables 2.7, 2.8).

On the policy side, there are a number of countries, including several European countries, in which "active" programmes have become more prominent since 1985. This has implied a shift away from "passive" income support measures towards provision of training, recruitment subsidies and other measures aimed to mobilise labour supply to fill private-sector job vacancies. By contrast, direct job creation in the public sector has generally been reduced. However, in terms of overall expenditures, unemployment benefit payments continue to dwarf those on active programmes. Certainly, more unemployed people are being provided with job-related training. But, still, most of them are without (Chart 2.5).

Public Employment Services (Chapter 3)

Public Employment Services (PES) are governments' principal instruments for direct intervention in the labour market. Typically, they match job-seekers to vacant jobs, place them into training or job creation
programmes, and administer employment subsidies and unemployment benefits. A review of the PES in Japan, Norway, Spain and the United Kingdom reveals instructive differences in the way they carry out these tasks and highlights some of the difficulties they all face (Tables 3.1 and 3.2).

10. While private advertising remains the most common route into employment, the number of hirings made with the help of public employment offices often comes a good second. The PES need to compete with commercial job-placement services while still offering special help to less well-qualified job seekers. In the four countries reviewed, the PES exploit an inventive range of methods for matching workers to vacant jobs, and back this up with job-search advice and training to increase workers' employability. But it is not easy for them to succeed in restricting payment of unemployment benefits to people willing and able to work under prevailing conditions (Table 3.3).

11. In Japan, the PES appears to have been successful in designing benefit rules with labour market needs in mind and using extensive computerisation in paying benefits and placing people into jobs. In Norway, where there was a trend to more generous benefit entitlements and less strict administration during the 1980s, high spending on active labour market policies has not been enough to maintain unemployment rates at the low levels of the past. In Spain, against a background of rigid employment security laws, a PES with limited staff resources has tried to deal with extremely high rates of labour turnover (associated with widespread use of temporary employment contracts) and a large stock of job-seekers. In the United Kingdom the local PES offices are entrusted with a particularly high share of vacancies. The "Restart" strategy introduced in the mid-1980s reduced the numbers of long-term unemployed considerably and continues to be developed with the introduction of compulsory one-week re-orientation courses.

Self-employment (Chapter 4)

12. Since 1979, non-agricultural self-employment has grown quite strongly, in contrast to what had seemed to be long-term decline up to the 1970s. In 1990 there were over 37 million self-employed outside agriculture (excluding unpaid family workers), as opposed to under 31 million in 1979 and around 32 in 1983. Over the 1980s, self-employment grew faster than total (non-agricultural) civilian employment in twelve of the 20 countries for which figures are available -- much faster in Belgium, Ireland, Italy, New Zealand, Portugal and the United Kingdom. In the United Kingdom, the numbers of self-employed almost doubled over the last decade (though between 1990 and 1991, they have fallen back somewhat). The average national proportion of self-employment in total civilian employment (the agricultural sector and unpaid family workers excluded) was around 12 per cent in 1990, up by 1 percentage points since 1979. At the same time the character of self-employment has changed. The self-employed are now more likely to be women (though still more often men) and less likely to employ other workers. They still typically work very long hours -- in twelve countries they report an average working week of 50 hours or more, higher again for those with
employees. Many have comparatively low incomes and poorer access to social benefits -- lacking unemployment benefits and often work injury and some sickness benefits (Chart 1, Table 4.11).

13. The Chapter shows that high levels and rates of growth of self-employment can be associated not only with some potential labour market rigidities, such as restrictive job security legislation, but also with growth in entrepreneurial activity. In order to develop the entrepreneurial base of their economies, there is a case for governments to support self-employment directly, for example by reducing barriers to entry and enabling the self-employed to gain access not only to finance but also to specialised business training courses. Government schemes to help the unemployed to set up in business have often been successful. Of course, they cannot make very large inroads into unemployment, but what contribution they can make has been shown to be relatively cost-effective.

Labour market participation and retirement of older workers (Chapter 5)

14. Over the last two decades, the labour force participation rate of older workers (55 and over) has declined markedly in every OECD country -- mainly due to a fall in employment among older men. Twenty years ago, in most OECD countries between 35 and 50 per cent of men over 55 were in the labour force: now the figure is only between 20 and 35 per cent (Tables 5.1, 5.2). The numbers of unemployed older workers have also risen and, in several countries, 50 per cent of them are now long-term unemployed. In addition, many older people counted as inactive, after leaving the labour force under sickness and invalidity schemes, might more accurately be considered to be long-term unemployed.

15. Government policies have played an important role in the decline in participation rates. Early retirement has been facilitated by a variety of public measures, including early retirement pensions, long service pensions, conversions of unemployment benefit into pensions, and sickness and disability schemes. Firms, too, have encouraged early retirement through combinations of occupational pensions and lump-sum payments.

16. Many workers would welcome the opportunity to extend their working lives by means of gradual or phased retirement. However, the earnings rules incorporated in public programmes often prevent recipients from combining even low levels of work with pension receipt, while occupational pensions give incentives for workers to quit their career jobs entirely.

17. Thus, as part of a general move towards active labour market policies, there is a case for re-assessment of the retirement incentives embodied in public pension schemes and social security systems, in order to reduce the wastage of the employment potential of older workers and to increase the range of choice of open to them. In addition, as part of a coherent programme of policy action, the public employment service (PES) should intensify its efforts to help older workers keep contact with the labour market.
Labour Market Reforms in Central and Eastern Europe and the Rise of Unemployment (Chapter 6)

18. With total unemployment passing the 4 million mark earlier this year, the economies of Central and Eastern Europe are bearing the brunt of a deep recession and the onset of restructuring. Women and youth have been hardest hit, as well as workers having only a vocational or basic level of training. Regional and skill mismatches have contributed to a lengthening of unemployment spells and to an already high incidence of long-term unemployment. In some rural or single-industry areas, unemployment rates of 20 per cent or more have been recorded. Employment growth in the private sector, while rapid, has so far been insufficient to offset job losses in the state sector. The largest falls in employment have been in agriculture, heavy industry and construction but job losses have also occurred in light industry and in services (Table 6.1, Chart 6.2A).

19. Continuing rapid falls in productivity indicate that the problem of substantial labour hoarding remains and, with the privatisation of many larger state enterprises yet to occur, a further wave of job-shedding is to be expected. This may weaken the social consensus for market-based reforms although unemployment social insurance schemes now exist in all countries. These schemes have already been revised several times to tighten eligibility and to reduce the duration of benefits, but there is further scope to simplify existing administrative rules and reduce the avoidance of social security contributions. The implementation of active labour market policies has been severely limited by budgetary and administrative constraints. The training and number of staff in employment offices, in particular, remains insufficient. The situation calls for a more decentralised approach to labour market policies and better targeting of policies on groups most at risk of long-term unemployment. These measures should be taken in the context of greater co-ordination of economic, social and labour market policies.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (tel. 45 24 80 88 or 80 89).