Recovery has been underway for sometime in North America, the United Kingdom, Australia and New Zealand and is expected to spread to most other OECD countries during 1994; in Europe and Japan, it is unlikely to be very vigorous in the short-term. Despite this improvement in the economic outlook, 1994 will witness record levels of unemployment in the OECD area with 35 million people out of work (an unemployment rate of 8 1/2 per cent), an increase of 10 million over the 1990 level. Indeed, unemployment in Europe is expected to continue rising into 1995, while for the OECD area as a whole only a modest decline to 34 1/2 million in the second half of 1995 is foreseen.

The Employment Outlook editorial draws on the contents of this year’s issue to elaborate on several planks of the comprehensive strategy laid out in the recently released OECD Jobs Study to help achieve the twin goals of higher employment and good jobs. In particular, it considers the implications of job creation and job destruction for workers and firms; how to improve the school-to-work transition; and the need for workers and firms to upgrade skills and jobs.
Chapter 1 presents the latest short-term projections, examines employment patterns during the latest recession and current recovery, and reviews developments in youth labour markets. Chapter 2 discusses medium-term labour supply and occupational employment projections. The remaining chapters examine the extent of job creation and job destruction at the establishment or enterprise level (Chapter 3), labour standards and economic integration (Chapter 4), and the level and extent of collective bargaining coverage (Chapter 5). The main conclusions from these five chapters are:

-- In those countries which are well into cyclical recovery, weak gains in employment have led to fears of a "jobless" recovery. But these fears are exaggerated and the recent pick-up in output should boost employment growth;

-- In many countries, youth unemployment rates are 2 to 3 times larger than adult rates. While youth unemployment fell relative to that of adults over the 1980s, this largely reflected declining labour force participation rather than gains in youth employment, especially in Europe;

-- Compared with the 1980s, labour force growth in much of Europe, in contrast to North America and Oceania, appears likely to slacken through 2005. The composition of the labour force will continue to evolve towards a higher proportion of women and older persons almost everywhere;

-- Medium-term occupational employment projections highlight some shift towards jobs requiring high-level qualifications, but many jobs requiring fewer qualifications, such as sales workers, will also contribute to employment growth;

-- Job turnover -- the sum of job gains and job losses across establishments -- is very high across OECD countries: one in five jobs is either newly created or destroyed each year;

-- As regional economic integration proceeds, concerns have been raised that increased competition from countries with low labour standards could trigger "social dumping". But a comparative analysis of labour standards among OECD countries finds little evidence to date that this has affected intra-OECD trade and foreign investment flows;

-- The proportion of workers covered by collectively negotiated agreements varies greatly, ranging from over 90 per cent in Austria, Finland and France to less than 20 per cent in the United States. Rates are generally higher in multi-employer bargaining systems and where extension mechanisms exist compared with single employer bargaining systems;

-- Considerable attention has been given to the thesis that collective bargaining has become more decentralised, but the evidence for this is decidedly mixed, depending greatly on the issues being negotiated.
Creating Viable and Productive Jobs

1. The Jobs Study and this year’s Outlook editorial both underscore the necessity for OECD societies to enhance their ability to adapt to structural change and to take advantage of new opportunities in order to generate sustained productivity growth and increases in real living standards. Success on this front, combined with policies which improve the capacity of OECD economies to create more jobs, especially in the private sector, will lead over time to significant cuts in unemployment.

2. This will require a comprehensive strategy and the building of institutions for its successful implementation across many areas. The editorial considers the policy issues arising from the job creation and destruction process, the effectiveness of the school-to-work transition, and upgrading skills and jobs. The following are among the key elements:

-- It calls for policies to foster enterprise creation and survival. This can be done by eliminating regulations which hinder business start-ups, ensuring that industrial policy does not unduly favour larger firms at the expense of new ones, and investing in evaluating what works best in creating an environment for successful growth;

-- While some job turnover is an essential part of economic growth, the high rates observed in most OECD countries also entail substantial costs. Advance notice of plant closures or large-scale layoffs together with collective bargaining institutions can play an important role in reducing the costs of dislocation. But employment security provisions also impose costs on firms and can act as a barrier to hiring. Hence, a careful balancing of the benefits and costs of employment security provisions is essential for efficiency and equity reasons;

-- The case for both a progressive transfer of resources away from passive income support to active labour market measures, and for increasing their effectiveness, remains compelling. There is a particular need to undertake more evaluations of labour market programmes, and to expand partnerships, essential to gauge labour market needs, between employers, workers and their representatives, and the public employment services in designing these measures;

-- Successful models of the school-to-work transition such as the "dual system" in Austria, Germany and Switzerland and the Japanese model provide some useful lessons for other countries. These include the need to improve school-employer-student links, set clear standards for the recognition and certification of initial training, involve governments and the social partners in negotiating the standards, and make provisions for co-investment in costly training by paying trainees a relatively low allowance or training wage;
-- Addressing the barriers which inhibit both firms and workers from optimally investing in and utilising skills. While careful consideration of financial incentives is necessary, there is room for improvement in existing levy systems, or vouchers to workers. Measures which facilitate long-term employer-employee attachments are also important. Both a stable and credible macroeconomic environment and collective bargaining can encourage such relationships.

Recent prospects and labour market developments (Chapter 1)

3. Cyclical recovery is now spreading to many European countries and they will join North America, the United Kingdom, Australia and New Zealand where recoveries are already established. Real GDP in the OECD area is expected to grow by 2 1/2 per cent in 1994, more than double the 1993 figure. Despite this improvement, unemployment will remain high. The 1994 OECD unemployment rate is expected to reach 8 1/2 per cent (about 35 million unemployed) before declining slightly to 8 1/4 per cent in 1995. Conditions in Europe will be worse: the unemployment rate is expected to be little changed at around 11 3/4 per cent in 1994 and 1995 (Table 1.3).

4. Concerns have been expressed about a "jobless" recovery. This stems from the seemingly poor employment performance in Australia, Canada, the United Kingdom and the United States, where recovery has been underway for several years. Productivity developments, however, suggest that the main reason for this performance has been unprecedented weakness in output growth. Thus, as recent data show output growth picking up, employment should follow (Chart 1.1).

5. Among countries that were still in recession in 1993, employment losses from the peak of the business cycle have been relatively widespread: the usual downturn in industry was not offset by growth in the service sector to the extent observed in prior recessions. That said, employment declines were typically largest in industry, and blue-collar workers continued to bear the brunt of lay-offs.

6. Trends in youth labour market activity over the 1980s and early 1990s are also reviewed. Employment/population ratios and labour force participation rates have been on a downward trend for teenagers in many countries, especially in Europe (Table 1.17 and Chart 1.5). Irrespective of the trends, the levels vary greatly across countries. They are typically higher in English-speaking countries compared with much of Europe and Japan. Teenage unemployment rates show a more complicated pattern: they are particularly low in Germany and Japan, while rates of 20 per cent or more is found in Italy, Spain, Australia, Canada, Finland, France, Ireland and the United States.

7. Coupled with the declining trend in labour force participation, school enrolment rates have tended to increase almost everywhere. Labour force survey information also shows that the extent of combining attendance at school with paid work varies greatly across countries (Table 1.20). Students in English-speaking countries and Denmark are more likely to work compared with
their counterparts in continental Europe and Japan. Hence, part of the reason for the trend decline in employment/population ratios in Europe is increased school enrolment.

8. During recessions, youth employment is considerably more affected than that of adults (Table 1.22), consistent with the idea that "last in, first out" is a dominant feature of employment adjustment in almost all countries. Moreover, for youth, the declines in net employment during the 1990s downturn were generally greater than those recorded in the recession of the early 1980s.

9. Mexico has recently become the 25th Member of the OECD, and Chapter 1 provides an overview of its labour market as well as those in Argentina, Brazil and Chile. All four countries have relatively large informal sectors, which typically saw their share of employment increase over the 1980s (Annex Table 1.A.5). In part, therefore, they absorbed workers who lost or left jobs in the formal sector as well as job-seekers who could not find jobs in the formal sector.

**Medium-term perspectives on labour supply and occupational change (Chapter 2)**

10. Labour force projections are used to show the likely evolution of the size and age structure of the labour force up to the year 2005. Compared with the 1980s, it seems likely that labour force growth in Europe will slacken. The opposite is projected for North America and Oceania. As for the structure of the labour force, the number of young people is set to decline in Europe and rise again in North America. Women and older workers will see their shares of the labour force increase (Table 2.1).

11. Occupational employment projections suggest that growth will be strongest for professional and technical, and managerial and administrative occupations (Table 2.8). This pattern can be characterised as providing favourable job opportunities for those with post-secondary education or high-level skills. Nonetheless, the detailed projections suggest that substantial contributions to overall employment growth will come from service occupations, such as retail sales assistants, which typically require fewer skills.

**Job gains and job losses (Chapter 3)**

12. Job turnover -- the sum of job gains and job losses -- is high in all OECD countries and averages about 20 per cent annually. Thus, each year an average of one in five jobs is newly created or destroyed (Table 3.1). Over the latter part of the 1980s, a period of cyclical upturn, net employment growth was primarily due to the increased expansion (or reduced contraction) of jobs in existing establishments (establishments refer to the production unit, whereas firms refer to the ownership unit, e.g. IBM has a number of establishments; however, most firms are single-establishment ones). Job gains from the start-up of new establishments were quite stable, suggesting that they may not be easily changed or greatly influenced by policy.
13. Whether high job turnover reflects structural or cyclical factors is hotly debated, but accurately separating each influence is difficult with existing data. Nonetheless, for several countries, there is some evidence that the process of structural change is asymmetrical, i.e. job losses stemming from structural change occur in cyclical downturns. The "replacement" of these lost jobs then occurs only gradually through the opening of new establishments, many of which will ultimately close.

14. Establishment births and deaths are also analysed, though data limitations make international comparisons difficult. Three findings are noteworthy. First, the rate of establishment creation is fairly constant over time within countries, and ranges from about 10 to 20 per cent annually of the existing pool of establishments across countries (Chart 3.4). Second, new establishments have high mortality rates: only one in two survive at least 5 years. Third, new establishments start out very small and only a small minority of those who survive actually create many additional jobs.

15. Another hotly debated topic is that of the job-creation ability of small establishments. Their importance in new job creation is usually assessed on the basis of their contribution to net employment. In fact, net new jobs do seem to be created mainly by small establishments (Table 3.12). But this fact must be put into proper perspective. Small establishments contribute a high share of gross job gains and gross job losses (Table 3.13). In the final analysis, focusing on establishment size per se may be misguided. First, small establishments are not necessarily "independent" motors of employment growth. Second, economic and employment performance depend decisively on organisational and institutional structures. To help ensure a dynamic economy that creates many new viable jobs, it would seem important to have a mix of large, small and medium enterprises with strong links between them.

Labour standards and economic integration (Chapter 4)

16. Greater openness to international trade is often seen as a key engine of economic growth and prosperity. However, there is also some concern that competition from low-wage, low labour standards’ countries may trigger a levelling-down of working conditions in developed countries. Indeed, the issue of whether there should be a social clause in the GATT has been, and will continue to be, a very contentious issue.

17. Trade liberalisation seems to have gone hand in hand with a relaxation of government labour regulations among OECD countries participating in regional trading areas. Thus, modifications of working-time legislation has been enacted and enterprises enjoy greater opportunities of stretching normal working time without having to pay overtime (Table 4.2). The scope for a variety of labour contract arrangements has been broadened, while employment protection regulations have become less stringent. The incidence of minimum wages has been reduced through changes in indexation clauses, while, in some countries, sub-minimum wages for certain categories of workers (e.g. youths) have been created or extended. In this sense, many working conditions are probably increasingly determined by collective bargaining or through individual contracts and less by labour standards set by government.
18. Despite these pressures, there is currently no compelling evidence that working conditions have worsened in these OECD countries as a result of greater trade openness. The chapter takes-up the relation between governmental setting of labour standards, and per capita GDP and wages. It finds little association between an index for the stringency of regulations on labour standards, and per capita GDP and wages, suggesting that this form of government intervention has little effect (Chart 4.2). Moreover, the relationship between wages and foreign direct investment (FDI) and case studies of working conditions in multinational companies suggest that economic integration may lead to improvements in living standards in countries receiving considerable inflows of FDI (Chart 4.5).

Collective Bargaining: Levels and Coverage (Chapter 5)

19. This chapter analyses the process of collective bargaining and the extent to which workers are covered by collective agreements. It follows a previous analysis of trade union membership and updates some of the information on union density rates [1991 Employment Outlook].

20. Union density rates differ greatly across countries. In Sweden, Iceland, Denmark and Finland, the rates are above two-thirds, while they are under 20 per cent in France, Spain and the United States.

21. Collective bargaining coverage rates, despite similarly large differences between countries, show quite a different pattern (Chart 5.1). First, in 12 out of 17 OECD countries for which data were available, at least two-thirds of those who enjoy the right to bargain are covered by some form of collective agreement, with Austrian, Finnish and French employees having coverage rates in excess of 90 per cent. Second, rates are considerably lower in countries characterised by bargaining with single employers: with 18 per cent coverage, the United States has the lowest rate followed by Japan, Canada and the United Kingdom. Third, countries with very low union density rates, such as France and Spain, can have at the same time very high coverage rates.

22. Large differences in coverage rates across countries and considerable variation between unionisation and coverage within countries points to the explanatory importance of institutional factors. Three elements are key: the prevailing level at which bargains are concluded; the degree of co-ordination between bargaining levels; and the extension of agreements to non-signatory parties. In some countries, high coverage rates may be partly attributable to the importance of extension mechanisms.

23. Two other issues are considered: First, has collective bargaining become more decentralised? Second, is there a trend towards the "deregulation" of labour relations? The empirical evidence for decentralisation is mixed. Some countries, such as the United Kingdom and New Zealand, have moved in this direction with a significant decline in multi-employer bargaining. In some other countries, centralisation and decentralisation have occurred simultaneously, depending on the issues involved. While bargaining on issues such as flexible working hours and work restructuring have become more decentralised, in the majority of OECD countries the branch level has remained the principal arena for wage determination.
24. The empirical evidence for deregulation, i.e. a move from collective bargaining towards individual employment relations, is also mixed (Table 5.8). In systems characterised by company-level bargaining (e.g. the United States and Japan), and in countries where major institutional changes in policies occurred (e.g. the United Kingdom and New Zealand), there has been a clear decline in bargaining coverage. In other, especially European countries, coverage has been rather stable, or has even increased, despite continuing declines in trade union membership and density.

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